



ACCESS GROUP, INC.

Consolidated Financial Statements

March 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

ACCESS GROUP, INC.

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Access Group, Inc.:

We have audited the accompanying consolidated statements of financial position of Access Group, Inc. and subsidiaries (the Company) as of March 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Access Group, Inc. and subsidiaries as of March 31, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

June 15, 2011

ACCESS GROUP, INC.

Consolidated Statements of Financial Position

March 31, 2011 and 2010

(In thousands)

Assets	2011	2010
Cash and cash equivalents	\$ 79,447	44,031
Investments, at fair value	102,323	52,810
Loans held for sale	—	1,444,741
Restricted cash and cash equivalents	336,947	557,082
Student loans receivable, net	8,116,910	8,015,439
Accrued interest receivable	83,363	163,037
Loan fees receivable	496	999
Other assets	48,352	37,976
Total assets	<u>\$ 8,767,838</u>	<u>10,316,115</u>
Liabilities and Net Assets		
Asset-backed notes – revolving credit	\$ —	1,424,318
Asset-backed notes – long term, net	8,490,814	8,640,262
Other liabilities	21,968	54,268
Total liabilities	<u>8,512,782</u>	<u>10,118,848</u>
Unrestricted net assets	<u>255,056</u>	<u>197,267</u>
Total liabilities and net assets	<u>\$ 8,767,838</u>	<u>10,316,115</u>

See accompanying notes to consolidated financial statements.

ACCESS GROUP, INC.

Consolidated Statements of Activities
Years ended March 31, 2011 and 2010

(In thousands)

	2011	2010
Operating revenues:		
Interest income	\$ 254,203	254,657
Interest expense	112,760	117,371
Net interest income	141,443	137,286
Less provision for loan losses	(49,297)	(65,063)
Net interest income after provision for loan losses	92,146	72,223
Loss on loans held for sale	—	(177,361)
Gain on early extinguishment of debt, net	—	149,192
Gain/(loss) on sale of loans	6,668	3,051
Other operating income	2,964	3,489
Total operating revenues	101,778	50,594
Operating expenses:		
Program expenses	41,956	50,683
Management and general expenses	6,728	6,544
Total operating expenses	48,684	57,227
Change in net assets from operations	53,094	(6,633)
Nonoperating revenues:		
Other interest and dividend income	1,775	926
Realized gain on investments, net	214	18
Unrealized gain/(loss) on investments, net	2,762	3,227
Total nonoperating revenues	4,751	4,171
Nonoperating expenses:		
Investment expenses	56	55
Total nonoperating expenses	56	55
Change in net assets	57,789	(2,517)
Unrestricted net assets, beginning of year	197,267	199,784
Unrestricted net assets, end of year	\$ 255,056	197,267

See accompanying notes to consolidated financial statements.

ACCESS GROUP, INC.
Consolidated Statements of Cash Flows
Years ended March 31, 2011 and 2010
(In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 57,789	(2,517)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net amortization of deferred costs and fees	7,930	14,378
Net amortization of note discount	1,525	882
Debt accretion	18,930	—
Accretion of interest income	(34,541)	—
Depreciation	5,163	4,696
Loss on disposal of property and equipment	1	—
(Gain)/loss on sale of private student loans held for sale	(594)	177,361
Gain on sale of federal loans held for sale	(6,075)	(3,051)
Proceeds from sale of federal loans held for sale	981,526	469,445
Originated federal loans held for sale	(32,282)	(973,449)
Principal payments received on federal loans held for sale	7,089	4,246
Principal payments received on private loans held for sale	9,027	—
Gain on extinguishment of debt	—	(149,192)
Provision for loan losses	49,297	65,063
(Increase) in operating assets:		
Accrued interest receivable	(200,085)	(176,832)
Prepaid expenses and other current assets	(11,170)	(5,506)
Decrease in operating liabilities:	(4,855)	(14,366)
Net realized and unrealized (gain) losses on investment:	(2,976)	(3,245)
Net cash provided by (used in) operating activities	<u>845,699</u>	<u>(592,087)</u>
Cash flows from investing activities:		
Purchase of student loans, including accrued interest	(285,173)	(53,938)
Proceeds from sale of student loans	8,813	18,838
Student loan principal payments	904,083	740,458
Purchases of property and equipment	(6,420)	(2,738)
Purchases of investments	(46,537)	(40,864)
Net cash provided by investing activities	<u>574,766</u>	<u>661,756</u>
Cash flows from financing activities:		
Deferred financing costs	(2,541)	(3,557)
Proceeds from the issuance of debt	645,180	4,060,305
Repayment of debt principal	(875,848)	—
Decrease (increase) in restricted cash	211,712	(195,503)
Debt principal borrowing	84,901	—
Repayment of credit facility	(1,448,453)	(3,909,090)
Net used in financing activities	<u>(1,385,049)</u>	<u>(47,845)</u>
Net increase in cash and cash equivalents	35,416	21,824
Cash and cash equivalents, beginning of year	44,031	22,207
Cash and cash equivalents, end of year	<u>\$ 79,447</u>	<u>44,031</u>
Supplemental disclosure of cash flow information:		
Interest paid	\$ 85,453	116,900
Supplemental disclosures of noncash investing transactions:		
Capitalized interest income (note 4)	\$ 191,683	200,132
Capitalized loan fees (note 4)	436	1,822
Loans reclassified to held for sale from investment portfolio (note 5)	—	761,959
Loans reclassified to investment portfolio from held for sale (note 5)	546,821	—
Debt extinguishment (note 10)	—	697,222
Debt refinancing (note 10)	—	521,900

