

Maryland Prepaid College Trust 2016–2017 Disclosure Statement

For specific information on the Maryland Prepaid College Trust, please read this document in its entirety. This Disclosure Statement contains important information you should review before opening an Account in the Maryland Prepaid College Trust (Prepaid College Trust or Trust), including information about the benefits and risks of investing. We believe that this information is accurate as of the date of this Disclosure Statement, but it is subject to change without notice. No one is authorized to provide information that is different from the information in the most current form of this Disclosure Statement. Please read it carefully and save it for future reference. Certain capitalized terms used in this Disclosure Statement are defined in the Contract, which can be found below.

If you have read the Disclosure Statement and would like to learn more about the features and benefits of the Maryland 529 Plans, please refer to the Frequently Asked Questions section on our website at maryland529.com/faqs or register for our interactive webinar at maryland529.com/webinars.

Contract — 2016–2017

Article I — Introduction

This agreement describes the basic terms and conditions of the Maryland Prepaid College Trust (Prepaid College Trust) as authorized by Education Article Title 18, Subtitle 19 of the Annotated Code of Maryland (Enabling Legislation). Once you complete and submit an Enrollment Form to open an Account and it is accepted by the Maryland 529 Board (Board, we, our or us), a certificate outlining the information from the Enrollment Form and detailing your contract price (Certificate of Tuition Benefits) will be issued to you.

The completed 2016–2017 Enrollment Form includes an acknowledgment that you agree to be bound by the terms and conditions of this document. The completed Enrollment Form, Schedule of Prices and Fees, Certificate of Tuition Benefits, the Highlights Booklet, and the Prepaid College Trust Disclosure Statement are considered a part of this document. All of these documents constitute the entire agreement between you and the Board and are called the “Contract.” You should retain a copy of the Contract, any updates to the Contract and your Account Statements for your records.

The Enabling Legislation, regulations, and any guidelines we adopt will be available for inspection at the offices of Maryland 529. You or any other interested party may receive a copy of the Enabling Legislation and the Contract by contacting Maryland 529.

This Contract is not a promise or a guarantee that:

(1) the Beneficiary will be admitted to any Eligible Institution; (2) the Beneficiary will be allowed to continue enrollment at any Eligible Institution after admission; (3) the Beneficiary will be graduated from any Eligible Institution; (4) the Beneficiary will be classified as an in-state or in-county student by any Maryland Public College; (5) the Beneficiary will receive any particular treatment under any applicable state or federal financial aid programs; and/or (6) the Beneficiary’s Tuition at any Eligible Institution will be covered in full for the number of years purchased under this Contract unless the Beneficiary attends a Maryland Public College that determines the Beneficiary to be a Maryland or County resident, as applicable, and all of the terms and conditions of this Contract are satisfied.

Article II — Definitions

The definitions of terms included in the Enabling Legislation apply to this Contract and are incorporated by reference. In addition, the following definitions apply to Contracts:

1. **Academic Year** means a school year consisting of two semesters, three trimesters, or four quarters that will lead to an associate’s degree, a bachelor’s degree or a graduate degree, depending on the type of institution in which the Beneficiary is enrolled. One full Academic Year is defined as the amount of full-time, undergraduate Tuition required to cover two academic semesters at no more than 15 credit-hours per semester or the financial equivalent.
2. **Account** means the record that contains the details of payments, fees charged and/or paid, Benefits purchased, Benefits used, remaining Benefits, and refunds and reduced refunds in connection with a particular Beneficiary under this Contract.
3. **Account Holder or you** means the person who signs this Contract, controls the Account, and acquires Benefits for a Beneficiary under its terms and conditions. The Account Holder may also be any legally recognizable fiduciary such as a trust, guardianship, or estate. If the Account Holder is a minor, a Custodian must be named. In certain cases, the Account Holder and the Beneficiary may be the same person.
4. **Account Holder’s Successor** means the person named in this Contract (or in similar documents later filed with us) by the Account Holder, who may exercise the rights of the Account Holder under this Contract if the Account Holder dies or becomes legally incompetent. The Account Holder’s Successor must be a U.S. citizen or resident alien and may be the Beneficiary.
5. **Beneficiary or Student** means a person who is entitled to receive Benefits under a Contract and who meets eligibility criteria at the time the Account Holder submits an Enrollment Form. Under certain circumstances, the Beneficiary and the Account Holder may be the same.

