



*Montana Family Education
Savings Program*

529 Plan Disclosure Statement

*To be read in conjunction with a
College Savings Bank Product Disclosure Statement.*

*Montana Family Education Savings Trust,
a public instrumentality of the State of Montana*

Dated as of January 1, 2009

The Montana Family Education Savings Program helps families everywhere save for higher education.



Any U.S. taxpayer, regardless of income, may establish a tax-favored college savings account for anyone—including themselves, through the Montana Family Education Savings Program (MFESP). Contributions are invested into one of College Savings Bank's FDIC insured products and are safeguarded for the future of your children.

MFESP Tax Benefits

- **Earnings grow tax-free** until you're ready to withdraw the funds. When the funds are used to pay for qualified college expenses, principal and earnings are distributed tax-free.
- **Participants also benefit through tax-free gifting.** Account owners can make annual gifts of up to \$13,000 single and \$26,000 joint to a designated beneficiary for all accounts without incurring federal gift tax. For contributions over the limit, you may treat the money (up to \$65,000 single and \$130,000 joint) as having been made ratably over a five-year period.
- **At any time you may prepay as much college and graduate school as you'd like** up to \$335,000 - the maximum contribution limit as of August 1, 2008.
- **Assets in a 529 account are not treated as part of the federal taxable estate** of the account owner who is not a designated beneficiary.
- **U.S. Savings Bond owners generally may redeem bonds** purchased after 1989 tax-free and deposit the proceeds into a 529 account. Your income must fall below \$130,650 joint or \$82,100 single for 2008 and other restrictions apply. For details call 800-888-2723.
- **You control the assets.** If the child does not go to college you can change the beneficiary penalty free.
- **Montana Residents, you are entitled to a \$3,000 deduction to gross income per taxpayer,** or \$6,000 for those married, filing jointly - based on contributions to the Montana Family Education Savings Program.
- **If you live in Pennsylvania, Maine, Missouri or Kansas,** you may also be eligible for a state income tax deduction based on contributions. Each taxpayer should consult an independent tax adviser.

The Program was established as a state tuition program under Section 529 of the Internal Revenue Code in 1996 and the benefits were made permanent in 2006. There are no in-state use restrictions. Use the proceeds at any eligible college, university, proprietary or vocational school worldwide.

In addition to tax benefits, College Savings Bank's 529 Plan Products are available without fees, feature FDIC insurance and principal protection.

IMPORTANT NOTICES

This disclosure statement contains important information to be considered in making a decision to contribute to a College Savings Bank college savings plan (the “College Savings Bank 529 Plan” or “CSB Plan” or “Plan”) within the Montana Family Education Savings Program (the “Program” or the “MFESP”), including information about risks. It should be read thoroughly and in conjunction with the Product Disclosure statement(s). All disclosure documents should be retained for future reference. You should also seek independent legal and tax advice concerning a potential contribution.

The Program offers several investments from College Savings Bank as well as additional 529 college savings plans that have different investment options, charges, sales commissions, penalties and risks. They are marketed separately from the CSB Plan and those plans are not described in this document. To obtain more information about the other 529 plans within the Program, access the Program’s Web site at <http://montana.collegesavings.com>

The State tax treatment or other benefits offered by Montana with regard to the Plan are available only to the taxpayers or residents of Montana. Section 529 plans offered by other states may provide state tax or other benefits to residents of those states that are not available through an investment in the CSB Plan. Taxpayers or residents of other states should consider such tax treatments and other benefits before making an investment decision.

The label “designated beneficiary” does not give an individual any rights or legal interest with respect to an account unless the designated beneficiary becomes the account owner. There is no guarantee that amounts saved pursuant to the Program or the Plan will be sufficient to cover the qualified higher education expenses of a designated beneficiary. State residency will not be established for the designated beneficiary, nor will the designated beneficiary be treated as a State resident for purposes of admission to and charges at a State college or university merely because the individual is a designated beneficiary under the Plan.

Participation in the Program or the Plan does not guarantee that a designated beneficiary will:

1. be admitted to an eligible educational institution,
2. be allowed to continue enrollment at an eligible educational institution, or
3. graduate from an eligible educational institution located in Montana or elsewhere.

A contributor, account owner or designated beneficiary may not pledge his/her interest in an account (if any) or use interest in an account as security for a loan.

Accounts established under the Program are not insured by the State of Montana and neither the principal deposited nor the investment return is guaranteed by the State of Montana.

There is no obligation of the State of Montana, or any agency or instrumentality of the state or any affiliate thereof, to guarantee for the benefit of any account owner, contributor to an account or designated beneficiary the return of any amounts contributed to any account, the rate of interest or return on any account, the payment of interest or return on any account or the tuition rates or cost of related higher education expenses.

Account owners in the Program assume all investment risk, including, without limitation, the potential loss of principal and liability

for additional income taxes or penalties such as those levied for nonqualified withdrawals.

Deposits with College Savings Bank are insured by the Federal Deposit Insurance Corporation (FDIC), but the FDIC may not insure the entire balance of an account established under the Program.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved interests in the Program or approved or disapproved the adequacy of this disclosure statement. Any representation to the contrary is a criminal offense.

Favorable federal income tax treatment under the Program is dependent upon the Program being treated as a qualified tuition program under Section 529 of the Internal Revenue Code. The State of Montana, the Montana Board of Regents of Higher Education, the Montana Family Education Savings Trust Fund and the Bank shall not be liable to any saver if the Internal Revenue Service determines that the Program ceases or ceased to qualify as a qualified tuition program.

The discussions of tax law contained in this disclosure statement were not intended or written by College Savings Bank, the Montana Board of Regents of Higher Education, or the Montana Family Education Savings Trust or any of their lawyers or advisers, to be used, and the tax discussions cannot be used, by any taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer by the Internal Revenue Service. The discussions of tax law were written to support the promotion or marketing of interests in the Montana Family Education Savings Trust. Each taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax adviser.

Information in this disclosure statement is believed to be accurate as of the date of this disclosure statement and is subject to change at any time without prior notice.

Important disclosures on the following matters are included at the locations noted in the following table:

Topic	Location	Page
About Your Investment	Product Disclosure	
Investment Performance	Product Disclosure	
Product Risk Factors	Product Disclosure	
Program Risk Factors	Program Risk Factors	2
Fees & Expenses	Appendix B	14
State’s Ability to Change Program Manager	Program Risk Factors	2
Transfers Assets Between Funds	Changes to Your Account	7
Tax Considerations	Tax Considerations	8

For more information about the College Savings Bank Plan call (800) 888-2723 or log on at: <http://montana.collegesavings.com>.

TABLE OF CONTENTS

IMPORTANT NOTICES	i	CHANGES TO YOUR ACCOUNT	7
FEATURES	1	A. Change the Designated Beneficiary	
ROLL OF THE STATE OF MONTANA	1	B. Definition of Family Members	
PROGRAM RISK FACTORS	2	C. Change the Account Owner	
A. Nonqualified Withdrawals and Early Redemptions		D. Death of the Account Owner	
B. Qualification of the Program		E. Transferring Assets Between Funds	
C. Uncertainty of Tax Law		F. Asset Transfer Process	
D. Limitation on Investment Direction		TAX CONSIDERATIONS	8
E. Once-In-A-Calendar-Year Rule		A. Section 529	
F. State Tax Consequences		B. Federal Income Tax on Account Earnings	
G. Delay in Need for Funds		C. Gift and Generation-Skipping Transfer Tax	
H. Termination of the Bank's Contract with the Program		D. Estate Planning	
I. FDIC Insurance		E. 529 Plans and Other Tax-Related College Savings Incentives	
J. Impact on Eligibility for Financial Aid		F. State Income Tax Considerations	
K. Issues Relating to Account Ownership		G. Montana Residents State Income Tax Deduction	
L. Medicaid and Other Noneducational Benefits		H. Montana Recapture Tax Withholdings	
ESTABLISHING AN ACCOUNT	3	I. IRS Reporting	
A. Eligibility		J. Entity-Owned Accounts	
B. Account Structure		K. Additional Tax Information	
C. Selecting a Designated Beneficiary		IMPORTANT NOTICES	11
D. Multiple Accounts		A. Municipal Fund Securities	
E. Residency Requirements		B. Inconsistencies	
F. Opening an Account		C. Authorized Representatives	
G. Contributing to an Account		D. Anti-Money Laundering Acts	
H. Maximum Deposit		E. Bankruptcy Protection	
I. Discontinuing Deposits		APPENDIX	12
J. Contributions from Non-Account Holders		A. Participating Trust Agreement	
K. Transferring Funds to My Account		B. Fees and Expenses	
ACCOUNT BALANCES	5		
A. Account Balance Statements			
B. Use of Funds as Collateral			
C. Eligibility for Financial Aid			
D. Use of Program Account			
WITHDRAWALS AND ACCOUNT TERMINATION	6		
A. Withdrawals from an Account			
B. Early Withdrawal			
C. Qualified Withdrawal			
D. Qualified Higher Education Expenses			
E. Eligible Educational Institutions			
F. Scholarships, Disability or Death			
G. Nonqualified Withdrawal			
H. Assets in an Account After Expenses are Paid			
I. Designated Beneficiary No Longer Needs Assets			
J. Terminating an Account			
K. Bank or BOR Terminating an Account			

FEATURES

The Montana Family Education Savings Program (“MFESP” or the “Program”) offers multiple ways to help you save for your child’s future education. The CSB Plan provides investments within a tax-favored college savings program that guarantee a return of principal when held to maturity and feature FDIC insurance on principal and accrued interest.

