

## **Q&A - Auction rate securities and the recent auction failures**

In recent weeks, issuers of auction rate securities (“ARS”) have experienced many instances of “failed auctions,” occurrences in which the supply of ARS being sold exceeds the demand. These failed auctions have affected a broad range of ARS, including ARS issued by Northstar Education Finance, Inc. A failed auction does not result in a default; it is an indication of a lack of liquidity in the marketplace.

### **Why did many recent auctions fail?**

Due to the recent turmoil in the credit markets, auctions of ARS have failed because there were not enough bids to cover the bonds for sale, indicating a lack of liquidity in the market.

### **What are the consequences of a failed auction?**

Although historically rarely triggered, there are procedures built into the auction process governing ARS in the event of a failure. The interest rate for the ARS that is paid to all ARS bondholders adjusts to a “maximum rate” specified in the documents that govern the terms of the ARS. In addition, existing bondholders that have submitted sell orders may not be able to sell any or all of the bonds for which they have submitted sell orders. The “maximum rate” formula for any individual ARS issued by Northstar Education Finance, Inc. was described in the Offering Memorandum prepared for the initial offering of that ARS.

### **What are existing bondholders’ options?**

ARS bondholders may decide to hold their bonds and continue to receive interest payments. Or, if they wish to sell their bonds, they may offer them for sale at the next scheduled auction, subject to the same risk that the subsequent auction will not attract sufficient demand for a successful auction to occur. Broker-dealers may also try to facilitate secondary trading in the bonds, although such secondary trading may be limited and may only be available for bondholders willing to sell at a discount. A failed auction does not obligate the issuer to redeem the securities, nor do ARS bondholders have the right to tender bonds back to the issuer.

Northstar Education Finance, Inc. is, to the extent it is able, continuing to monitor the situation in the ARS market and is exploring all options for refinancing the ARS. However, there is no assurance that any refinancing options for the ARS are or will be available now or in the future.

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