6. **Benefits** means the payments by the Trust provided under this Contract that are described in *Articles IV* and *VI* of this Contract.
7. **Code** means the Internal Revenue Code of 1986, as amended. There are references to various sections of the Code throughout this Disclosure Statement, including Section 529 as it currently exists and as it may subsequently be amended, and any regulations adopted thereunder.
8. **Custodian** means the individual who executed an Enrollment Form on behalf of an Account Holder who is a minor. Generally, the Custodian will be required to perform all duties of the Account Holder with regard to the Account until the Account Holder attains the age of majority, is otherwise emancipated, or the Custodian is changed, removed or released. The Custodian of an Account funded from an UGMA/UTMA account may not change the Account Holder or Beneficiary.
9. **Declaration** means the Declaration of Trust of the Maryland Prepaid College Trust.
10. **Disabled or Disability** means the condition of a Beneficiary who is unable to do any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. An individual shall not be considered to be disabled unless proof of the existence thereof in such form and manner as may be required by applicable regulations is furnished.
11. **Eligible Institution** shall have the meaning ascribed to an “eligible educational institution” in Section 529(e) of the Code except that for purposes of the Prepaid Trust, the definition is limited to any institution of higher education that offers an associate, bachelor, or graduate degree program and is eligible to participate in federal financial aid programs.
12. **Earnings** means the amount reported to the IRS on Form 1099-Q (or other applicable form) for the same tax year as the distribution. For distributions under this Contract, the Earnings are calculated as follows: (i) if a Benefit is paid, the difference between the Benefit paid to an Eligible Institution and your payments, or (ii) if you take a refund or reduced refund, the difference between your payments and the amount of your refund.
13. **FDIC** means the Federal Deposit Insurance Corporation.
14. **Initial Eligibility** means the year in which a new Beneficiary in the 10th–12th grades may begin to use Benefits due to the three-year minimum maturity period.
15. **IRS** means the Internal Revenue Service.
16. **Mandatory Fees** means fees assessed to all students by an Eligible Institution as a condition of enrollment at the Eligible Institution. Mandatory Fees do not include any fee that is assessed by the Eligible Institution for a particular course taken, year of enrollment, academic status, course of study, residency status, or any other distinguishing factor used by the Eligible Institution to determine a specific fee.
17. **Maryland Public College** means any public Eligible Institution in the State of Maryland.
18. **Medallion Signature Guarantee** means a type of legally binding endorsement that ensures that your signature is genuine, and that the financial company issuing the guarantee accepts liability for any forgery. You can obtain a Medallion Signature Guarantee from most banks, savings institutions, and broker-dealers.
15. **Member of the Family** means an individual as defined in Section 529(e)(2) of the Code. Generally, this definition includes a Beneficiary’s spouse and the following other relatives of the Beneficiary:
- Son, daughter, stepchild, foster child, adopted child, or a descendant of any of them
 - Brother or sister (including half-brothers or half-sisters), stepbrother, or stepsister;
 - Father or mother or ancestor of either;
 - Stepfather or stepmother;
 - Son or daughter of a brother or sister;
 - Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law, or sister-in-law;
 - The spouse of any individual listed above;
 - First cousin
20. **Non-Qualified Distributions** means all distributions that are not used to pay Qualified Higher Education Expenses as defined in Section 529 of the Code.
21. **Qualified Distribution** means a distribution that is:
- Used to pay Qualified Higher Education Expenses (including distributions used to pay Qualified Higher Education Expenses that were refunded by the Eligible Institution and re-contributed to a Qualified Tuition Program for the same Beneficiary within 60 days of the refund);
 - Payable upon the Beneficiary’s death or Disability;
 - Made because the Beneficiary received a Scholarship, grant, and/or tuition remission provided that the total amount is greater than or equal to the amount distributed; or
 - A Rollover Distribution.
22. **Qualified Higher Education Expenses** means Qualified Higher Education Expenses as defined in Section 529(e)(3) of the Code. Generally, these include the following:
- Tuition, fees, and costs of textbooks, supplies, and equipment required for the enrollment or attendance of a student at an Eligible Institution;
 - Certain costs of room and board of a Beneficiary during any academic period during which the Beneficiary is enrolled at least half time at an Eligible Institution;
 - Expenses for special needs services in the case of a special needs Beneficiary, which are incurred in connection with such enrollment or attendance at an Eligible Institution. (As of the date of this Disclosure Statement, “special needs” Beneficiary has not been defined by the IRS); and
 - Expenses for the purchase of computers and peripheral equipment (e.g., printers), computer software, and Internet access and related services, to the extent that

such items or services are used primarily by the Beneficiary during any of the years the Beneficiary is enrolled at an Eligible Institution.

Note: Student loan expenses are not considered by the IRS to be Qualified Higher Education Expenses. Qualified Tuition Program or 529 plan means programs satisfying the requirements of Section 529 of the Code.

23. **Recontribution** means a refund of any qualified higher education expenses from an eligible institution which is recontributed to the Prepaid College Trust for the benefit of the same beneficiary, but only to the extent such recontribution is made not later than 60 days after the date of such refund and does not exceed the lesser of the refunded amount, or the amount distributed from the Prepaid Trust.
24. **Resident** means a person who is a resident of the State of Maryland or the District of Columbia at the time an Enrollment Form is submitted. For Maryland, this is defined as someone who is required to file a Maryland tax return if he or she otherwise has sufficient income to file a return. For the District of Columbia, Resident means a legal resident of the District of Columbia.
25. **Rollover Distribution** means a transfer of assets:
 - i) between Qualified Tuition Programs for the same Beneficiary, provided another rollover or transfer for the same Beneficiary has not occurred in the previous 12 months, or
 - ii) to an account for a different Beneficiary, provided that the receiving Beneficiary is a Member of the Family of the original Beneficiary.
26. **Scholarship** means a scholarship, allowance, or payment as described in §530(d)(4)(B)(iii) and (iv) of the Code, including payments made on account of attendance at a U.S. military academy.
27. **Trust Returns** means the since inception rate of return for the Prepaid College Trust. The date of inception is December 31, 1998 and the since inception rate of return is updated quarterly by the Prepaid College Trust's investment advisor. Trust Returns are used to calculate Rollover Distributions and refunds as described in Article VI of this Disclosure Statement.
28. **Tuition**, as defined by § 18-1901 of the Education Article of the Maryland Code, means the actual Tuition and Mandatory Fees assessed to all students by an Eligible Institution as a condition of enrollment at the institution.