See accompanying notes to consolidated financial statements.

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(1) Summary of Significant Accounting Policies

(a) *Description of Business*

Access Group, Inc. (the Company) is a nonprofit corporation incorporated in March 1993 under the laws of the state of Delaware. The Company is dedicated to providing graduate and professional students access to affordable financing and educational services, as well as related services for graduate schools and school administrators. The Company endeavors to provide students with a total student loan package that is both convenient and affordable.

The Company has established a Delaware statutory trust, Access Group Loan Reserve Trust I, as a separate legal entity for the purpose of holding in trust funds, which are pledged for the payment of loan default claims on certain private student loans.

During fiscal years 2011 and 2010, the Company utilized a limited liability corporation, Access Funding ABCP-I, LLC (ABCP-I), for the purpose of holding a pool of federal student loan assets, which are pledged for the payment of specific student loan asset-backed notes held by the Department of Education (DOE).

During fiscal year 2010, the Company established two separate trusts as wholly owned subsidiaries, Affiliated Loan Program for Students (ALPS), and Program for Education and Access to Knowledge for Students (PEAKS), for the purpose of holding separate pools of private student loan assets, which are pledged for the payment of specific student loan asset-backed notes.

During fiscal year 2011, the Company established a limited liability corporation, Access Funding 2010-A, LLC (2010-A), for the purpose of holding a pool of private student loan assets, which are pledged for the payment of specific student loan asset-backed notes and certificates.

During fiscal year 2011, the Company established four separate trusts as wholly owned subsidiaries, the combination referred to as Affiliated Loan Program for Students II (ALPS II), for the purpose of holding separate pools of private student loan assets, which are pledged for the payment of specific student loan asset-backed notes.

During fiscal year 2011, the Company established a for profit corporation as a wholly owned subsidiary, Agility Loan Services, Inc. (Agility), for the purpose of providing a multi-faceted outsourced origination and service solution for student loans to third parties.

The consolidated financial statements include Access Group, Inc., Access Group Loan Reserve Trust I, ABCP-I, ALPS, ALPS II, PEAKS, 2010-A and Agility.

(b) *Basis of Presentation*

The Company follows the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred.

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Income and expenses related to the Company's investments are classified on the consolidated statements of activities as nonoperating revenues and expenses. Income and expenses from all other business activities are classified as operating revenues and expenses.

Financial reporting standards require that net assets and revenues, expenses, gains, and losses be classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Company and changes therein are classified and reported as follows:

Unrestricted – Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors or may otherwise be limited by contractual agreements with outside parties.

Temporarily restricted – Net assets whose use is subject to donor-imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.

Permanently restricted – Net assets subject to donor-imposed stipulations that the net assets be maintained permanently by the Company.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations, if any, that simultaneously increase one class of net assets and decrease another are reported as reclassifications between the applicable classes of net assets. The Company has no donor-imposed restricted net assets.

(c) *Income Taxes*

The Company is a nonprofit corporation that qualifies as a tax-exempt organization under Section 501(c)(3) of the *Internal Revenue Code*. In addition, the Company has been determined by the Internal Revenue Service not to be a private foundation within the meaning of Section 509(a) of the *Internal Revenue Code*.

The Company accounts for uncertainties in income taxes based on a threshold of more-likely than-not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. The Company has no uncertain tax positions meeting the threshold.

(d) *Cash and Cash Equivalents*

Cash and cash equivalents consist of checking accounts, cash management accounts, money market funds, and other operating accounts invested in securities with maturities of less than 180 days (with the exception of money market mutual funds, whose underlying investments may contain maximum maturities of 397 days). Cash pledged as collateral for notes payable (as described in note 10) is excluded from cash and cash equivalents and is included in restricted cash and cash equivalents on the consolidated statements of financial position.

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(e) *Investments*

The Company carries investments at fair value. Interest and dividends from investments, as well as realized and unrealized gains and losses, are recorded as nonoperating revenue in the statements of activities. Investments may include investments in funds managed by others, which from time to time include cash or cash equivalents waiting to be reinvested.