The MFESP is sponsored by the State of Montana, administered by the Montana Board of Regents of Higher Education (“BOR”) which serves as trustee and operates the program, and is designed to be a “qualified tuition program” under section 529 of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), in order to offer participants favorable tax treatment.

The CSB 529 Plan (the “Plan”), managed by College Savings Bank, is a subprogram of the MFESP. The BOR has a contract extendable until 2013 with College Savings Bank to offer the CSB 529 Plan through the MFESP. College Savings Bank has offered the CSB 529 Plan through the MFESP since 1998. This disclosure statement applies to the Plan under the Program. To obtain information on other Program plans, please log onto <http://montana.collegesavings.com>

- Withdrawals used to pay for the qualified higher education expenses of the designated beneficiary are not subject to federal or Montana state income tax.
- Montana residents may reduce their Montana income by the amount of their contributions to Plan accounts (up to \$3,000 per contributor per year, \$6,000 joint) for the purposes of determining Montana tax liability.
- Each individual can contribute up to \$65,000 per beneficiary in a single year without incurring federal gift tax (\$130,000 by a husband and wife). This includes the annual \$13,000 (\$26,000 joint) for the current year, plus \$13,000 (\$26,000 joint) for each of four successive years, as long as no additional gifts are made by the donor to the beneficiary during that time and the contributor lives for the five-year period.
- Assets can be used for qualified higher education expenses for the enrollment or attendance of a designated beneficiary at any eligible educational institution in the U.S. as well as certain eligible institutions abroad.
- Contributions will be deposited in certificates of deposit, the principal amount of which is insured by the FDIC. The FDIC currently insures deposit accounts that are held in the same right and capacity up to \$250,000. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009. Bank-imposed penalties may be applied to CDs withdrawn prior to maturity.
- There are no income limits to open an account or age limits to be a beneficiary.
- The account balance limit per designated beneficiary is \$335,000 (as of August 1, 2009). Contributions will not be permitted if they cause the account balance and the balance of other Montana 529 accounts for the same designated beneficiary to exceed the limit.
- Account statements are sent out yearly on July 31. Direct deposit customers will also receive quarterly statements reflecting account activity and balances.
- There is a minimum deposit before a certificate may be issued.
 - You may make electronic deposits from another financial institution.
 - You may mail in a deposit.
 - You may process a deposit electronically on our Web site.
 - You may also use direct deposit from payroll if your employer offers this service.
- There are certain risks associated with this CSB Plan investments relating to changes in tax law, possible termination of the

contractor and limitations on nonqualified withdrawals as well as penalties for nonqualified withdrawals. Bank imposed penalties are in addition to any state and/or federal tax consequences for which you may be liable. A list of program risk factors can be found on page 2 of this disclosure. Individual product risk factors can be found within the specific Product Disclosures.

ROLE OF THE STATE OF MONTANA

The Program was established pursuant to the “Family Education Savings Act,” Ch. 540, L. 1997, as amended (the “Act”). The State Legislature enacted the Act to make possible the attainment of accessible, affordable postsecondary education by the greatest number of citizens through a savings program. The Act authorizes the BOR to implement the Program and creates an Oversight Committee under the authority of the BOR to assist in the implementation and administration of the Program. Public notices of Oversight Committee and BOR meetings are posted on the BOR’s Internet Web site at: <http://www.mus.edu>.

In 2005, the State Legislature amended the Act to establish the Family Education Savings Trust as a public instrumentality of the State of Montana. The BOR administers the Trust and serves as its sole trustee. Each account established under the Program is an individual trust account in the Trust.

The policies, procedures and rules of the MFESP may be modified from time to time. Existing rules are found in Montana BOR Policy #950.2, which are available at <http://www.mus.edu>. Significant changes in Program policies, procedures and rules will be communicated to all account owners.

The BOR has contracted with College Savings Bank (the “Bank” or “Program Manager”) to serve as a program manager. The Bank’s Internet Web site contains information about the Program at <http://montana.collegesavings.com>. The Trustee requires the Program Manager, its assets and liabilities, and its financial statements to be regularly audited by federal and state auditors. The Program Manager’s federally-filed financial statements are available quarterly at <http://www2.fdic.gov/idasp/main.asp> by searching for FDIC Certificate Number: 27041.

Section Notes:

- See Termination of Bank’s Contract with the program - page 2

PROGRAM RISK FACTORS

A. Nonqualified Withdrawals and Early Redemptions

You should save for college expenses through a section 529 program such as the Program only if you expect to use the funds to pay for higher education expenses of the designated beneficiary. If you withdraw the funds in an account before they are needed for qualified higher education expenses or you use funds for purposes other than for qualified higher education expenses, you may be subject to an additional tax equal to 10% of the earnings withdrawn. If a CD must be redeemed in whole or part before maturity to make a distribution to the account owner, the Bank will impose an early redemption penalty.

Section Notes:

- See Federal Income Tax on Account Earnings - page 8
- See Early Withdrawal - page 5

B. Qualification of the Program

The favorable tax consequences of investments in qualified tuition programs are dependent upon the Program qualifying as a qualified tuition program under section 529 of the Internal Revenue Code. No guaranty can be provided that the Program qualifies as a qualified tuition program.

The IRS may promulgate regulations that govern qualification of qualified tuition programs. The Program could lose its status if it fails to comply with those requirements. While it is expected that the BOR would make reasonable efforts to bring the Program into compliance with any new rules or regulations, no guaranty can be provided that the Program will continue to qualify as a qualified tuition program if rules or regulations change.

If the Program did not qualify as a qualified tuition program, account owners would lose tax benefits such as the ability to defer recognition of income with respect to interest paid on the accounts and the exclusion from income that would apply if the funds are used to pay for qualified higher education expenses. It is also possible that account owners would be deemed to have made nonqualified withdrawals and would owe tax on earnings accrued before termination of status as qualified tuition program as well as the 10% additional tax on earnings withdrawn. The IRS may permit account owners to avoid the adverse consequences by rolling their account balances into an account with another state's qualified tuition program.

Section Notes:

- See Tax Considerations - page 8

C. Uncertainty of Tax Law

The IRS has not promulgated regulations under section 529 of the Internal Revenue Code, but there is an ongoing regulatory project at the Department of the Treasury and IRS. Regulations have been deferred in part because of changes of law and in part because regulation writers are confronting difficult tax questions. Recent tax legislation gives the IRS broad discretion to establish rules to prevent abuse of section 529 accounts.

It is possible that the IRS will promulgate regulations or other guidance that is inconsistent with interpretations of tax law presented in this disclosure statement. It is also possible that the IRS will promulgate regulations that will cause the Program to make changes in how it operates or to restrict certain choices that account owners may now make. Some of these changes may adversely affect account owners. For example, the IRS may prohibit changes in ownership of accounts or limit who can contribute to an account.

D. Limitation on Investment Direction

Section 529 of the Internal Revenue Code requires a qualified tuition program to prohibit contributors and designated beneficiaries from directly or indirectly directing the investment of contributions to the qualified tuition program. Under IRS interpretations of this provision, a contributor is not prohibited from making initial selections to the investment of a contribution. The IRS permits account owners to change the investment strategy selected for a qualified tuition program account once per calendar year period the Once-In-A-Calendar-Year Rule and upon a change in the designated beneficiary of the account.

E. Once-in-a-Calendar Year Rule

Section 529 of the Internal Revenue Code requires a qualified tuition program to prohibit contributors and designated beneficiaries from directly or indirectly directing the investment of contributions to the qualified tuition program.

Under IRS interpretations of this provision, a contributor is not prohibited from making initial selections to the investment of a contribution.

The IRS permits account owners to change the investment strategy selected for a qualified tuition program account once per calendar year period ("the once-in-a-calendar-year rule") and upon a change in the designated beneficiary of the account.

If the account owner directs that upon maturity the proceeds of a CD be invested other than in accordance with the reinvestment rules described in the product terms and conditions, the account owner could be considered as making its once in a calendar year change in investment strategy. If the account owner made another change within the calendar year in any Program account for the same designated beneficiary, a change in investment direction upon the maturity of a CD could result in a deemed distribution.

The prohibition on investment direction limits can, but does not totally restrict, the ability of an account owner to move the Program account from an investment to another instrument or plan offered under the Program or another 529 plan.

F. State Tax Consequences

The tax consequences of participation in the Program vary from state to state. Certain states treat investments in out-of-state qualified tuition programs less favorably than investments in in-state qualified tuition programs. States are not required to follow federal tax law. Any state, including Montana, could change its tax law in a way that is unfavorable to section 529 plan savers. For example, a state could require its residents to include in income the earnings on section 529 plan accounts when withdrawals are taken - even if the withdrawal is qualified. The tax consequences of participation in the Program may change for an account owner if the account owner changes his or her state of residency.