Tuition does not include any fee that is assessed by the Eligible Institution for a particular course taken, year of enrollment, academic status, course of study, residency status, or any other distinguishing factor used by the Eligible Institution to determine a specific fee.
29. **UGMA/UTMA** means the Uniform Gifts to Minors Act/ Uniform Transfers to Minors Act.
30. **Weighted Average Tuition** is calculated as follows: for 4-year Eligible Institutions — dividing (A) the in-state Tuition

at each 4-year Maryland Public College multiplied by the number of full-time equivalent in-state students enrolled at such 4-year Maryland Public College, added together by (B) the total number of full-time equivalent in-state students enrolled at all 4-year Maryland Public Colleges.

The Weighted Average Tuition applicable to community colleges is calculated by a similar method using in-county Tuition and enrollment.

In performing this calculation, the Board applies the same projected increase for Tuition as is used to determine Contract prices, to the Weighted Average Tuitions in effect at the time of the calculation.

The Weighted Average Tuition is for the entire Academic Year and is calculated annually, typically in the fall for the following Academic Year and remains in effect for the entire Academic Year regardless of whether any Maryland four-year public college or community college, as applicable, adjusts Tuition for that same year.

Article III — Participation in the Prepaid College Trust

Enrolling. To participate in the Prepaid College Trust, you must complete an Enrollment Form. You and your Beneficiary must each be a U.S. citizen (or a resident alien) and have a valid U.S. Address as well as a Social Security number (if the Account Holder is a trust, a federal tax identification number is accepted). Either the Beneficiary or the Account Holder must be a Resident at the time the Enrollment Form is submitted to the Prepaid College Trust.

We have the sole discretion to determine whether an Enrollment Form is complete and accepted.

In order for your 2016–2017 enrollment to be accepted and for you to receive the Contract prices applicable to 2016–2017 Contracts, you must complete the 2016–2017 Enrollment Form and submit all of the required documentation, and any required fee or payment, to us in good order prior to the end of the 2016–2017 Enrollment Period on April 24, 2017. The following are exceptions in which we will accept enrollments (by mail only) after the end of the enrollment period, prior to the first day of the 2017–2018 Enrollment Period.

- i) enrollment of a newborn under the age of one;
- ii) enrollment by an Account Holder who has the same beneficiary enrolled in the Maryland College Investment Plan; or
- iii) current Account Holders purchasing additional semesters/years for the same Beneficiary in the Prepaid College Trust.

Tuition Plans. The Prepaid College Trust offers three tuition plans: the University Plan (one semester or one, two, three or four years); the Community College Plan (one or two years of community college); and the Two-Plus-Two Plan (first two years of the Community College Plan with two subsequent years of the University Plan).

Separate Accounting. There is a separate Account for each Contract. In addition, separate accounting records that track payments, fees charged and/or paid, and Benefits and/or refunds or reduced refunds paid are maintained for each Account Holder. However, the mere existence of an Account does not create a right to, or interest in, any portion or share of Prepaid College Trust assets or earnings.

Ownership. An Account may have only one Account Holder.

Account Holder Successor. The Account Holder Successor becomes the Account Holder if you die or are declared legally incompetent. You may designate an Account Holder Successor on the Enrollment Form or otherwise in writing or change a previous designation by providing us with written notice.

Right to Information. To protect your privacy, Account information is provided only to the Account Holder or Custodian. However, you may also direct in writing that someone other than the Account Holder may request and receive information regarding the Account.

Documents in Good Order. To process any transaction on your Account, all documents necessary to process that transaction must be in good order, which means executed when required and properly, fully, and accurately completed.

Multiple Accounts/Purchase of Additional Years. You may have more than one Account for a Beneficiary and you may buy an additional semester or years for the same Beneficiary. However, no more than seven years of Tuition may be purchased for the same Beneficiary, with no more than five years purchased on a single Account. No more than one year or two semesters may be purchased for the same Academic Year. You may buy additional year(s) for your Beneficiary at any time during the year. If the purchase takes place outside of an Enrollment Period, the prices for the previous Enrollment Period will be in effect.

You will maintain the original Contract and Account number, as well as enter into a new Contract and receive a new Account number for the additional semester(s) or year(s). A separate Enrollment Form and an Enrollment Fee must be submitted.

UGMA/UTMA. You may open your Account with proceeds of an UGMA/UTMA account. To do so, you must indicate on the Enrollment Form that the contributions to the Account are liquidated UGMA/UTMA assets. The minor will become the Account Holder and Beneficiary. The Account must also have a Custodian until the Beneficiary reaches the age of majority under the terms of the UGMA/UTMA account. Unlike other Accounts in the Prepaid College Trust, before the age of the Beneficiary's majority, the Beneficiary and Account Holder cannot be changed and distributions cannot be made other than for the benefit of that Beneficiary. Therefore, any discussion in this Enrollment Kit regarding the transfer of your Account to another Beneficiary applies to an Account funded from an UGMA/UTMA only upon the Beneficiary reaching the age of majority. Any additional contributions to this type of Account will be treated in the same manner.

