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Memorandum

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To: Diane Barrans, Executive Officer, Alaska Student Loan Corporation

Cc: Charlene Morrison, CFO, Alaska Student Loan Corporation

Subject: Ensuring Access to Student Loans in Alaska

At your request, following is First Southwest Company's summary of events and circumstances which have culminated in the Alaska Student Loan Corporation's (ASLC) need for mid-term financing support from the State of Alaska.

Across the approximately thirteen months since the downgrade of the mono-line bond insurers and the collapse of the Auction Rate Securities (ARS) market, a number of additional developments have contributed to the emergence of serious ongoing challenges to the ability of entities like ASLC to fulfill their mission to ensure the uninterrupted availability of low cost loans (including both the Federal Family Education Loan Program (FFELP) and non-guaranteed alternative loans) for students who depend upon such loan products to finance the cost of their post-secondary educational goals.

One of those developments has been the large scale departure of investors from the entire asset-backed finance arena in what is often described as a "flight to quality." Another negative development has been the top to bottom re-examination of cash flow modeling and other credit rating analysis criteria by all three of the nationally recognized securities rating organizations, which development has only served to reinforce the perception on the part of reluctant investors that asset-backed securities are fraught with a higher level of risk than they had been previously led to believe. These two phenomena have reinforced each other to produce an escalating demand for higher interest rates and declining investor base for asset-backed securities in virtually every asset class.

Issuers like ASLC have responded to these negative developments by seeking liquidity and/or credit support from highly rated financial institutions in the form of a Standby Bond Purchase Agreements (SBPA) or Letters of Credit (LOC). At the same time that demand for SBPA or LOC support from national and international financial institutions has exploded in response to the conditions described above, most, if not all, of those financial institutions have been hit with threatened or actual downgrades of both their long term and short term credit ratings. All of this has combined to create a situation where the demand and cost for bank credit/liquidity support is increasing at the very same time that the availability of and investor confidence in the

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reliability of such bank credit/liquidity support has sharply declined. Directly related to all of this is the dramatically increased demand, from investors in the tax-exempt arena, for debt securities issued by, **or credit/liquidity supported by**, highly rated state and local governmental issuers.

The combination of conditions described above has resulted in a number of state governments looking for ways to assist the state agency or not-for-profit student loan providers (both FFELP and alternative) in their state to continue to be able to fulfill their mission of ensuring educational access through low cost college loans. In Arkansas, this cooperation between the State and the student loan agency they created many years ago resulted in a low cost variable rate bridge loan from the State to the loan agency. In South Carolina, the State purchased a significant portion of the state created student loan agency's last bond issue. Both of these cooperative efforts represent viable short-term solutions to a problem that is showing signs of becoming protracted. In other states, similar initiatives are being analyzed or are in various stages of actual development or implementation. The sole example from 2008 where the student loan provider had no market access problems is the Texas Higher Education Coordinating Board, where the State's support for THECB's student loan program includes a State of Texas General Obligation pledge for THECB's debt obligations.

Against the background of the liquidity, credit and market conditions discussed herein, it is becoming quickly apparent that the major Federal initiatives such as TARP and TALF are of very limited, if any, utility to state agency and not-for-profit loan providers in continuing to finance their low cost loan programs without disruption and resultant serious consequences for the students and parents who depend on them.

First Southwest Company serves as financial advisor to a number of such student loan providers in various parts of the country. Based on our knowledge of what is happening in the student loan finance arena on a national basis and our experience with those limited number of student loan providers who have been able to successfully access the capital markets over the past year, it is our very firm belief that the best hope for entities like ASLC to continue their mission without interruption will be a cooperative effort between such entities and their sponsoring state governments to create temporary financing vehicles, and more importantly, credit and/or liquidity facilities that meet investors' demand for the elimination of credit/liquidity risk, but at a level of cost that is sustainable within the economic limitations of the loan programs being offered to students and their parents.

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