(f) *Student Loans*

The Company records student loan receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff on its consolidated statement of financial position at outstanding principal adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans, and any unamortized premiums or discounts. Once a decision has been made to sell loans not previously classified as held-for-sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost, consisting of principal and deferred costs, or fair value. At the time of transfer into the held-for-sale classification, any amount by which cost exceeds fair value is accounted for as a valuation adjustment on the consolidated statement of activities.

Additional information on the carrying value of student loan receivables, loans held for sale, and whole loan sales, may be found in note 4. For additional information related to the Company's accounting policies for loans securitized in the 2010-A securitization refer to note 5.

(g) *Deferred Costs*

Deferred costs consist of origination and lender fees paid to the U.S. government on federally guaranteed student loans originated by the Company, premiums paid in the acquisition of student loans, and certain origination expenses incurred to originate student loans. The Company utilizes the interest method to amortize deferred costs as an adjustment to net interest income, taking into account actual loan prepayments. Additionally, the Company has financing expenses incurred in issuing debt, which are deferred and amortized over the life of the debt.

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(h) Property and Equipment

Property and equipment are stated at cost. Depreciation on property and equipment is calculated on the straight-line method over the useful lives of the assets. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset. The Company also capitalizes costs incurred to develop major new software systems. The estimated useful lives of property and equipment currently in use are as follows:

Furniture	10 years
Office equipment	5 years
Computer hardware and electronic equipment	3 years*
Major software systems	5 – 7 years
Other computer software	3 years

* The estimated useful life for a desktop computer is 4 years.

Expenditures and betterments that enhance property values are capitalized, while maintenance and repairs are expensed when incurred.

(i) Revenue Recognition

Loan fees assessed on private loans are recorded as deferred income and recognized as an adjustment to interest income over the life of the loans. Loan origination fees received for origination activities performed in conjunction with a bank for loans subsequently purchased by the Company are also recorded as deferred income and recognized as an adjustment to interest income over the life of the loans to the extent the Company ultimately takes title to the loans. The Company utilizes the interest method to amortize deferred income, taking into account actual loan prepayments. Registration, service fee, and trust administration revenue is recognized when the related services are performed.

(j) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on benefits derived.

(k) Advertising Expense

The costs of advertising, including the placement of advertising and the development and distribution of brochures and promotional materials, are expensed as incurred. Total advertising expense was \$185,000 and \$673,000 for the years ended March 31, 2011 and 2010, respectively.

(l) Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities at the dates

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(m) Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation.

(n) Loans Securitized

The Company's securitizations that do not meet the accounting requirements for a sale in accordance with ASC 860-10-40-5 are accounted for as secured borrowings and the transferred assets are consolidated in the Company's financial statements. These transactions are referred to as on-balance sheet securitizations. The Company's on-balance sheet securitization transactions are collateralized by certain of its student loans, which are recorded in student loans receivable, and by accrued interest on the student loans and restricted cash and cash equivalents. Refer to note 5 for discussion of the 2010-A securitization.

(o) Recent Pronouncements

In June 2009, the FASB issued ASC 860 *Transfers and Servicing*. The standard amends the derecognition guidance in previous guidance and eliminates the concept of a qualifying special-purpose entities ("QSPEs"). The Company adopted the standard on April 1, 2010 and the adoption of this statement did not have an impact on the Company's financial statements.

In July 2010, the FASB issued an update (Accounting Standards update No. 2010-20, *Receivables, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*). This update improves the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class, certain existing disclosures, and to provide certain new disclosures about its financing receivables and related allowances for credit losses. The disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011 for non-public companies. The amendment does not require comparative disclosures for earlier reporting periods that ended before adoption, however, an entity should provide comparative disclosures for those reporting periods after initial adoption. The adoption of this amendment is not expected to have a material effect on our Consolidated Financial Statements.

In April 2011, the FASB issued an update (Accounting Standards update No. 2011-02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring*) which clarifies when creditors should classify loan modifications as troubled debt restructurings. The new guidance is effective for interim and annual periods beginning on or after June 15, 2011, and applies retrospectively to restructurings occurring on or after January 1, 2011. A provision in Update 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by Update 2010-20. Adoption of this guidance is not expected to have a material impact on our Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(2) Restricted Cash and Cash Equivalents

Pledged funds created from the issuance of notes secured by student loans (as described in note 10), repayments of student loans by borrowers, and receipts of subsidy payments from the U.S. government are used for the payment of principal and interest on notes, for the payment of loan fees and administrative costs, and for the purchase and origination of additional loans. In addition, certain funds are pledged for the payment of loan default claims on private student loans. These assets are held in a Delaware statutory trust.

Restricted cash and cash equivalents are invested in financial instruments with maturities of three years or less and money market funds holding high-quality, short-term financial instruments.