Coverdell Education Savings Account. You may open your Account with the proceeds of a Coverdell Education Savings Account. Please indicate on the New Account Enrollment Form or with any additional investments that the assets were liquidated

from this kind of an account. Unlike UGMA/UTMA accounts, the Beneficiary may be changed to a Member of the Family of the Beneficiary of the Coverdell Education Savings Account. Making distributions from a Coverdell Education Savings Account to fund an Account for the same Beneficiary is not a taxable transaction. Consult your tax advisor for more information.

U.S. Savings Bonds. In certain cases, you may redeem qualified U.S. Savings Bonds under the Education Tax Exclusion and open your Account with the proceeds. Please visit [treasurydirect.gov](https://www.treasurydirect.gov) for more information.

Article IV — Benefits

Benefits must be used to pay for a normal full-time (or part-time, as described below) course load for the number of semesters or years of undergraduate education specified in the Tuition plan you select and pay for under this Contract. You can start using Benefits beginning with each fall semester of the projected enrollment year(s) you have purchased, as identified on your Certificate of Tuition Benefits. Please review this benefit section in full to understand the minimum and maximum benefit available under your Contract.

Benefits Payable:

1. **Maryland Public College:** If your Beneficiary enrolls in a four-year Maryland Public College as a full-time student, the Prepaid College Trust will pay the full in-state Tuition for a University Plan or the full in-county Tuition if your Beneficiary enrolls in a two-year Maryland Public College (community college) for a Community College Plan.
2. **Private or Out-of-State:** If your Beneficiary enrolls in an Eligible Institution that is private or out-of-state as a full-time student, the Prepaid College Trust will pay the actual Tuition each semester (or the equivalent) up to a maximum of one half of the Weighted Average Tuition in the tuition plan you purchased or your Minimum Benefit, whichever is greater.

Note: If your Tuition for the private or out-of-state Eligible Institution is less than the Weighted Average Tuition, you will only receive the Tuition. If Tuition is less than your Minimum Benefit, however, you may submit documentation of qualified higher education expenses and receive reimbursement up to your Minimum Benefit.

Benefits are paid on a semester by semester basis (or the equivalent applicable to a particular Eligible Institution). All annual figures are to be divided across semesters (or the equivalent applicable to a particular Eligible Institution).

Minimum Maturity. This Contract must be in effect for at least three years before Benefits will be paid. Benefits will be paid no earlier than the first fall academic semester at an Eligible Institution following the three-year anniversary of the effective date of your Contract.

Maximum Benefits. The Prepaid College Trust will not pay for more than 15 credit hours for each semester (or the equivalent applicable to a particular institution). Under no circumstances will the Prepaid College Trust pay for more than two Mandatory Fees (or the equivalent) for each year of Benefits purchased for a Beneficiary, with the exception of the Minimum Benefits calculation. If Tuition or other Qualified Higher Education

Expenses are more than the Benefits paid by the Prepaid College Trust, you or your Beneficiary is responsible for the difference.

Minimum Benefits. Minimum Benefits are defined as payments duly made under this Contract plus a rate of return equal to a monthly rate of return of a U.S. Government Security with a constant maturity of one year minus 1.2%. The rate of return will never be less than zero. This rate has been zero since October 2008. Notwithstanding any other provisions of this Contract, in the event that Tuition at an Eligible Institution is less than your Minimum Benefits, you may use the difference for other Qualified Higher Education Expenses such as room and board and books. Each November, following the payment of Fall semester Benefits, you can access the Minimum Benefits amounts on our website.

Half-Time Benefits. In order to receive Benefits, your Beneficiary must be enrolled at least half-time at the Eligible Institution. Half-time is defined as at least one-half of the minimum number of credits necessary to be considered a full-time student by the Eligible Institution. If your Beneficiary attends a Maryland Public College, the Prepaid College Trust will pay one-half of the normal full-time in-state Tuition for a University Plan (or in-county Tuition for a Community College Plan) or the actual Tuition charged by the Eligible Institution to the student, whichever is less.

If a student attends an Eligible Institution that is private or out of state, the Prepaid College Trust will pay one-half of the Benefit for a full-time student per semester or the actual Tuition charged by the Eligible Institution to the student, whichever is less. If the Prepaid College Trust's payment does not cover the entire Tuition cost to the student, you or your Beneficiary is responsible for the difference.

Multiple Institution Enrollment. A beneficiary may enroll in multiple institutions to meet the minimum criteria for using Benefits. All required documentation must be submitted together in good order to be accepted. Please refer to the Benefits Claim Form (available on our website) for specific instructions and documentation required for the payment of Benefits for a multiple institution enrollment. Any Benefit received for this type of enrollment cannot exceed the Benefit to which you are entitled under your Contract for a semester (or equivalent applicable to the particular Eligible Institutions).