Section Notes:

- See State Income Tax Considerations - page 9

G. Delay in Need for Funds

If a designated beneficiary defers or delays attendance at school or incurs lower than anticipated expenses for the first few years of higher education, you may wish to delay use of the funds. It is possible that in such cases, you will not be able to obtain the same favorable terms for a new CD as were obtained for the original CD.

Further your investment options at Maturity may be limited on account of the Once-In-A-Calendar-Year Rule. Your funds may be

required to remain in a savings account at College Savings Bank.

H. Termination of the Bank's Contract with the Program

Under certain conditions, the BOR may terminate the Bank's contract and relationship with the Program.

If such termination occurs, the BOR has agreed to notify account owners in advance and permit account owners to withdraw funds from their Program accounts. However, any such withdrawals may constitute "nonqualified withdrawals" subject to a federal tax penalty or Program penalty unless the funds are used to pay for qualified higher education expenses of the designated beneficiary or rolled into another qualified tuition program. Under present tax rules, a rollover to another qualified tuition program may not be effective to avoid the nonqualified withdrawal penalty if the account owner had made a similar rollover within the preceding 12 months. In addition, the Bank may impose early redemption penalties.

Section Notes:

- See Nonqualified Withdrawals - page 6

I. FDIC Insurance

The application of FDIC insurance to accounts involves several technical interpretations of the FDIC rules. It is possible that the FDIC will not agree with the interpretations included in this document or that the FDIC will change its interpretation of its own rules in a way that adversely affects the insurance of some accounts. In the case of any change of insurance, the Bank may endeavor to notify affected account owners and will waive early redemption penalties to the extent that an account owner seeks to withdraw funds because of the lack of full coverage. Such withdrawals may be subject to penalties for nonqualified withdrawals unless the funds are rolled over into another section 529 program (or another plan under the Montana Program). Such a rollover may be a nonqualified withdrawal if there was another change in investment in the account during the calendar year.

The FDIC currently insures deposit accounts that are held in the same right and capacity to at least \$250,000 per depositor. On October 3, 2008, FDIC deposit insurance temporarily increased from \$100,000 to \$250,000 per depositor through December 31, 2009. An account that may be fully insured by the FDIC at the time of deposit may not be fully insured at a later date if the principal account balance grows to more than \$250,000.

Section Notes:

- Applicability of FDIC Insurance - Product Disclosure
- See Nonqualified Withdrawal - page 6

J. Impact on Eligibility for Financial Aid

The funds in an account can be taken into account by some educational institutions, government programs or other financial programs in determining eligibility for financial aid in a way that is less favorable than if the account owner owned the funds outside of a qualified tuition program account. There can be no assurance as to the nature of such financial institutions, or government programs' assessment.

Section Notes:

- See Eligibility of Financial Aid - page 5

K. Issues Relating to Account Ownership

Although contributions to a section 529 account are treated for tax purposes as if they are gifts to the designated beneficiary, accounts may be treated for other purposes as assets of the account owner. This may be important in the case of governmental programs that

take into account a person's assets for purposes of determining benefits.

L. Medicaid and Other Noneducational Benefits

The effect of a Program account on eligibility for Medicaid or other state and federal benefits is uncertain. It is possible that a Program account with the Program will be viewed as a "countable resource" in determining an individual's financial eligibility for Medicaid. Withdrawals from an account during certain periods also may have the effect of delaying the disbursement of Medicaid payments. You should consult a qualified adviser to determine how a Program account may affect eligibility for Medicaid or other state and federal noneducational benefits.

ESTABLISHING AN ACCOUNT

A. Eligibility

Generally, any person or entity may open and/or own an account. There are no age or income restrictions to open an account, except that a custodian must be appointed if the account owner is a minor, as explained below.

- An account may be opened and owned jointly by spouses.
- A qualified individual in his or her capacity as a custodian under a Uniform Gifts or Uniform Transfers to Minors Act (UGMA/UTMA) may open an account for a minor and designate the minor as the account owner and beneficiary. The UGMA/UTMA custodian will control the account until the beneficiary reaches the age of majority under the applicable UGMA/UTMA statute, at which time, the beneficiary may take control of the account. The UGMA/UTMA custodian will not be permitted to change the beneficiary.
- A scholarship account may be opened only by a state or local government, or a charitable organization qualifying under section 501(c)(3) of the Internal Revenue Code. A designated beneficiary does not need to be named when a scholarship account is opened.

The account owner is the person (or entity) that enters into the Participating Trust Agreement and is designated at the time the account is opened as having the authority to withdraw assets from the account before the account is disbursed to or for the benefit of the designated beneficiary.

Section Notes:

- See Participating Trust Agreement - page 12

B. Account Structure

To participate in the Plan, you open an account under the Program (your Program account) by entering into a Participating Trust Agreement and make contributions to the Program account on behalf of the designated beneficiary. The contributions to your Program account will be deposited by the Fund, acting through the sole trustee, in an account (a deposit account) with the Bank. The Program account belongs to you (the account owner) and not to the designated beneficiary, the State of Montana, the BOR or the Fund. Your designated beneficiary has no vested rights in the account and may be changed at any time, subject to certain limitations as described herein. As the account owner, you are the only person entitled to make withdrawals or direct distributions from your Program account. Special rules apply to UTMA and UGMA accounts.

Section Notes:

- Opening an Account - page 4
- See Participating Trust Agreement - page 12

C. Selecting a Designated Beneficiary

- The account owner must designate an individual, the beneficiary, whose qualified higher educational expenses are expected to be paid from the account.
- The designated beneficiary may be the account owner or any other individual. (The designated beneficiary must be an individual.)
- There is no requirement that the account owner and designated beneficiary be related.
- A designated beneficiary does not need to be named when a scholarship account is opened.
- Only one designated beneficiary can be named on an account at one time.

Section Notes:

- See Change the Designated Beneficiary - page 7

D. Multiple Accounts

You may open multiple accounts and an individual may be the designated beneficiary of more than one account. Balances in multiple Program accounts with the same designated beneficiary are aggregated for purposes of monitoring the maximum account balance limit.

Section Notes:

- See Maximum Deposit - page 4

E. Residency Requirements

Interested parties residing in or outside Montana may open an account for any college-bound person. In addition, there are no in-state use requirements. The proceeds may be used for qualified higher education expenses for the enrollment or attendance of a designated beneficiary at any eligible educational institution in the U.S. or certain eligible institutions abroad.

Section Notes:

- See State Income Tax Considerations - page 9

F. Opening an Account

To open an account, complete and sign an Enrollment Form.

Contributors using payroll direct deposit must also complete a second form and include the name of the employer and the employer's phone number. Contributors using automatic direct deposit from a financial institution must provide the account number from which the contribution will be debited, the name and location of the financial institution, and the frequency and choice of date on which the contribution should be debited. Contributors must indicate whether contributions are "rollover" contributions and provide documentation.

By signing the Enrollment Form, you agree that the Program account is subject to the terms and conditions of the Participating Trust Agreement.

Section Notes:

- Product Terms and Conditions - Product Disclosure
- See Participating Trust Agreement - page 12
- See Contributing to an Account - page 4

G. Contributing to an Account

Your initial contributions to the account and later contributions can be made by personal check, cashier's check, certified check, money order, direct deposit, electronic funds transfer, or through a "rollover distribution" from another qualified tuition program. All contributions must be in United States dollars. Direct deposit from a financial institution can be selected by completing the appropriate area on the Enrollment Form.

Payroll direct deposit is available through a separate form that is in addition to the Enrollment Form, and employers must establish direct deposit payroll service with the Bank in order to initiate payroll deductions.

Checks and money orders should be made payable to MFESP, CSB as Manager and additional deposits should be accompanied by a deposit slip which is available at <http://montana.collegesavings.com> or by contacting the Bank.

H. Maximum Deposit

The Program is required to set an account balance limit. No contribution may be made to an account if it would cause the sum of all section 529 accounts for the same designated beneficiary to exceed the lesser of the balance limit, currently set at \$335,000 (as of August 1, 2009) or the cost in current dollars of the qualified higher education expenses that the account owner reasonably anticipates the designated beneficiary will incur. The Program Manager or BOR may reject and return a contribution if it would cause the sum of the value of all 529 plan accounts for the same designated beneficiary (in all of the 529 plans available under the Montana Program) to exceed the balance limit. The balance limit is set by the BOR and adjusted from time to time. You should check the website at: <http://montana.collegesavings.com> for current account balance limits.

If you, the Program Manager or the BOR discovers that you inadvertently made an excess contribution with respect to a designated beneficiary and it is not rejected and returned, you must promptly withdraw the contribution or roll it over to another account for another designated beneficiary. Failure to withdraw excess contributions could result in the disqualification of the account.

I. Discontinuing Deposits

The amount or frequency of contributions can be changed or stopped at any time. To discontinue or reinstate deposit transfers from another account, or to change the frequency, amount or maturities of CD purchases, notify the Bank in writing at the address provided at the end of this document. To make changes to payroll direct deposits, including stopping payments or changing amounts, contact your company payroll department. For all other account activity, contact the Bank.

J. Contributions from Non-Account Holders

A person does not need to be the account owner to contribute to an account. However, a contributor who is not the account owner will have no rights with respect to the assets deposited into the account. A contributor who is not an account owner should obtain advice from a tax professional about the gift tax consequences of the contribution.