The restricted cash and cash equivalents consist of the following at March 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Accounts pledged to financings	\$ 333,826	549,533
Accounts pledged to pay default claims	3,121	7,490
Accounts pledged to other	—	59
Total	<u>\$ 336,947</u>	<u>557,082</u>

(3) Investments

(a) *Intermediate Term*

Intermediate-term investments include those which provide liquidity and a time horizon primarily of five years or less. The intermediate-term investment balances, at fair value, consist of the following at March 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Vanguard Short-Term Bond Index Fund	\$ 41,232	30,417
Total	<u>\$ 41,232</u>	<u>30,417</u>

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

(b) *Long Term*

Long-term investment balances, at fair value, consist of the following at March 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Vanguard Institutional Index Fund	\$ 27,482	10,291
Vanguard Total Bond Market Index Fund	18,222	6,334
Vanguard REIT Index Fund	6,212	2,532
American Euro-Pacific Growth Fund	6,127	2,111
Vanguard High-Yield Corporate Fund	3,048	1,125
Total	<u>\$ 61,091</u>	<u>22,393</u>

(4) **Student Loans and Loans Held for Sale**

The Company's loan portfolio includes both Federal Family Education Loan Program (FFELP) and private loans, which the Company originated for a bank and subsequently purchased under various agreements. The FFELP loans were originated for the Company's own account. The Company no longer originates loans under these agreements.

During fiscal year 2010, the Company entered into an agreement, referred to as the PEAKS program, with several third parties including financial institutions and a publicly held company that offers technology oriented postsecondary degree programs. The Company originates, owns, and services private student loans. Permanent financing, as well as a guarantee for the repayment of the loans, are provided by third parties.

During fiscal year 2010, the Company entered into an agreement, referred to as the ALPS program, with several third parties including financial institutions and colleges and universities whereby the Company originates, owns, and services private student loans. Initial and permanent financing, as well as a guarantee for the repayment of the loans, are provided by the third parties. This program is primarily intended to provide loans to non-U.S. citizens enrolled in graduate and professional schools in the United States of America that meet certain eligibility requirements.

During fiscal year 2011, the Company entered into an agreement, referred to as the ALPS II program, with several third parties including financial institutions and colleges and universities whereby the Company will originate, own, and service private student loans. Initial and permanent financing, as well as a guarantee for the repayment of the loans, will be provided by the third parties. This program is primarily intended to provide loans to non-U.S. citizens enrolled in graduate and professional schools in the United States of America that meet certain eligibility requirements. While there is a separate set of agreements, this program is basically an extension of the Company's existing ALPS program.

ACCESS GROUP, INC.

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

The Company's loan portfolio is serviced by its internal loan servicing unit, which commenced operations in 2004. All of the student loans and related accrued interest have been pledged under the notes payable agreements discussed in note 10.

The Company receives loan origination fees for loan origination activities performed on behalf of a bank. These fees are recorded as deferred income when received. When the loans are subsequently purchased from the bank as contemplated by an agreement between the Company and the bank, the deferred income is amortized as an adjustment to interest income over the life of the loans. The unamortized deferred income is included in student loans receivable on the consolidated statements of financial position. If the Company's right to purchase the loans is not exercised and expires, then the Company recognizes the deferred income in the consolidated statement of activities. The origination fees received were \$1.6 million and \$0 for the years ended March 31, 2011 and 2010, respectively.

Premiums and syndication fees paid in the acquisition of student loans are recorded as deferred costs and amortized against interest income over the life of the loans. The unamortized premiums are included in student loans receivable on the consolidated statements of financial position. The fees paid were \$11.7 million and \$0 for the years ended March 31, 2011 and 2010, respectively.

Loan fees, which are assessed to borrowers of certain private loans, are accrued and recorded as loan fees receivable and deferred income. When the borrowers enter repayment, the fees are assessed and added to the loan principal, thereby reducing the fees receivable. The deferred income is amortized as an adjustment to interest income over the life of the loans. The unamortized deferred income is included in student loans receivable on the consolidated statements of financial position. The loan fees assessed were \$18.8 million and \$0 for the years ended March 31, 2011 and 2010, respectively.

Interest incurred when the borrowers are in school is recorded as interest income and accrued interest receivable. When the borrowers enter repayment, the accrued interest receivable is added to the loan principal, reducing the accrued interest receivable.

The Company incurs various expenses to originate student loans as discussed in note 1. Certain of these expenses are recorded as deferred costs and amortized against interest income over the life of the loans. The unamortized costs are included in student loans receivable on the consolidated statements of financial position. The costs deferred were \$0.7 million and \$11.3 million for the years ended March 31, 2011 and 2010, respectively.

The allowance for loan losses is explained in note 6.