Delayed Benefits. Delayed Benefits may occur if an Account Holder elects not to fully use Benefits for a semester for which they are otherwise eligible for Benefits. Delayed Benefits may also occur under certain circumstances when applying Benefits from a University Plan to Community College Tuition. You may apply Delayed Benefits toward future Tuition. The Prepaid College Trust will pay the amount it would have otherwise paid the Eligible Institution or the actual cost, whichever is less.

Unused Benefits. Unused Benefits may occur if the Beneficiary received a Scholarship, grant, or tuition remission, or graduates early from college, in which case the Prepaid College Trust will pay any remaining Tuition up to the scheduled Benefit. You may also apply Unused Benefits to pay Qualified Higher Education Expenses. When Unused Benefits are used to pay Qualified Higher Education Expenses, the Prepaid College Trust will pay the amount it would have otherwise paid the Eligible Institution or the actual cost of the Qualified Higher Education Expenses, whichever is less. Unused Benefits are always available for a refund or reduced refund in accordance with *Article VI*.

Graduate Benefits. In order to use Unused Benefits or Delayed Benefits to pay for graduate school, the Beneficiary must be enrolled at an Eligible Institution, taking at least one graduate level course as part of a graduate degree program. If you elect to have graduate Benefits paid, they will be based on the Weighted Average Tuition of the Maryland Public Colleges in the tuition plan selected. You may use up to the entire amount of Unused Benefits or Delayed Benefits towards the actual Tuition charged by the Eligible Institution.

Requesting Benefits. Only the Account Holder (or the Custodian, if applicable) may request Benefits, Delayed Benefits or Unused Benefits, unless a valid court order directs the Trust otherwise. Except for Delayed or Unused Benefits, no more than one semester (or the equivalent for the particular Eligible Institution) of Benefits may be used for a Beneficiary in any semester (or applicable equivalent).

To claim Benefits, Delayed Benefits and/or Unused Benefits, you may use a Benefits Claim Form (available on our website). This form must be completed, signed and submitted with the required documentation. Other than to Eligible Institutions located outside of the U.S., payments will not be made to non-U.S. Addresses. Benefits, Delayed Benefits and/or Unused Benefits payments are paid in U.S. dollars and will be sent via first class U.S. Mail.

Non-Credit Courses. Any non-credit course taken by a Beneficiary will be considered to be part of the normal full-time or part-time course load covered by the Benefits payable under this Contract. No additional full or partial years of Benefits will accrue to a Beneficiary in the event that non-credit courses are included in any of the Benefits payable under this Contract.

Summer Courses/Winter Courses. In order to use Benefits for summer/winter term courses, you must have Delayed or Unused Benefits and your Beneficiary must be enrolled on at least a half-time basis as defined by the Eligible Institution.

Certificate Programs. Certificate or non-degree granting programs are not eligible for Benefits.

Selected Eligible Educational Institution Not Covered by Tuition Plan. If the Beneficiary enrolls at an Eligible Institution that is different from the tuition plan for your Account, your Benefit will equal the Weighted Average Tuition of your current tuition plan. Any remaining Benefit for the Academic Year will become a Delayed Benefit.

Contract Conversion. Prior to using any Benefits, you may convert your Contract to a different tuition plan. To convert your Contract, you must complete the appropriate form and pay any required fees. As a result of the conversion, we will revalue this Contract, and you may be required to make additional payments or you may receive a refund for any resulting overpayment. Please be advised that a conversion may have tax consequences. Please consult with your tax advisor for specific details.

Some examples of common conversions are:

- 1-Year University Plan to 2-Year Community College Plan
- 1-Year Community College Plan to a 1-Semester University Plan
- 2-Year Community College Plan to a 1-Year University Plan

- 2-Year Community College/2 -Year University Plan to a 3-Year University Plan

Calculations. We may develop other methods for the calculation of Benefits payable under Contracts if we determine that it is necessary to provide consistent Benefits. No such changes may adversely alter the fundamental rights and obligations of the parties to this Contract, except to the extent necessary to assure compliance with applicable state or federal laws or regulations or to preserve favorable tax treatment to you, your Beneficiary, Maryland 529, or the Prepaid College Trust.

Time Limits. The Beneficiary has the number of years purchased in the Account plus 10 years to use all Benefits. This time can be extended for any active service in the U.S. military. Absent a waiver, failure of the Beneficiary to use all Benefits within the designated time period will be deemed a decision by the Beneficiary not to attend an Eligible Institution and will result in the termination of the Account, pursuant to the provisions of *Article VI*. In addition to the requirements of this Article, we may request other information and/or modify or apply specific due dates.

Article V — Contract Payments

Payment Options. The Prepaid College Trust has five payment options:

1. **Lump Sum Payment.** A one-time payment that covers the full amount of the Contract.
2. **Annual Payment.** Equal yearly payments for a designated number of years.
3. **Five-Year Monthly Payment.** 60 equal monthly payments.
4. **Extended Monthly Payment.** Equal monthly payments made through December of the year before the Beneficiary's projected year of high school graduation or year of Initial Eligibility.
5. **Down Payment Option.** A down payment of 25%, 40%, or 55% of the lump sum amount. The remaining amount is paid in a designated number of equal monthly or annual payments.