Section Notes:

- See Contributing to an Account - page 4

K. Transferring Funds to My Account

You can contribute to the Plan by rolling over assets from another 529 plan or college savings investment, including a Coverdell Education Savings Account or a U.S. Savings Bond.

If you transfer funds from a Coverdell Account, in order to have a non-taxable transfer, the designated beneficiary of the Program account to which the funds are transferred must be the same as the beneficiary of the Coverdell Account from which the transfer is made.

Contact the Bank for more information about how to complete tax-favored transfers. In the case of a rollover contribution, the Bank will need a distribution statement issued by the plan or institution in which the funds were held, a redemption receipt, Form 1099-Q,

or Form 1099-INT to show the portion of the rollover that is attributable to contributions and the portion that is earnings. If the required documentation is not provided, federal tax law requires that the entire rollover be treated as a rollover of earnings for purposes of future reporting to the IRS and distributee. This could result in greater tax liability and penalties for future withdrawals.

ACCOUNT BALANCES

A. Account Balance Statements

The Bank will send you an annual statement after July 31 that will include the account balance, as well as all contributions, distributions and earnings that occurred during the preceding 12 months.

If you believe an error has been made on an account statement, contact the Bank in writing within 30 days from receipt of the statement on which the error occurred.

B. Use of Funds as Collateral

Neither your Program account nor the related deposit account may be pledged as security or collateral for a loan or be encumbered or mortgaged. You may not borrow amounts in your Program account or the related deposit account.

Section Notes:

- See Lack of Immediate Liquidity - Product Disclosure

C. Eligibility for Financial Aid

Program assets will be considered if the student applies for state or federally sponsored financial aid or scholarships. If the account is owned by the parent, account balances are generally included in the asset of the parents rather than the student. Beginning July 1, 2009, section 529 accounts owned by or for the sole benefit of the student (such as custodial accounts) also will be treated as assets of the parents for federal financial aid calculations. (As a result of a peculiarity in the Higher Education Act of 2005, until July 1, 2009, student owned section 529 accounts (such as in a custodial account) will not be treated as the student's or parent's assets for financial aid purposes.) Section 529 account distributions that are not included in taxable income are not treated as student or parent income for purposes of federal financial aid calculations. An account owner should check the applicable rules for financial aid programs and scholarship programs before withdrawing funds to pay qualified higher education expenses.

Under Montana law, a student loan program, student grant program, or other financial assistance program established or administered by the State of Montana or a financial assistance program administered by a college or university supported by the State of Montana must treat the balance in an account as an asset of the parent of the designated beneficiary and not as a scholarship or grant or as an asset of the student for determining a student's or parent's income, assets or financial need. However, this rule does not apply if it is inconsistent with requirements of federal law or a specific grant establishing a financial assistance program.

Section Notes:

- See Impact on Eligibility for Financial Aid - page 3

D. Use of Program Account

You are expected to use amounts in a Program account to pay the designated beneficiary's "qualified higher education expenses" at an "eligible educational institution."

You may use amounts in a Program account for any other purpose,

but the federal income tax treatment of such withdrawals will be less favorable than in the case of withdrawals for qualified higher education expenses, and a 10% additional federal income tax on the withdrawn earnings, may apply.

Section Notes:

- See Qualified Higher Education Expenses - page 5
- See Eligible Educational Institutions - page 5
- See Federal Income Tax on Account Earnings - page 8

WITHDRAWALS AND ACCOUNT TERMINATION

A. Withdrawals from an Account

Only the account owner has the authority to request withdrawals from the account. Under Montana law and BOR rules, an account owner seeking to withdraw assets from the account may be required to characterize the withdrawal as "qualified," "nonqualified" or "due to death, disability or receipt of scholarship." The characterization of a withdrawal does not govern its tax treatment for federal income tax purposes.

B. Early Withdrawal

Early redemption of your CDs are permitted. Each CD features an early withdrawal procedure including specific instructions, limitations and Bank imposed penalties for a distribution prior to the Maturity Date. This is in addition to any state or tax consequences or limitations for which you may be liable.

Section Notes:

- See Lack of Immediate Liquidity - Product Disclosure
- See Product Terms and Conditions - Product Disclosure

C. Qualified Withdrawal

A qualified withdrawal is a withdrawal to pay for the qualified higher education expenses of the designated beneficiary.

Section Notes:

- See Qualified Higher Education Expenses - page 5
- See Eligible Educational Institutions - page 5

D. Qualified Higher Education Expenses

Qualified higher education expenses include tuition, fees, textbooks, supplies and equipment that are required for the designated beneficiary to attend an eligible institution of higher education and expenses for special needs services (as such term is used in the Internal Revenue Code) incurred by a designated beneficiary who is a special needs beneficiary (as such term is used in the Internal Revenue Code) and relating to enrollment or attendance at an eligible educational institution.

If the student's enrollment qualifies as at least half-time, room and board expenses are also eligible up to a specified level. Room and board expenses for students living in student housing are limited to the greater of the standard allowance for room and board (as determined by the eligible institution based on the amount most of its residents are normally assessed for room and board) or, if greater, the actual invoice charge for room and board. Room and board expenses for students living at home with parents or in off-campus housing will be the respective amounts determined by the eligible institution for purposes of determining "cost of education" for financial aid.

Section Notes:

- See Eligible Educational Institutions - page 6

E. Eligible Educational Institutions

In general, “eligible educational institutions” are accredited, post-secondary educational institutions offering credit toward a bachelor’s degree, an associate’s degree, a graduate level or professional degree or another recognized post-secondary credential, including certain proprietary institutions and post-secondary vocational schools and certain institutions in foreign countries.

Currently, to be an eligible institution, the institution must be eligible to participate in U.S. Department of Education student aid programs under Title IV of the Higher Education Act of 1965, as amended. To determine if a school is eligible, log onto <http://montana.collegesavings.com> and enter the research section.

F. Scholarships, Disability or Death

If the designated beneficiary receives a qualified scholarship, becomes disabled or dies, the account owner can withdraw the assets in the account without incurring the 10% federal tax penalty applicable for nonqualified withdrawals. (Only assets up to the amount of the scholarship can be returned without incurring the 10% federal tax penalty.) However, the earnings portion of the withdrawal will be subject to federal income tax of the account owner (or possibly the estate of the designated beneficiary if the designated beneficiary was the account owner). CD early redemption penalties may apply.

The account owner could also initiate a change of designated beneficiary.

According to IRS Publication 970, “scholarship” includes a qualified scholarship excludable from gross income, veterans’ educational assistance, employer-provided educational assistance, or any other nontaxable payments (other than gifts, bequests or inheritances) received for education expenses. If you have questions about whether a scholarship is qualified, contact your tax adviser. If the designated beneficiary attends a military academy, such as West Point or the Naval Academy, funds, up to the costs of advanced education, as defined by section 2005(e)(3) of title 10 of the U.S. Code, can be returned to the account owner without imposition of a federal tax penalty.

Consult your tax adviser for the definition of “disability.”

Section Notes:

- See Early Withdrawal - page 5
- See Change the Designated Beneficiary - page 7

G. Nonqualified Withdrawal

A nonqualified withdrawal is any distribution that is not considered a qualified withdrawal, not made as a result of the death or disability of the designated beneficiary or due to a scholarship received by the designated beneficiary, and not a permitted change of designated beneficiary. Nonqualified withdrawals are typically subject to ordinary income tax and a 10% federal tax penalty on the earnings portion of the withdrawal.

Section Notes:

- See Federal Income Tax on Account Earnings - page 8

H. Assets in an Account After Expenses are Paid

If the designated beneficiary graduates from college and assets remain in the account, you may choose one of the following:

- 1) Have the remaining assets (including earnings) returned by completing a Distribution Authorization Form and sending it to the Bank at the address provided on the form. The earnings

included in the distribution will be subject to ordinary income tax and the 10% federal tax penalty.

- 2) Authorize a change of designated beneficiary for the remaining assets. (This is not considered a nonqualified withdrawal.)
- 3) Keep the assets in the account to pay future education expenses, such as graduate or professional school expenses of the designated beneficiary. (This is not a nonqualified withdrawal.)

Section Notes:

- See Federal Income Tax on Account Earnings - page 8
- See Change the Designated Beneficiary - page 7

I. Designated Beneficiary No Longer Needs Assets

If the designated beneficiary decides not to pursue higher education, you may either close the account as a non-qualified withdrawal or authorize a change of designated beneficiary. (This is not considered a nonqualified withdrawal.) An UGMA/UTMA custodian will not be permitted to change the designated beneficiary on an account. You may also close the account. If the account is closed, the assets (including earnings) will be returned to the account owner in what will likely constitute a nonqualified withdrawal. CD early withdrawal penalties may apply.

Section Notes:

- See Early Withdrawal - page 5
- See Federal Income Tax on Account Earnings - page 8
- See Change the Designated Beneficiary - page 7

J. Terminating an Account

You may voluntarily terminate an account at any time by completing a Distribution Authorization Form and sending it to the Bank at the address provided on the form. In such instances, the account balance will be returned to the account owner with earnings, in what will likely constitute a nonqualified withdrawal. CD early withdrawal penalties may apply.