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Notes to Consolidated Financial Statements

March 31, 2011 and 2010

Net student loans receivable, at carrying value, consist of the following at March 31, 2011 and 2010 (in thousands):

	2011	2010
FFELP loans	\$ 5,434,227	5,936,495
Private loans	2,772,211	2,143,240
Student loans receivable, gross	\$ 8,206,438	8,079,735
(Less) plus deferred income and costs:		
Deferred origination income	\$ (15,312)	(18,039)
Premiums paid for student loans	11,662	13,455
Deferred loan fee income	(54,339)	(58,603)
Deferred origination costs	78,908	92,148
Less allowance for loan losses	(110,447)	(93,257)
Student loans receivable, net	\$ 8,116,910	8,015,439

Loans held for sale, at carrying value, consist of the following at March 31, 2011 and 2010 (in thousands):

	2011	2010
Loans held for sale, gross	\$ —	1,434,735
Deferred origination costs	—	10,006
Loans held for sale, net	\$ —	1,444,741

During fiscal year 2011, the Company sold \$931.3 million in FFELP 2009-10 academic school year student loans to the Department of Education (DOE) under the Loan Purchase Commitment Program. The loan principal was sold at par, plus the 1% lender fee paid by the Company to the DOE at origination, plus \$75 per loan to cover costs incurred by the Company to originate the loans. The Company recorded a gain of \$6.1 million, which included a \$9.8 million write-down of unamortized deferred cost during 2011. The Company did not retain servicing rights to the sold loans.

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March 31, 2011 and 2010

(5) 2010-A On-Balance Sheet Securitization

On March 31, 2010, the Company's then existing secured credit facility provider for certain loans entered into an agreement (the Agreement) to sell its \$697.2 million note, and assign all of its rights, title and interest under its loan agreement with the Company to another lender for \$521.9 million. The Company received an incentive payment of \$2 million from the original lender for its involvement in the execution of the Agreement by March 31, 2010. Related to the Agreement, the Company agreed to use reasonable efforts to complete a loan securitization to acquire permanent long-term financing for the loan portfolio and liquidate its existing obligation to the new lender with the related proceeds. The Company recorded a liability of \$28 million in 2010 in connection with its contingent obligation arising under its commitment to undertake and complete the loan securitization. As a result of these transactions involving its lenders, in 2010, the Company recorded a gain on the early extinguishment of its debt with the original lender of \$149.2 million.

The original debt referred to above was collateralized by student loans with a net carrying amount of \$723.8 million as of March 31, 2010. The Company determined it was appropriate to reclassify these assets from the portfolio of student loans to loans held for sale because it could not demonstrate the ability and intent to hold the assets for investment at March 31, 2010. The loans were recorded at the lower of cost or fair value at that date and had a recorded amount of \$546.8 million. The Company therefore recorded a loss on loans held for sale of \$177.3 million in 2010.

On June 7, 2010 the Company completed the above referenced securitization, which was accounted for as a financing. Because the securitization was not treated as a sale, the related assets were therefore recorded at their carrying amount in student loans receivable as of that date.

Loans

The Company has elected to apply ASC 310-30, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* to these securitized loans. These loans have no associated allowance for loan losses. For these loans, the Company estimates the amount and timing of expected principal, interest and other cash flows, and treats the loans as a single pool of assets. Individual accounts are not added to or removed from the pool once it was established. The Company determines the excess of the scheduled contractual principal and contractual interest payments over all cash flows expected at the time of the transaction as an amount that should not be accreted (nonaccretable difference). The remaining amount, representing the excess of the cash flows expected to be collected over the amount received, is accreted into income recognized on student loan receivables over the remaining estimated life of the pool (accretable yield).

Significant increases in actual, or expected future cash flows may be recognized prospectively, through an upward adjustment of the yield, over the loan pool's remaining life. Under ASC 310-30, rather than lowering the estimated yield if the collection estimates are not received or projected to be received, the carrying value of the loans would be written down to maintain the then current yield and would be shown as a reduction in interest income in the consolidated statement of activities with a corresponding valuation allowance offsetting student loan receivables, net, on the consolidated statement of financial position.

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The following table details information about the loans that are accounted for in accordance with ASC 310-30 at the date of transfer of June 7, 2010 (in thousands):

Contractually required principal and interest at transfer	\$ 1,092,544
Contractual cash flows not expected to be collected (nonaccretable difference)	<u>184,781</u>
Expected cash flows at transfer	907,763
Interest component of expected cash flows (accretable discount)	<u>360,942</u>
Carrying value of transferred loans accounted for under ASC 310-30	<u><u>\$ 546,821</u></u>

The following table shows the balances of loans that are accounted for in accordance with ASC 310-30 as March 31, 2011 (in thousands):

	2011	
Outstanding principal balance	\$ 709,330	
Carrying amount	523,104	*

* The carrying amount of \$523.1 million is included within the balance of student loan receivables on the Consolidated Statement of Financial Position.