At any time, you may elect to pay at least 25% of the payoff amount and reduce the amount or number of subsequent payments. This significant payment will not affect your next payment due date. You may also make payments in advance or pay your Account in full at any time. We may also approve other payment schedules in our sole discretion.

You may change the payment option at any time upon written request, subject to any administrative fees. In the event you are due a refund for overpayment on this Contract, upon written request, we will refund any overpayment. We will not, however, refund any earnings on an overpayment. See *Article VI – Termination, Transfer and Refund*.

Payment Method. Payments can be made by check, money order, wire transfer, electronic funds transfer on either an automatic or one-time basis, or payroll deduction. All payments must be made in U.S. dollars; checks must be drawn on U.S. banks. If you make a payment by check, money order, wire transfer, or electronic funds transfer, we reserve the right, subject to applicable law, to restrict refund or distribution of that

payment from your Account for up to 14 days after the funds are deposited. You may change payment methods at any time upon written request. We may also approve other payment methods in our sole discretion.

Electronic Payment Cancellation. We will cancel any electronic payment upon receiving notice from our bank of invalid bank account information.

Returned Payments. We reserve the right to cancel any electronic payment after receiving (2) returned payment notices from our bank.

Due Dates. Payments are due in the amounts stated on the *Schedule of Prices and Fees* and on the *Certificate of Tuition Benefits* and are due on dates specified below. In order to avoid late fees, you are responsible for making all payments when due, regardless of the receipt of coupons or invoices.

We do not provide notice of late payment.

1. Lump sum payments are due on August 1, 2017.
2. The first annual payment is due on August 1, 2017. All subsequent payments are due on each succeeding August 1 for the designated number of years.
3. The first monthly payment (five-year and extended) is due on August 1, 2017. All subsequent payments are due on the first day of each succeeding month for the designated number of months.
4. The down payment and the accompanying first monthly or annual payment are both due on August 1, 2017. All subsequent annual payments are due on August 1 of each succeeding year for the designated number of years. All monthly payments are due on the first of each month for the designated number of months.
5. If you are establishing an Account as a new enrollment that is permitted outside of an Enrollment Period, the first payment is due 60 days from the date on which the Prepaid College Trust has received a completed Enrollment Form and any required documentation is and complete.
6. If you are changing your payment option, the first payment is due on the first of the month succeeding the change.

Fees. You may be charged fees in amounts we determine, including a non-refundable Enrollment Fee for each Account, late fees, fees for changes, and other administrative fees imposed by us. These fees are set forth in the *Schedule of Fees* in the Disclosure Statement, of which this Contract is a part. We may, in our sole discretion, change the fees associated with a particular transaction from time to time. Late fees are assessed on all payments if not received within 15 days of the due date.

Recontributions. If money is distributed from the Prepaid Trust to pay for Qualified Higher Education Expenses and the Beneficiary receives a refund from the Eligible Educational Institution, the amount of the refund, or the amount distributed by the Prepaid Trust, whichever is less, may be re-contributed within 60 days of the date of the refund.

Rollovers of Assets from Another Qualified Tuition Program. You can transfer assets for the same Beneficiary from another Qualified Tuition Program to the Prepaid College Trust.

This type of transfer is commonly referred to as a rollover. Rollovers for the same Beneficiary are restricted to one every 12 months. The Account Holder and/or the previous Qualified Tuition Program must provide the Prepaid College Trust with an accurate allocation of principal and earnings on the previous account for application to the new Account, otherwise the entire rollover contribution will be treated as earnings.

Priority of Payments. Your payments will be applied to your Account in the following order: interest, fees, and principal.

Missed Payments. We reserve the right to terminate an Account for missed payments based on the following schedule:

- **Failure to Make a Payment.** If no payment is received within 60 days of the first payment due date of this Contract, you will be in default and deemed delinquent. If no payment is received within 90 days of the first payment due date of this Contract, the Account will be canceled and can only be reinstated at your request accompanied by full payment of all outstanding amounts due, subject to our approval.
- **Missed Payments.** If a payment has been made but subsequent payments are missed, your Account will be in default after 30 days of nonpayment and be deemed delinquent. If no payment has been received within 180 days of the last payment, you may receive a letter warning you of the potential cancellation of your Account. If no payment is received within 210 days of the last payment, your Account will be canceled and can only be reinstated at your request accompanied by full payment of all outstanding amounts, subject to our approval.
- **Unpaid or Partial Payments and Fees Resulting in Partial Benefits Payments.** If your Account has partial and/or missed payments, unpaid late fees and/or administrative fees, we, in our sole discretion, may choose to make a partial Benefits payment, commensurate with the Benefits that have been purchased. If a partial Benefits payment is made, it would typically be made in the second semester. This is because there may be timing issues associated with the first Benefits payment, since the payment may be due to the college before the last scheduled Contract payment. At the time of the partial Benefits payment, your Account will be adjusted so that there is no remaining Contract balance due and no additional payments will be accepted.

Annual Statements. You will receive an Annual Statement of Account for each Account during the first quarter of the calendar year. The Annual Statement will show your payments and any Benefits that have been paid on the Account. You will also receive a confirmation each time you establish or change an automatic contribution. You have 120 days after receiving an Annual Statement or a confirmation to inform us if any information in the Annual Statement or confirmation is incorrect. After 120 days, we will consider the information in the Annual Statement and/or confirmation to be correct and binding upon you and your Beneficiary.

