

Dear _____ :

This is in response to your request for a ruling that Issuer's proposed actions to cease status as a qualified scholarship funding corporation under § 150(d)(2) of the Internal Revenue Code (the "Code") will not cause interest on the Bonds to fail to be excludable from gross income under § 103.

Facts and Representations

Issuer represents that it has been a corporation described in § 150(d)(2) since Date 1 and received a determination letter on Date 2 from the Internal Revenue Service stating that it is an organization described in § 501(c)(3) and exempt from federal income tax under § 501(a), both dates being prior to the issuance of the Bonds.

Issuer issued the Bonds on Dates 3, 4, 5, and 6, and remained the obligor on the Bonds for the duration of time the Bonds were outstanding. Using cash from both student loan payments and student loan sales, Issuer fully redeemed the Bonds by Date 7. Following retirement of the Bonds, Issuer had no outstanding tax-exempt bonds.

Issuer proposes to amend its articles of incorporation and bylaws to expand its charitable purposes as a § 501(c)(3) organization to include offering scholarships and grants to deserving students. Issuer also represents that it will not issue any tax-exempt bonds in the future.

Law and Analysis

Section 103(a) provides, with exceptions, that gross income does not include interest on any State or local bond.

Section 150(d)(1) provides that a "qualified scholarship funding bond" is treated as a State or local bond.

Section 150(d)(2) provides that the term "qualified scholarship funding bond" means a bond issued by a corporation which –

(A) is a corporation not for profit established and operated exclusively for the purpose of acquiring student loan notes incurred under the Higher Education Act of 1965, and

(B) is organized at the request of the State or 1 or more political subdivisions thereof or is requested to exercise such power by 1 or more political subdivisions and required by its corporate charter and bylaws, or required by State law, to devote any

income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or to pay over any income to the United States.

Section 150(d)(3)(A) provides that any qualified scholarship funding bond, and qualified student loan bond, outstanding on the date of the issuer's election under that section (and any bond (or series of bonds) issued to refund such a bond) shall not fail to be a tax-exempt bond solely because the issuer ceases to be a corporation described in § 150(d)(2) if the issuer meets the requirements of subparagraphs (B) and (C) of that section.

The requirements of § 150(d)(3)(B) are met by an issuer if –

(i) all of the student loan notes of the issuer and other assets pledged to secure the repayment of qualified scholarship funding bond indebtedness of the issuer are transferred to another corporation within a reasonable period after the election is made;

(ii) such transferee corporation assumes or otherwise provides for the payment of all of the qualified scholarship funding bond indebtedness of the issuer within a reasonable period after the election is made;

(iii) to the extent permitted by law, such transferee corporation assumes all of the responsibilities, and succeeds to all of the rights, of the issuer under the issuer's agreements with the Secretary of Education in respect of student loans;

(iv) immediately after such transfer, the issuer, together with any other issuer which has made an election under § 150(d)(3) in respect of such transferee, hold all of the senior stock in such transferee corporation; and

(v) such transferee corporation is not exempt from tax under that chapter.

The requirements of § 150(d)(3)(C) are met by an issuer if, within a reasonable period after the transfer referred to in § 150(d)(3)(B) –

(i) the issuer is described in § 501(c)(3) and exempt from tax under § 501(a);

(ii) the issuer no longer is described in § 150(d)(2)(A) and (B); and

(iii) at least 80 percent of the members of the board of directors of the issuer are independent members.

When an issuer has outstanding tax-exempt bonds, it may make an election to cease status as a qualified scholarship funding corporation under § 150(d)(3), in which case it must follow the requirements described in § 150(d)(3). The purpose of § 150(d)(3) is to