The following table presents changes in the accretable discount on the transferred loans, for which the Company applies ASC 310-30, for the year ended March 31, 2011 (in thousands):

	Accretable Discount
Balance, beginning of the year	\$ —
Recorded at transfer	360,942
Accretion	<u>(34,541)</u>
Balance, end of the year	<u><u>\$ 326,401</u></u>

Debt

The securitization resulted in asset backed floating rate notes (Class A notes) with a par value of \$463.5 million which were sold for \$453.0 million and the membership interest certificates (Class R certificates) with a par value of \$100 which were sold for \$98.2 million, for total proceeds of \$551.2 million.

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The Class A notes were recorded at \$453.0 million, reflecting the face value of the notes and a \$10.5 million discount. The Company records interest expense on the Class A notes using the effective interest method.

The \$100 par amount of Class R certificates represent an interest in the residual cash flows of the securitized assets, are subordinated to the Class A notes, and were initially recorded at \$98.2 million. These Class R certificates do not bear any contractual interest. The amount by which the expected payout of the Class R certificates exceeds the carrying amount is accounted for as an adjustment to yield (interest expense). As the projected cash flows change over the life of the student loans and, therefore the amount of the expected repayment of the debt changes, the Company will adjust the amortization prospectively, consistent with a change in estimate.

(6) Allowance for Loan Losses

The allowance for loan losses is maintained at a level the Company believes is sufficient to absorb probable credit losses inherent in the student loan portfolio. The allowance is determined based on estimates of the probable future net credit losses and a provision is charged against earnings to maintain the allowance for loan losses at that level. The Company's net credit losses include the principal amount of loans charged off, plus accrued interest, less current period recoveries. The Company's policy is to charge off delinquent private loans by the end of the month in which the account becomes 180 days contractually past due. The Company records current period recoveries on loans previously charged off in the allowance for loan losses.

The methodology for measuring the appropriate level of the allowance consists of several elements. The Company regularly performs a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable will progress through the various delinquency stages and ultimately charge off. In determining the allowance for loan losses, past collection experience, delinquency trends, size of the portfolio, economic conditions, and other factors are considered. Significant changes in these factors could impact the allowance and provision for loan losses. The evaluation of the allowance for loan losses is inherently subjective as it requires material estimates that may be subject to change. The Company evaluates its allowance for loan losses for the FFELP student loan portfolio, which is federally guaranteed up to at least 97% of principal and interest, and for its private student loan portfolio. The federal guarantee is dependent upon the Company complying with specified FFELP requirements.

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A summary of changes in the allowance for loan losses for the years ended March 31, 2011 and 2010 follows (in thousands):

	<u>2011</u>	<u>2010</u>
Balance, beginning of the year	\$ 93,257	143,663
Provision for loan losses	49,297	65,063
Charge-offs:		
Private loans	(39,129)	(77,791)
FFELP loans	(2,336)	(1,044)
Total charge-offs	<u>(41,465)</u>	<u>(78,835)</u>
Recoveries:		
Private loans	9,358	8,478
FFELP loans	—	5
Total recoveries	<u>9,358</u>	<u>8,483</u>
Net charge-offs	<u>(32,107)</u>	<u>(70,352)</u>
Write-down on loans held for sale	—	(45,117)
Balance, end of the year	\$ <u>110,447</u>	<u>93,257</u>
Allocation of the allowance for loan losses:*		
Private loans	\$ 106,705	89,579
FFELP loans	3,742	3,678
Total allowance for loan losses	<u>\$ 110,447</u>	<u>93,257</u>

* The allowance is allocated for presentation purposes; however, it could be used for either loan type. It does not pertain to loans accounted for under ASC 310-30.

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(7) Property and Equipment

Property and equipment, at cost (included in other assets on the consolidated statements of financial position), consist of the following at March 31, 2011 and 2010 (in thousands):

	<u>2011</u>	<u>2010</u>
Computer software	27,137	23,534
Computer hardware and electronic equipment	6,537	9,484
Furniture and fixtures	2,080	2,083
Leasehold improvements	2,435	2,419
Office equipment	595	767
	<u>38,784</u>	<u>38,287</u>
Accumulated depreciation	<u>(23,534)</u>	<u>(24,294)</u>
Total property and equipment, net	\$ <u>15,250</u>	<u>13,993</u>

(8) Employee Benefit Plan

The Company maintains a defined contribution pension plan (the Plan) covering employees who have at least one year of service. The Plan is funded through individually owned assets, such as annuities and mutual funds. Contributions made to the Plan by the Company are equal to 6% of each participant's regular salary, with an additional matching of up to 2% of the participant's regular salary. The Company's contribution to the Plan totaled \$1.4 million for each of the years ended March 31, 2011 and 2010. Employees must meet certain eligibility requirements to participate in the Plan. Participants are fully and immediately vested.