Article VI — Termination, Transfer, and Refund

Termination. You can terminate this Contract upon written notice to us and receive a refund or reduced refund. Upon receipt of such notice, we will determine the amount of any refund or reduced refund pursuant to the terms of this Contract.

There are tax consequences associated with a decision to terminate your Account. You should consult with your tax advisor regarding the tax consequences of terminating your Account. See *Key Federal Tax Issues* and *Key State Tax Issues* in Article VIII of the Disclosure Statement.

This Contract will terminate 10 years after your Beneficiary's year of projected enrollment/Initial Eligibility plus the number of years purchased in the Contract(s). This time can be extended for any active service in the U.S. military. Upon termination, you will have the option to:

- Request a waiver to extend the time period allowed to use Benefits. Any waiver request is subject to Board approval, in our sole discretion; or
- As described below:
 - Rollover or transfer your Account to the Maryland College Investment Plan or another Qualified Tuition Program; or
 - Take a reduced refund.

Unless a waiver is granted, you may no longer claim Benefits under the Contract. The Prepaid College Trust will retain any earnings obtained after the Contract has been terminated.

If we determine that either you or the Beneficiary has made any material misrepresentation related to the Contract, we, in our sole discretion, may terminate the Contract. In this case, we will refund actual payments made less operating expenses.

Rollovers to Other Qualified Tuition Programs. Upon notification in writing, you may transfer your Account to another Qualified Tuition Program. Based on IRS regulations, rollovers for the same Beneficiary are restricted to one time in a 12-month period.

- **A Contract in existence for less than three years as measured from the first payment due date.** The transferable amount will equal the actual payments made to the Prepaid College Trust plus or minus 75% of the Trust Returns as applied to the contract payments, less operating expenses and any Benefits used.
- **A Contract in existence for three years or more as measured from the first payment due date.** The transferable amount will equal the actual payments made to the Prepaid College Trust plus or minus 100% of the Trust Returns applied to the contract payments, less operating expenses and any Benefits used.
- **Transfers within Maryland 529.** The transferable amount for transfers from the Prepaid College Trust to the Maryland College Investment Plan will equal the actual payments made to the Prepaid College Trust plus or minus 100% of the Trust Returns applied to the contract payments, less operating expenses and any Benefits used, regardless of how long the Contract has been in effect.

Refund. Refunds are only given at your written request, with an original signature, under the following circumstances:

- **Death or Disability of the Beneficiary.**
 1. *Beneficiary Enrolled at Eligible Institution.* The refund will be the amount that would have otherwise been paid directly to the Eligible Institution, less any Benefits used.

2. *Beneficiary Not Enrolled at Eligible Institution.* If the Beneficiary has graduated from high school, the refund will be equal to the Weighted Average Tuition within the tuition plan. If the Beneficiary has not yet graduated from high school or the death or Disability occurs prior to the year of Initial Eligibility, the refund will be the actual payments made to date, plus or minus 100% of the Trust Returns applied to the contract payments, less operating expenses.

- **Scholarship, Grant or Tuition Remission.** The refund will be up to the amount that would have otherwise been paid directly to the Eligible Institution.

Reduced Refund. Reduced refunds are given under all other circumstances. The reduced refunds discussed below include a financial penalty on Trust Returns in order to maintain the actuarial soundness of the Prepaid College Trust.

- **A Contract in existence for less than three years as measured from the first payment due date.** The reduced refund will equal the actual payments made less operating expenses and any Benefits used, plus or minus 50% of the Trust Returns applied to the contract payments.
- **A Contract in existence for three years or more as measured from the first payment due date.** The reduced refund will equal the actual payments made less operating expenses and any Benefits used, plus or minus 90% of the Trust Returns applied to the contract payments.

Delayed Benefits and/or Unused Benefits Available for Refund. At your written request, Delayed Benefits and/or Unused Benefits remaining in an Account will be refunded in accordance with this *Article VI*.

Determination of Trust Returns for Transfers, Refunds, and Reduced Refunds. Trust Returns applied to contract payments are calculated by first multiplying the Account principle by 2.5%, the Trust's operating expenses. Second, the result is subtracted from the Account balance. Third, this reduced Account balance is then multiplied by the Prepaid College Trust Returns taken as of the most recent quarterly investment performance report. Fourth, the total reached is multiplied by the number of full years the Account has been open. A percent of the Earnings (between 50% and 100% depending on the circumstances and as described in VI) will be used in the determination of a transfer, refund, or reduced refund.

Board's Right to Delay. In order to preserve the actuarial soundness of the Prepaid College Trust, we reserve the right to delay a rollover, refund, or reduced refund for a period of time not to exceed one year. To date, we have not delayed any refund or reduced refund.

Article VII — Substitutions

General. A change in Beneficiary, Account Holder, or Custodian is effective only when all required documents are received in good order and processed. A Beneficiary change or transfer of assets may be denied or be limited if it causes one or more Accounts in the Prepaid College Trust or the Maryland College Investment Plan to exceed the maximum aggregate allowable Account balance for a Beneficiary.