Section Notes:

- See Federal Income Tax on Account Earnings - page 8
- See Early Withdrawal - page 5

K. Bank or BOR Terminating an Account

The Bank retains the right to terminate a CD if the withdrawals of principal from the CD would result in the amount remaining in the account being less than the minimum required.

The BOR may terminate an Account at any time if it determines after due inquiry and notice that:

- 1) the adult-designated beneficiary of an account does not intend to attend an eligible institution or
- 2) the account owner has changed designated beneficiaries of an account primarily to avoid or significantly defer federal or state income tax.

Upon termination of an Account, the Bank will liquidate the investments in the account and distribute the balance of the account to the account owner in what is likely to constitute a nonqualified withdrawal. CD early withdrawal penalties may apply.

Section Notes:

- See Federal Income Tax on Account Earnings - page 8
- See Early Withdrawal - page 5

CHANGES TO YOUR ACCOUNT

A. Change the Designated Beneficiary

Section 529 of the Internal Revenue Code allows for changes of the designated beneficiary without income tax consequences, as long as the new designated beneficiary is a family member of the original designated beneficiary. If the new beneficiary is a member of a lower generation than the former beneficiary, there may be gift or generation-skipping tax consequences. Consult a tax adviser regarding specific situations. To initiate a change of designated beneficiary, complete a Change of Designated Beneficiary Form (which you may obtain from the Bank or from the Bank's website) and send it to the Bank at the address at the end of this disclosure statement. An UGMA/UTMA custodian will not be permitted to change the designated beneficiary on an account.

Section Notes:

- See Definition of Family Members - page 7

B. Definition of Family Members

For purposes of changing the designated beneficiary as described above, the definition of "family member" is:

- Father, mother, grandparent, stepfather or stepmother;
- Son, daughter, stepson or stepdaughter;
- Brother, sister, stepbrother, stepsister;
- Grandson or granddaughter;
- Son or daughter of a sibling, aunt or uncle;
- Spouse of any of the preceding;
- First cousin; or
- Spouse.

Section Notes:

- See Change the Designated Beneficiary - page 7

C. Change the Account Owner

Under the Plan, account ownership may be transferred only to

- 1) a designated beneficiary (or a custodian for a designated beneficiary),
- 2) an ex-spouse, pursuant to a divorce,
- 3) joint ownership with a spouse or
- 4) the person described in Section D below in the event of the death of the account owner.

It is possible that the IRS may issue regulations that further limit the ability to change account ownership

To initiate the transfer of ownership, complete a new Enrollment Form and provide written and notarized instructions of transfer to the Bank at the address provided at the end of this disclosure statement. In the case of a transfer to an ex-spouse, appropriate proof (such as a copy of a divorce decree) is required. To transfer ownership as a result of the death of the account owner, a copy of the death certificate should be included. The new account owner may be required to complete an Enrollment Form.

Section Notes:

- See Uncertainty of Tax Law - page 2

D. Death of the Account Owner

Upon the death of the account owner, the following will occur:

- 1) If the account was jointly owned, the surviving joint account owner will become the sole account owner.
- 2) If there is no joint account owner and a successor owner has been designated, the designated successor will become the account

owner. Please note that the designation of a successor owner could cause the account to be aggregated with other accounts of the owner at the Bank for purposes of the \$250,000 limitation on FDIC insurance coverage.

- 3) If there is no surviving joint account owner or designated successor owner and the designated beneficiary is at the age of majority or older, account ownership will be transferred to the designated beneficiary.
- 4) If there is no surviving joint account owner or designated successor owner and the designated beneficiary is a minor at the time of the account owner's death, the account will be transferred to the legal guardian for the designated beneficiary as custodian under the applicable Uniform Transfers or Uniform Gifts to Minors Act. If the designated beneficiary does not have a legal guardian designated, the account owner's personal representative will be allowed to designate a custodian for the account.

Section Notes:

- See Applicability of FDIC Insurance - Product Disclosure

E. Transferring Assets Between Funds

Under federal tax law, the assets in a qualified tuition program (529 plan) for a designated beneficiary can be transferred to another state section 529 plan for the same designated beneficiary without subjecting the distribution to federal income tax or federal tax penalty. Only one such transfer is permitted in any 12-month period. Transfers that involve a change in designated beneficiary (to a family member) are also acceptable at any time without tax liability. Transfer to another plan will be subject to Bank-imposed early redemption penalties.

In a notice issued in September 2001, the Internal Revenue Service announced that it would permit account owners to change the investment strategy selected for a section 529 plan account once per calendar year without violating the prohibition on investment direction. This rule may enable you to move all or part of the balance of a deposit account to another investment option offered under another investment plan of the Program. The scope of this rule is not entirely clear; you should consult with your tax adviser before seeking to take advantage of this rule. Bank-imposed early redemption penalties may apply to reallocations.

Section Notes:

- See Early Withdrawal - page 5

F. Asset Transfer Process

To transfer funds from another program or plan account, you must withdraw funds from the account or have the trustee of the plan directly transfer the funds by check payable to the MFESP, CSB as Manager or wire transfer. If you do not have a Plan account, you must start a Plan account.

The contribution must be designated as a rollover contribution by completing a Direct Rollover Form, which is available at: <http://montana.collegesavings.com> or by contacting the Bank. The appropriate documentation, i.e., a distribution statement issued by the previous 529 plan or financial institution, a redemption receipt, or Form 1099-INT, must be provided to the Bank showing the portion of the rollover that is attributable to contributions and the portion that is earnings. If the required documentation is not provided, federal tax law requires that the entire rollover be treated as a rollover of earnings for purposes of future reporting to the IRS and distributee. This could result in greater tax liability and penalties for future withdrawals.

Contact the Bank for more information about how to complete such a transfer. The qualified tuition program from which you are transferring funds may impose other restrictions on such a transfer, so you should investigate this alternative thoroughly before you request a transfer.

Section Notes:

- See Early Withdrawal - page 5

TAX CONSIDERATIONS

The following discussion is intended only as a summary of certain tax aspects of the Program and is subject to change as tax law and regulations change. Account owners should consult with their legal and tax advisers regarding their individual circumstances.

A. Section 529

The Program has been structured to qualify as a “qualified tuition program” described in section 529 of the Internal Revenue Code. Section 529 provides special tax treatment for amounts held in and withdrawn from accounts established under qualified tuition programs.

No assurance can be provided by the Bank, Fund, or Program that the Program qualified or will continue to qualify as a qualified tuition program. The description of tax considerations below assumes that the Program is a qualified tuition program.

The U.S. Treasury has not issued final regulations under section 529. The issuance and adoption of such regulations and/or other guidance by the U.S. Treasury could modify or restrict the benefits of 529 plans and could also necessitate changes and/or restrictions in the Program. Such changes could eliminate or reduce the tax advantages of the Program or require changes in the structure of the Program that may restrict or otherwise affect the use of Program investments.

B. Federal Income Tax on Account Earnings

Section 529 programs are exempt from federal income tax. That means that no tax is due on account earnings that have not been withdrawn.

Earnings will not be subject to federal income tax upon withdrawal if they are:

- 1) used to pay the qualified higher education expenses of the designated beneficiary,
- 2) transferred (within 60 days of withdrawal) to an account under the Plan or another qualified tuition program for the benefit of another designated beneficiary who is a member of the family of the initial designated beneficiary, or
- 3) transferred to another qualified tuition program for the benefit of the same designated beneficiary (this transfer exception is available only once in any 12-month period with respect to a designated beneficiary).

You should maintain adequate records to support claims that distributions were used to pay qualified higher education expenses.

The earnings portion of other withdrawals will be included in the gross income of the distributee (either the account owner or the designated beneficiary) and taxed at ordinary income tax rates.

Generally, if you receive a taxable distribution, you must also pay an additional 10% federal tax on the amount included in income. This additional tax does not apply to distributions:

- 1) paid to a beneficiary (or the estate of the designated beneficiary)

- on or after the death of the designated beneficiary;
- 2) made because the designated beneficiary is disabled;
- 3) made because the designated beneficiary received a qualified scholarship excludable from gross income, veterans’ educational assistance, employer-provided educational assistance, or any other nontaxable payments (other than gifts, bequests or inheritances) received for educational expenses, but in each case only to the extent that the distribution is not more than the scholarship, allowance or payment;
- 4) the earnings on which are included in income only because the qualified education expenses were taken into account in determining the Hope or Lifetime Learning Credit; or
- 5) made because the designated beneficiary attends a military academy (but only up to the costs of advanced education, as defined by section 2005(e)(3) of title 10 of the U.S. Code).

Section Notes:

- See Qualified Higher Education Expenses - page 5
- See Change the Designated Beneficiary - page 7
- See Transferring Assets Between Funds - page 7

C. Gift and Generation-Skipping Transfer Tax

A contribution to an account is treated for federal gift tax purposes as a gift to the designated beneficiary. Accordingly, the gift is eligible for the annual \$13,000 exclusion amount (as adjusted for inflation) for gifts by each donor to each donee. If a contributor gives more than \$13,000 (\$26,000 for married couples) to accounts for any designated beneficiary, the donor may elect to average the contributions and treat them as gifts made ratably over the 5-year period beginning with the year of the contribution. Contributions in excess of the annual exclusion amounts will be applied against the contributor’s lifetime exclusion from the gift tax before resulting in gift tax. In applying the \$13,000 exclusion, other gifts from the donor to the designated beneficiary during the year must also be taken into account. Contributions to accounts for grandchildren in excess of the annual exclusion amounts will be subject to the generation-skipping transfer tax, but each individual is entitled to a \$2,000,000 exemption (as adjusted for inflation) from such tax. A change of designated beneficiary will constitute a gift from the former designated beneficiary only if the new beneficiary is a generation below the former designated beneficiary.