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(9) Fair Value of Financial Instruments

The following table details the carrying value and fair value of the Company's financial instruments at March 31, 2011 and 2010 (in thousands):

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Cash and cash equivalents	\$ 79,447	79,447	44,031	44,031
Investments	102,323	102,323	52,810	52,810
Loans held for sale	—	—	1,444,741	1,450,215
Restricted cash and cash equivalents	336,947	336,947	557,082	557,082
Student loans receivable, net	8,116,910	7,950,650	8,015,439	7,434,820
Accrued interest receivable	83,363	83,363	163,037	163,037
Financial liabilities:				
Asset-backed notes – revolving credit	\$ —	—	1,424,318	1,424,318
Asset-backed notes – long term, net	8,490,814	7,917,937	8,640,262	7,933,627
Accrued interest payable	7,793	7,793	5,918	5,918

The Company uses estimates of fair value in applying various accounting standards for its financial statements. The estimated fair values have been determined by the Company using available market information and other valuation methodologies as described below.

Cash and cash equivalents, restricted cash, accrued interest receivable, asset-backed notes – revolving credit, and accrued interest payable – Due to the short-term nature of these instruments, carrying value approximates fair value.

Investments – The fair values of investments are estimated based on quoted market prices. Investments are recorded at fair value as indicated in note 3.

Loans held for sale – As indicated in note 1(f), loans held for sale are carried at the lower of cost, consisting of principal and deferred costs, or fair value. The fair value at March 31, 2010 represents the estimated value of the loans based on the DOE Loan Purchase Commitment Program for FFELP loans and a loan securitization for the private loans awaiting permanent financing (as described in note 5).

Student loans receivable – The fair value of the student loans receivable was determined based on an internal evaluation of current market price for similar assets, assumptions for prepayment speed, default rates, cost of funds, and collection rates, and the resulting present value of discounted cash flow.

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Asset-backed notes – long term, net – The fair value of the notes was determined based on current market prices for similarly structured debt and discounted cash flow analyses.

The Company determines fair value using valuation techniques that are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions.

These two types of inputs create the following fair value hierarchy:

- Level 1 – Quoted prices for *identical* instruments in active markets.
- Level 2 – Quoted prices for *similar* instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose primary values are observable.
- Level 3 – Instruments whose primary value drivers are *unobservable*.

The position in the fair value hierarchy for an asset or liability is based on the lowest level input that is significant to the fair value measurement.

Items Measured at Fair Value on a Recurring Basis

The following table presents the Company’s financial assets and liabilities that are measured at fair value on a recurring basis for each of these hierarchy levels at March 31, 2011 and 2010 (in thousands):

		2011		
		Level 1	Level 2	Level 3
Assets:				
Investments	\$	102,323	—	—
Total assets	\$	102,323	—	—
		2010		
		Level 1	Level 2	Level 3
Assets:				
Investments	\$	52,810	—	—
Total assets	\$	52,810	—	—

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Notes to Consolidated Financial Statements

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(10) Notes Payable

(a) *Revolving Credit Facilities*

The Company entered into a secured revolving credit facility on August 6, 2009. Under the terms of the agreement, the purchasers provided funds to the Company to finance and originate FFELP loans. The credit facility terminated on July 30, 2010. The amount outstanding on the facility was \$0 at March 31, 2011 and 2010.

During fiscal year 2009, the Company entered into agreements to utilize the DOE 2009-10 LPP Program. This Program provided short-term liquidity for Stafford and PLUS loans for academic year 2009-10, as well as an option to sell loans to the DOE. During fiscal year 2011, the Company sold \$931.3 million in loan principal, to the DOE. The facility was terminated on October 15, 2010. The amount outstanding on the facility at March 31, 2011 and 2010 was \$0 and \$902.4 million, respectively.

As discussed in note 5, during fiscal year 2011, the Company and its secured credit facility provider structured and executed a loan securitization transaction that provided permanent financing for existing private loans in the facility. As a result, the facility with the lender was terminated on June 7, 2010. The amount outstanding on the facility at March 31, 2011 and 2010 was \$0 and \$521.9 million, respectively.

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(b) Long-Term Debt Offerings

The Company has issued debt through numerous public offerings to obtain permanent financing for the student loans originated or acquired under a credit facility and to purchase student loans originated by the Company on behalf of a bank. The student loan asset-backed notes issued are limited obligations of the Company, payable solely from the trust estates created under the indentures of trust. The following table summarizes, by type of notes, the amounts outstanding and interest rates at March 31, 2011 and 2010 (in thousands):

	<u>Outstanding at March 31, 2011</u>	<u>Interest rates March 31, 2011</u>	<u>Outstanding at March 31, 2010</u>	<u>Interest rates March 31, 2010</u>
Auction rate notes:				
Interest bearing due 2035 – 2039 (1)	\$ 993,100	0.00% – 1.76%	\$ 993,100	0.00% – 1.75%
Floating rate notes:				
LIBOR based due 2011 – 2043 (2)	7,381,545	0.33% – 7.50%	7,647,162	0.25% – 5.85%
Class R certificates:				
Due 2043 (3)	<u>116,169</u>	n/a	<u>—</u>	—
Total	<u>\$ 8,490,814</u>		<u>\$ 8,640,262</u>	

(1) Auctions failed in February 2008 and continue to fail; interest is based on contractual terms related to applicable Treasury bill rates.

(2) At March 31, 2011 and 2010, \$171.2 million and \$191.0 million, respectively, was subject to a mandatory redemption in August 2011.

(3) Certificates represent an interest in the residual cash flows of the 2010-A securitized assets and do not bear any contractual interest. Refer to footnote 5 for the Company's accounting policy related to these certificates.

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At March 31, 2011, the Company had outstanding debt with the following maturities (in thousands):

<u>Fiscal year of maturity</u>		<u>Stated maturity</u>
2012	\$	254,427
2013		96,103
2014		745,582
2015		75,393
2016		268,330
2017 - 2044		7,045,622
Total	\$	<u>8,485,457</u>

* The stated maturity does not include unamortized bond discount of \$13.6 million and accumulated debt accretion of \$18.9 million.

The maturity date shown is the legal final maturity date.

As discussed in note 5, during fiscal year 2011 the Company issued \$463.5 million in student loan asset-backed notes. The net proceeds were used (1) to refinance private student loans with a principal value of \$756.9 million and (2) to create a pledged fund held by the trustee as a Reserve Fund of \$1.2 million to be used to pay interest on the notes, principal of the note at maturity, note fees, and administrative allowances. The Company also issued certificates in the par amount of \$100 representing interests in the residual cash flows of the trusts.

The pledged funds created from all issues of notes are recorded as restricted cash and cash equivalents on the consolidated statements of financial position. The Company is subject to certain covenants under the indentures and management believes it is in compliance with these covenants at March 31, 2011. These financings were recorded by the Company as secured borrowings with the pledge of collateral.

During fiscal year 2010, the Company entered into agreements with the newly created, DOE sponsored, Straight-A Funding, LLC to refinance federal loans in a secured credit facility into a wholly owned subsidiary, ABCP-I, as described in note 1a. The Company did not transfer any loans during fiscal 2011 and the facility was closed to any further transfers on June 30, 2010. The amount outstanding on the facility at March 31, 2011 and 2010 was \$660.9 million and \$770.2 million, respectively. The scheduled termination date of the facility is May 2014 at which time any assets that have not been repurchased or refinanced out of the facility will be sold to the DOE.

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(11) Commitments and Contingencies

(a) Operating Leases

In May 2005, the Company commenced a 10-year noncancelable operating lease, with two 5-year renewal options, to relocate its operations.

Future minimum operating lease payments as of March 31, 2011 are (in thousands):

Year ending March 31:	
2012	\$ 1,703
2013	1,738
2014	1,773
2015	1,808
2016	302
Total	<u>\$ 7,324</u>

Total operating lease expense for each year ended March 31, 2011 and 2010 was \$1.6 million.

(b) Commitment and Loan Sale Agreements

During fiscal year 2011, the Company and a bank mutually agreed to terminate its various agreements under which the Company had the conditional obligation and exclusive right to purchase all loans originated by the Company on behalf of the bank. The purchase option to purchase \$103.1 million in loans was not exercised. As a result, the Company recognized \$1.5 million in deferred income in the consolidated statement of activities. At March 31, 2011, there were no student loans originated by the Company and owned by the bank, which the Company has the conditional obligation and exclusive right to purchase.

In addition, under the agreements noted above, there were no purchases of student loans for the years ended March 31, 2011 and 2010.

(12) Litigation

From time to time, the Company may be a defendant in legal proceedings arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, activities, or liquidity.

(13) Related Parties

The Company has several board members who serve in various capacities at educational institutions where the Company conducts its student lending business.

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(14) Subsequent Events

The Company evaluated subsequent events through June 15, 2011, the date in which the financial statements were issued.

(a) *Affiliated Loan Program for Students UChicago Trust 2011-1*

On June 3, 2011 the Company entered into an agreement to originate, own, administer and service private student loans to University of Chicago students. Third parties will provide interim and permanent funding for the loans and the University of Chicago will provide a guarantee regarding the performance of the facility according to specified parameters. The facility is authorized to purchase loans from the program's originating lender until June 29, 2012. While structured as a standalone trust, this program is effectively the renewal of the existing ALPS II program for the University of Chicago.