D. Estate Planning

For purposes of the federal estate tax, the value of an account will not be treated as part of the taxable estate of an account owner who is not a designated beneficiary. However, if you make the 5-year averaging election described above and die before the end of the 5-year period, amounts that would have been ratably allocated to the period after the donor’s death will be included in your taxable estate. If amounts are distributed on account of the death of the designated beneficiary, the amounts distributed will be included in the estate of the designated beneficiary.

E. 529 Plans and Other Tax-Related College Savings Incentives

Federal tax law provides a variety of education-related tax incentives, including:

- 1) Coverdell Education Savings Accounts (ESAs), formerly known as Education IRAs,
- 2) tax-free redemption of U.S. savings bonds if used to pay eligible education expenses,
- 3) Hope Scholarship Credit and
- 4) Lifetime Learning Credit

Taxpayers may make tax-free withdrawals from an ESA or, subject

to income requirements, tax-free redemptions of U.S. savings bonds to deposit the assets in a 529 plan account.

As a general rule, the same qualified higher education expenses may not be used to obtain benefits under more than one tax incentive.

For example, a taxpayer who has \$2,500 of higher education expenses may not treat those expenses as paid with both a \$2,500 withdrawal from an ESA and a \$2,500 withdrawal from a qualified tuition plan. Qualified higher education expenses for purposes of the ESA and qualified tuition program rules are reduced by expenses for which a Hope Scholarship Credit or Lifetime Learning Credit is claimed.

There is one important exception to the general rule: If tax law allows a deduction for qualified higher education expenses the deduction may be claimed for expenses that are treated as paid with the portion of a qualified withdrawal that is not treated as earnings.

For example, if a qualified withdrawal consisting of \$500 of earnings and \$2,000 of contributions is used to pay tuition, the \$2,000 portion of the tuition payment may be eligible for a deduction for qualified higher education expenses.

The 10% penalty on taxable withdrawals from a qualified tuition program will not apply to the extent that the withdrawal is not treated as used to pay qualified higher education expenses because the expenses are taken into account in determining the Hope or Lifetime Learning Credit.

F. State Income Tax Considerations

Montana state income tax rules follow the federal income tax rules with respect to the Program, except

- 1) Montana excludes from gross income the earnings component of distributions to pay qualified higher education expenses without regard to whether federal tax law excludes such earnings from income,
- 2) Montana taxpayers may deduct from their Montana income qualified contributions to Program accounts, and
- 3) in certain cases, a recapture tax may be payable upon the withdrawal of deductible contributions.

If you live or have taxable income in a state other than Montana, and your state has implemented a qualified tuition program under section 529 of the Internal Revenue Code, favorable state tax or other benefits may only be available if you invest in your state's plan. The benefits may not be available to you if you invest in the Program. You should consider such tax treatment or other benefits before making an investment decision, and consult your tax adviser or tax preparer to determine the state tax consequences of participation in the Program.

In general, if a state's income tax law conforms with the federal income tax law,

- 1) an account owner who is a resident of the state should not recognize income on account earnings that are not distributed, and
- 2) the account owner or designated beneficiary should be required to include distributed earnings in income to the extent they are included in federal taxable income. A state may require residents to add back to their income the amount of earnings that are distributed from out-of-state (but not home state) section 529 plans and exempt from federal income tax. If a state must change its law to conform to federal income tax as of a particular date and the state has not adopted federal tax law changes made in 2001, the earnings portion of a qualified withdrawal may be subject to state tax. If a state's definition of taxable income or adjusted gross income does not conform to the federal definition and the state does not have

an explicit provision addressing the tax consequences of qualified tuition programs, the tax consequences to an account owner may be unclear. The earnings on an account may be included in the account owner's state taxable income when earned, or the state may explicitly or implicitly follow the federal tax rules.

Most states that have gone beyond just tracking the federal code and have adopted special income tax deductions for contributions to qualified tuition programs have not extended the special incentives to contributions to out-of-state section 529 programs.

G. Montana State Tax Deduction

A Montana resident may deduct from income (for purposes of determining Montana tax liability) contributions made to one or more Program accounts. The maximum deduction for a taxpayer is \$3,000 per year. A deduction is allowed only for contributions to accounts owned by the taxpayer, the taxpayer's spouse, or, if the taxpayer's child or stepchild is a Montana resident, the taxpayer's child or stepchild.

Each spouse is entitled to a deduction, up to \$3,000 per spouse, for his or her contributions. Spouses may elect to treat half of the total contributions made by the spouses as being made by each spouse. Thus, the limitation on deductions for a joint return is effectively \$6,000.

Contributions are deductible only in the year made. Montana tax regulations state that the date of mailing is determinative for purposes of determining when a contribution is made. If you make a deposit by mail near the end of the year, you should obtain a certificate of mailing from the post office so that you will have proof of the timing of your contribution.

H. Montana Recapture Tax

The account owner will be subject to a Montana "recapture tax" at a rate equal to highest individual tax rate applicable in Montana (currently 6.9%) on a "recoverable withdrawal" (defined below) of deductible contributions that were made to a Program account. The tax applies even if the account owner has moved from Montana and is not otherwise subject to Montana income tax. The account owner is liable for the tax even if the account owner did not make the deductible contribution. The amount of the recapture tax may exceed the tax benefit from the deduction in some cases, such as when the taxpayer claiming the deduction was not in the highest marginal tax bracket.

A "recoverable withdrawal" is a nonqualified withdrawal or any other withdrawal of a contribution made within three years of the time the account was opened.

Montana has established fairly liberal rules for determining what portion of a withdrawal is attributable to deductible contributions. A withdrawal is apportioned between earnings and contributions in accordance with federal income tax principles. If you make a recoverable withdrawal, you will treat the contributions portion as first coming out of nondeductible contributions and second out of deductible contributions. If you make a withdrawal that is not a recoverable withdrawal, you will treat the contributions portion as first coming out of deductible contributions.

Montana law places on the account owner the burden of sustaining a claim that all or a portion of the contributions withdrawn are not attributable to deductible contributions. Accordingly, you should keep careful records of contributions to accounts.

Section Notes:

- See Nonqualified Withdrawal – 6

I. IRS Reporting

The Program will report distributions and other matters to the IRS and distributees to the extent required pursuant to federal, state or local law, regulation or ruling. Under federal law, a separate return will be filed by the Program with the IRS reporting distributions from a Program account to each distributee reflecting, among other information, the earnings portion withdrawn during the calendar year to which the report pertains. By January 31 of the following year, the distributee will be sent a copy of the return or a corresponding statement.

J. Entity-Owned Accounts

The descriptions included in this section may apply only to account owners who are individuals, UGMA/UTMA custodians, and spouses owning a joint account. Corporations, partnerships, limited liability companies, trusts and other entities that wish to contribute to or own accounts should seek counsel on how tax rules will apply to their transfer of funds and to the accounts that they own. Business entities should be aware that their contributions to accounts or withdrawals from the accounts to pay qualified higher education expenses may constitute employment compensation (if the designated beneficiary is or was an employee or a family member of an employee) or constructive dividends or distributions (if the designated beneficiary is an owner or a family member of an owner of the entity).

K. Additional Tax Information

For additional information about the tax treatment of qualified tuition programs and other tax benefits for education, see IRS Publication 970 "Tax Benefits for Education," which is available at the IRS website <http://www.irs.gov>.

IMPORTANT NOTICES

A. Municipal Fund Securities

Plan accounts are considered municipal fund securities issued by the State of Montana and have not been registered under the Securities Act of 1933 or with any state in reliance upon an exemption from registration available for obligations issued by a public instrumentality of a state.

B. Inconsistencies

This document is intended as a summary of the rules applicable to the Plan. Every effort has been made to properly reflect in this document the applicable provisions of the Montana law, the policies and procedures adopted by the BOR, the Participation Trust Agreement, and federal and state income tax laws, all of which are available for review by the general public. Neither the BOR nor the Bank shall be liable for any inconsistency between this summary and the applicable provisions governing the administration and operation of the Plan. You are encouraged to seek independent legal and tax advice.

C. Authorized Representatives

Pursuant to agreements with the Bank, various broker/dealers and financial planners act as agents in effecting sales to their customers relating to the Program, and the Bank has agreed to pay them commissions ranging from .25% to 4.00%, depending on the product and maturity of each CD sold under the agreements. Depositors pay no commissions to any authorized representative in connection with purchases relating to the Program. The commissions are an expense of the Bank and do not affect the amount of the customer's deposit. Savers who work through brokers are in the same position as those who work directly with the Bank.

D. Anti-Money Laundering Acts

Title III of The USA Patriot Act (P.L. 107-56) requires that regulations be promulgated requiring financial institutions, such as the Bank, to implement reasonable procedures for verifying the identity of any person seeking to open an account, maintaining records of the information used to verify the person's identity, and determining whether the person appears on any lists of known or suspected terrorists or terrorist organizations provided to the financial institution by any government agency.

Prospective account owners should be aware that upon opening an account, certain personal information must be disclosed. The Bank will be required to verify the information provided and may use independent sources to verify. The account owner's name will be cross-checked against a federal government agency list of known or suspected terrorists and terrorist organizations. The Bank may share information with other banks and the federal government for the purpose of identifying or reporting suspected terrorism or money laundering.

E. Bankruptcy Protection

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (the 2005 Bankruptcy Act) provides new bankruptcy protections for education savings of a debtor invested in a Program account. Funds that an account owner has paid or contributed to the Program account for the account owner's child, stepchild or grandchild at least 365 days before the account owner files a bankruptcy petition are not property of the bankruptcy estate and therefore are shielded from creditors' claims. The amount of qualified tuition program funds that qualify for the bankruptcy exclusion pursuant to the 2005 Bankruptcy Act are subject to two separate limits:

- 1) the bankruptcy exclusion cannot exceed the amount needed to provide for the designated beneficiary's qualified education expenses, which amount is determined based on the educational expense category of the Consumer Price Index as in effect on the date of the bankruptcy filing; and
- 2) qualified tuition program funds, in excess of \$5,000, that the account owner paid or contributed to the Program account between 720 days and 365 days before the filing date of the bankruptcy petition will not be excluded from the bankruptcy estate and therefore will not be protected from the claims of creditors.

APPENDIX A: PARTICIPATION TRUST AGREEMENT

The Account Owner (“you”), the Montana Board of Regents, as the trustee (“Trustee”), of the Montana Family Education Savings Trust (“Trust”), and College Savings Bank (“Program Manager” or “Bank”) agree as follows:

1. Management of the Plan

The Plan has been created within the Trust, which was established by the State of Montana (the “State”) pursuant to Montana law and designed to qualify for treatment as a qualified tuition program under Section 529. The Trustee administers the Trust and has appointed the Program Manager to provide management, administration, record-keeping and transfer agency services for the Plan within the Trust. The Plan is described in the Disclosure Statement. Terms used in this Agreement that are not otherwise defined have the meanings defined in the Plan Disclosure Statement.

2. Accounts and Beneficiaries

Opening Accounts. You may open one or more Accounts. The purpose of each Account is to provide for the qualified higher education expenses as defined in Section 529 of the Internal Revenue Code of 1996, as amended (together with any regulations and other guidance issued thereunder, collectively referred to as “Section 529”) of one Beneficiary.

Separate Accounts. The Trust will maintain a separate Account for each designated beneficiary (a “Beneficiary”). Each Account will be governed by this Agreement, Montana law and regulations and applicable Federal law, including Section 529 (collectively referred to as “Applicable Law”). All assets held in your Plan Accounts will be held for the exclusive benefit of you and your Beneficiaries.

Naming and Changing Beneficiaries. You will name a single Beneficiary for an Account in the Account application. You can change the Beneficiary at any time without adverse tax consequences provided the new Beneficiary is a “member of the family” of the current Beneficiary, as that term is defined under Section 529. The designation of the new Beneficiary will be effective on the first day following receipt of a properly completed “Change of Designated Beneficiary” form. You may not change the Beneficiary of an UGMA/UTMA 529 Plan account.

A change of Beneficiary may result in the assignment of a new Account number. A change in Beneficiary will not automatically result in the change in the maturity of the CDs held with respect to the Account.

3. Investments

Investments to be in cash. All investments must be in cash, which means only (i) checks, (ii) electronic funds transfers from your bank, (iii) payroll deductions made by your employer, or (iv) funds wired through the Federal Reserve system.

Minimum Initial Investment. The initial investment in each Account generally is at least \$250 and varies by product. However, if you fund your Account with direct monthly deposits of at least \$100, you may open your account with an initial deposit of \$100. Smaller initial deposits are permitted for Accounts funded through payroll deposit plans.

Additional Investments. You may make additional investments at any time, subject to the overall limit described in the next paragraph. Each additional deposit must meet the minimum additional deposit level established by each product in the program and dependent on the deposit method.

Maximum Balance Limit. As described by Applicable Law, the Trust will set from time to time a maximum account balance value (“Maximum Balance”) that will limit the amount of contributions that may be made to accounts for any one Beneficiary. To the extent that contributions would result in an aggregate balance in all the Accounts in excess of the Maximum Balance, the excess will not be accepted and will be returned to you. The Maximum Balance is set forth in the Plan Description and is subject to change at any time by the Trustee. The balance in any accounts held for a Beneficiary in any other account in the MFESP (“Montana 529 Program”) will be aggregated with the balances in Accounts in applying the Maximum Balance.

Right to Refuse Contributions. Contributions may be refused if the Trustee or the Program Manager believes that the contributions appear to be an abuse of the Plan, do not comply with the requirements of the plan, or violate Applicable Law.

4. Investment Options

As described in the Disclosure Statement, deposits will be held in a savings account at the Bank until the minimum investment level is reached to purchase a CD. Each product has a different minimum investment level required to purchase a CD.

5. Distributions from Accounts

You may direct the Trustee to distribute part or all of the money in an Account at any time, subject to any fees, penalties and additional tax that may be applicable as described below and in the Disclosure Statement or as required by Applicable Law.

You must complete a Distribution Authorization Form and provide it to the Program Manager with any other information required by the Trustee or Program Manager. The Trustee may change the form from time to time.

Either you or the Trustee may terminate an Account at any time upon written notice to the other party and in accordance with Applicable Law. If you or the Account’s Beneficiary have provided false or misleading information to the Trust, Program Manager or an eligible educational institution, the Trustee may take such action as permitted by Applicable Law, including terminating the Account. Upon termination, the remaining Account balance will be distributed to you and any distributed earnings are likely to be subject to federal and any applicable state taxes, including an additional 10% federal tax on earnings for nonqualified withdrawals. In addition, as described in the Disclosure Statement, you will incur an early redemption penalty if a CD is redeemed before maturity to fund the distribution.

6. Your Representations and Acknowledgments

You hereby represent and warrant to, and agree with the Trust and Program Manager as follows:

A. You have received and read the Plan Disclosure Statement as well as the applicable Product Disclosure Statement and have carefully reviewed all the information contained therein, including the discussion of risks of investing in the Plan. You have been given an opportunity within a reasonable time prior to the date of this Agreement to ask questions and receive answers concerning (i) an investment in the Plan, (ii) the terms and conditions of the Trust, and (iii) this Agreement and to obtain such additional information necessary to verify the accuracy of any information furnished. You have had the opportunity to ask questions of the Program Manager and have received satisfactory answers to any questions asked. You have had an opportunity to seek independent legal and tax advice concerning investing in the Plan.

B. You acknowledge and agree that the Disclosure Statement terms and conditions are incorporated by reference into this Agreement. You have not relied on any representations or other information, oral or written, other than as set forth in the Disclosure Statement, the account application (“Application”), and in this Agreement.

C. You understand that:

1. The value of the Account may not be adequate to fund the Beneficiary’s actual higher education expenses;
2. The intended tax advantages for the Account may be affected by future changes in tax laws and regulations or Plan regulations; and
3. Neither the Trustee nor the State of Montana guarantees the rate of return or interest on your Account, and none of the Trust, the Trustee, the State or the Program Manager or any other Person is liable for any loss incurred by you as a result of participating in the Plan.

The State of Montana does not insure your Account, your contributions to the Trust, or any rate of return on the contributions.

4. The deposit account at College Savings Bank corresponding to your Account will be insured by the Federal Deposit Insurance Corporation as if you were the depositor. Limitations apply to the amount of FDIC insurance applicable to an Account. The FDIC does not guarantee interest that has not accrued.

D. You agree that you will not direct the investment of any funds invested in any Account, either directly or indirectly, other than as permitted by Applicable Law.

E. You understand that:

1. your contributions are being paid to the Trust,
2. you are purchasing interests issued by the Trust which are municipal fund securities,
3. you have no right or legal interest in any investment by the Trust made with contributions received under this Agreement, and
4. as an Account Owner, you are not a depositor of the Bank and have no rights of a depositor (other than rights to the benefit of FDIC insurance as provided in FDIC insurance rules and regulations).

F. You understand that so long as the Program Manager serves as a program manager to the Trust with respect to the Plan, funds in your Account will be invested in CDs or a savings account (or in certain limited exceptions held in a non-interest bearing account with College Savings Bank).

G. You acknowledge and agree that participation in the Plan does not guarantee that any Beneficiary:

1. will be accepted as a student by any institution of higher education;
2. if accepted, will be permitted to continue as a student;
3. will be treated as a state resident of any state for tuition purposes;
4. will graduate from any institution of higher education; or
5. will achieve any particular treatment under applicable state or federal financial aid programs. You also understand that participation in the Plan does not guarantee in-state tuition rates.

H. You acknowledge and agree that you will not use your Account as collateral for any loan or mortgage, pledge, or encumber your Account. Any attempted use of an Account as collateral for a loan and any mortgage, pledge, or other attempt to encumber an Account will be void.

I. You acknowledge and agree that you may not assign, convey or transfer any interest in any Account except as allowed by Section 529 or any Montana law or regulations. Any attempted assignment, conveyance or transfer of such an interest will be void. You understand that you may select a successor Account Owner to whom

the Account will be assigned in the event of your death.

J. You acknowledge and agree that the Trust will not loan any assets to you or any Beneficiary.

K. You agree and acknowledge that the Plan is established and maintained by the State pursuant to Montana law and is intended to qualify for certain federal income tax consequences under Section 529. You further acknowledge that such federal and state laws are subject to change, sometimes with retroactive effect, and that the State, the Trust, the Trustee, the Program Manager or any adviser or consultant retained by the Trust makes any representation that such state or federal laws will not be changed or repealed.

L. You understand that:

1. the state(s) where you live or pay taxes may offer a Section 529 savings plan,
2. another state’s Section 529 savings plan may offer you state income tax or other benefits not available through the Plan, and
3. you have had an opportunity to consult with a tax adviser regarding the state tax consequences of investing in the Plan.

M. You certify that all information provided by you in the application or otherwise is, and shall be, accurate and complete, and you agree to notify the Trustee or Program Manager promptly of any changes in such information.

N. You agree that each contribution to the Account shall constitute a representation by you that each contribution (together with the balance then on deposit in the Account and other accounts known by you to have been established under the Trust for the same Beneficiary) will not cause the aggregate balances in such accounts at that time to be in excess of the amount reasonably believed by you to be necessary to provide for the Beneficiary’s future higher education expenses and in any event will not cause such aggregate balances to exceed the Maximum Balance then in effect.

7. Fees and Expenses

The Account is subject to the following fees and expenses to pay for the costs of managing and administering the Plan:

Change of Designated Beneficiary Fee: \$50 after the first change of designated beneficiary of an account.

Change of Account Owner Fee: \$50 after the first change of account owner of an account.

Indirect Fees. You agree and acknowledge that, in addition to the fees described above, the Program Manager may pay fees to brokers for placement of your Account. Those fees have no effect on the return on your investment or the price at which CDs will be purchased for your Account.

The Bank’s profitability is dependent upon the interest rate margin that results from the spread that the Bank earns on its interest-earning assets and the interest paid on its interest-bearing liabilities, including CDs.

8. Payment of Fees and Expenses

The Plan may liquidate assets in your Account to pay any fees, expenses or liabilities owed to the Trustee, the Trust, the Program Manager, or certain other entities performing services related to the Plan.

9. Necessity of Qualification

The Trust intends to qualify for favorable federal tax treatment under Section 529. You agree and acknowledge that qualification under Section 529 is vital, and agree that the Trustee may amend this Agreement upon a determination that such an amendment is required to maintain such qualification.

10. Duties of the Trustee and the Program Manager

Neither the Trustee nor the Program Manager has any duty to determine or advise you of the legal investment, tax, or other consequences of your actions, of their actions in following your directions, or of their failing to act in the absence of your directions. You should consult your tax, legal, and investment advisers regarding your specific situation.

11. Audit

The Trustee requires the Program Manager, its assets and liabilities, and its financial statements to be regularly audited by federal and state auditors. The Program Manager's federally-filed financial statements are available quarterly at <http://www2.fdic.gov/idasp/main.asp> by searching for FDIC Certificate Number: 27041.

12. Reporting

The Program Manager will send you, at least annually, reports that show the value of the Account and activity in the Account during the previous year. If applicable, the Program Manager will provide tax reporting as required under Section 529 and other Applicable Law. You agree to provide all information that the Trustee or Program Manager may need to comply with any legal reporting requirements. You are responsible for filing federal tax returns and any other reports required by law.

13. Participant's Indemnity

You recognize that each Account will be established based upon your statements, agreements, representations and warranties set forth in this Agreement. You agree to indemnify and to hold harmless the Trust, the Trustee, the State, the Program Manager and any representatives of the Trust, the Trustee, the State or Program Manager from and against any and all loss, damage, liability or expense, including costs of reasonable attorneys' fees, to which they may be put or which they may incur by reason of, or in connection with,

1. any misstatement or misrepresentation made by you or any Beneficiary of yours,
2. any breach of your acknowledgments, representations or warranties contained herein, or
3. any failure by you to fulfill any portion of this Agreement. You agree that all of your statements, representations and warranties will survive the termination of this Agreement.

14. Amendment and Termination

Nothing contained in the Disclosure Statement or this Agreement is an agreement or representation by the Trustee or any other person that it will continue to maintain the Trust or the Plan indefinitely. No provision of this Agreement can be amended or waived except in writing signed by an authorized representative of the Trustee. The Trustee may from time to time amend, terminate or suspend the Plan and may also amend or terminate this Agreement by giving written notice to you, so long as after the action the assets in the Account are still held for the exclusive benefit of you and the Beneficiary. A termination of the Plan or this Agreement may result in a nonqualified withdrawal for which taxes and penalties may be assessed.

15. Effective Date; Incorporation of Application

This Agreement shall become effective between the Trustee, Program Manager and you upon the acceptance of your signed

Application by or on behalf of the Trustee. The Application executed by you with respect to the Account is incorporated herein, and this Agreement is expressly incorporated into each such Application, so that together this Agreement and the Application shall constitute the contract between the Trustee, the Program Manager and you with respect to the Account. Your execution of the Application will also be considered execution of this Agreement.

This Agreement is binding with respect to all Plan Accounts opened since 1998.

16. Applicable Law

This Agreement is governed by the laws of the State of Montana without reference to its conflicts of laws.

17. Severability

In the event that any clause, provision, or portion of this Agreement is found to be invalid or unenforceable by a court of competent jurisdiction, that clause or portion will be severed from this Agreement and the remainder shall continue in full force and effect as if such clause or portion had never been included.

18. Binding Nature

This Agreement shall be binding upon the parties and their respective heirs, successors, beneficiaries and permitted assigns. You agree that all of your representations and obligations under this Agreement shall be for the benefit of the Trustee and the Program Manager who can rely upon and enforce them.

19. Extraordinary Events

The Trustee and the Program Manager shall not be liable for losses caused directly or indirectly by government restrictions, exchange or market rulings, suspension of trading, war, acts of terrorism, strikes or other conditions beyond their control.

APPENDIX B: FEES AND EXPENSES

No fees are currently imposed on account owners or accounts with respect to the existence or maintenance of, contributions deposited to, amounts retained in, or investment earnings. The Bank reserves the right to charge account owners such fees, but you will be notified of any such fees, if adopted, and the fees will be prospective only. Fees may be imposed for certain types of transactions, such as changing designated beneficiaries. The first change of designated beneficiary or account owner for any account will be without charge. A second (or subsequent) change of designated beneficiary or of account owner may result in a \$50 fee. A separate check payable to the Bank for the change charge, if applicable, must accompany the written authorization.

	Investment Option	CollegeSure CD
Annual Asset-Based Fees	Estimated Underlying Fund Expenses	N/A
	Program Manager Fee	0%
	State Fee	0%
	Misc. Fees	0%
	Annual Distribution Fee	0%
	Total Annual Asset-Based Fees	0%
Additional Investor Expenses	Maximum Initial Sales Charge	0%
	Annual Account Maintenance Fee	0%

The combination of tax benefits, low deposit amounts and investment choices make the College Savings Bank 529 program a smart, safe and effective way to save for college.

Your Earnings Grow Tax-Free while you control the assets. When the time comes to use the money for college, earnings which are distributed to pay higher education expenses are also income tax-free.

Higher education expenses include tuition, fees, textbooks, supplies and equipment required to attend an eligible institution. If the student's enrollment qualifies for at least halftime, room and board expenses are also eligible up to a specified level.

Eligible institutions include virtually all accredited, public, non-profit and propriety postsecondary educational institutions. A complete database of eligible institutions can be found in the Research section of <http://montana.collegesavings.com>.

All Depositors Receive

- Account Assistance: Available Monday through Friday between 7 a.m. and 4 p.m. Mountain Time (9 a.m. - 6 p.m. Eastern Time) by calling toll free 800-888-2723 or sending an e-mail to montana@collegesavings.com. Our College Savings Advisers are at your service to answer your questions and help structure your account in a way that's best for you.
- Convenient Recordkeeping: Managing your account is easy. For each CD deposit, you'll receive a Confirmation Notice for your records.
- All depositors receive a comprehensive account statement each August showing ending account balances and all contributions, distributions and earnings that occurred during the year. Depending upon your deposit method and the investments you select, many depositors also receive quarterly statements each February, May and November reflecting activity and balances.
- CollegeSure Newsletter: At least twice a year you'll receive a complimentary CollegeSure Newsletter. It is designed to help you make the most of your account and keep you apprised of current issues regarding saving for college.

<http://montana.collegesavings.com>

Visit us online for additional information. You can chat with a College Savings Adviser or open an account with an electronic check or credit card / debit card.

<http://montana.collegesavings.com> contains informative FAQs, calculators and the site is refreshed daily with content exclusively aimed to help the college saver, so check in with us often.



Montana Family Education Savings Program

*c/o College Savings Bank
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ph: 800-888-2723

fax: 609-987-3760

e-mail: montana@collegesavings.com

<http://montana.collegesavings.com>

(or return to an authorized representative)