New Beneficiary. Provided that at least one semester of Benefits remains on your Account, you may change the Beneficiary of all the Benefits remaining on your Account to a Member of the Family of the Beneficiary at any time, unless the Account has been funded with the proceeds from an UGMA/UTMA and the current Beneficiary has not reached the age of majority. While generally not permitted, if you wish to transfer only a portion of the Benefits remaining on your Account, you must submit your request in writing and Maryland 529 will review such request for whether extenuating circumstances exist such that a partial transfer should be permitted.

If the new Beneficiary is not already enrolled in the Prepaid College Trust, all required identification information must be provided. We will then calculate the new payment amount given the change, if any, in projected college enrollment or Initial Eligibility year. As a condition of such Beneficiary change, you are required to pay any required additional costs. All Beneficiary changes must be requested in writing and include all information we may require. If you have overpaid, you can be refunded for your overpayment or transfer the overpayment to another Member of the Family of the original Beneficiary, or transfer to another eligible program. If you change the Beneficiary, all terms and conditions of this Contract continue to apply, even though the original Beneficiary has been changed.

New Account Holder. You may transfer control of the Contract to a new Account Holder unless the Account has been funded with the proceeds from an UGMA/UTMA account. All transfers must be requested in writing and include all required information. However, your right of control may not be sold, transferred, used as collateral, or pledged or exchanged for money or anything of value. We may require affidavits or other evidence to establish that such a transfer is non-financial in nature. Your right of control may also be transferred under an appropriate court order. If you transfer control of an Account to a new Account Holder, the new Account Holder must agree to be bound by the terms and conditions of this Contract and provide all necessary identification information. Transferring an Account to a new Account Holder may have significant tax consequences. Before doing so you should consult with your tax advisor regarding your particular tax situation.

Removing or Changing a Custodian on Accounts not funded from an UGMA/UTMA. The Custodian will no longer have the authority to act on an Account once the Account Holder reaches the age of majority under Maryland law. Prior to the Account Holder reaching the age of majority, the Custodian may be changed at any time upon providing us with written notice. The notice must be from the current Custodian or include a valid court order appointing another person as Custodian. If the current Custodian dies or is declared legally incompetent prior to the Account Holder reaching the age of majority, then the person legally authorized to act on behalf of the minor Account Holder must appoint a new Custodian.

Prior to acting on the Account, we may require documentation from new Account Holders and/or Custodians to certify that they agree to the terms and conditions of the Prepaid College Trust.

Removing or Changing a Custodian on Accounts funded from an UGMA/UTMA. We must be notified in writing by the Custodian when the Account Holder reaches the applicable age of majority under the terms and conditions of the original UGMA/ UTMA account (under Maryland law, currently 18 years old for an UGMA and 21 years old for an UTMA). A valid court order may also be submitted that stipulates the removal of the Custodian. The Custodian may be changed at any time upon providing us with written notice. The notice must be from the current Custodian or include a valid court order appointing another person as Custodian. If the current Custodian dies or is declared legally incompetent, then the person legally authorized to act on behalf of the minor Account Holder must appoint a new Custodian.

Recovery of Incorrect Amounts. If an incorrect amount is paid to or on behalf of an Account Holder or Beneficiary, we may recover the incorrect amount from the Account Holder or Beneficiary, or adjust any remaining Account balance to correct the error. The Board, in its discretion, may waive the processing of adjustments from clerical errors or other cases that are de minimis in amount.

Article VIII — General Provisions

Payments to You. We typically make payments (Benefits, Delayed Benefits, Unused Benefits, refunds and reduced refunds) by check.

A Medallion Signature Guarantee is required for payment requests of \$50,000 or more, a check sent to an address not on file, or a reduced refund request from any Account that was opened online.

However, we reserve the right to require a Medallion Signature Guarantee at any time for lesser amounts or for other requests in our sole discretion.

We will make a payment (Benefits, Delayed Benefits, Unused Benefits, refunds and reduced refunds) to one or more of the following payees:

- Account Holder;
- Beneficiary;
- Eligible Institution for the benefit of the Beneficiary;
- Beneficiary and Eligible Institution, jointly; or
- Estate of the Beneficiary.

Additional payee options may be added from time to time. We must have the Beneficiary's Social Security number before we can process a distribution from your Account. If you are receiving Benefits or Delayed Benefits or using Unused Benefits, it is your responsibility to confirm that the school to which the payment is made is an Eligible Institution.

Other than to Eligible Institutions located outside of the U.S., payments will not be made to non-U.S. Addresses.

Changes to an Account. All notices, changes, options, and elections requested by you under this Contract must be in writing, signed by you, and received by us. You must ensure the accuracy of any documentation submitted to us. We are not responsible for the accuracy of any documentation. If acceptable to us, notices, changes, options, and elections relating to your

Account will take effect within a reasonable amount of time after we have received the documentation, unless we agree otherwise.

Address Changes. To change your address or the address of any person associated with your Account, log on to your Account at **Maryland529.com** and follow the instructions to change your address or download and complete the Account Services Form available on our website.

Account Holder Changes. For all Accounts opened online and for certain Accounts where an Account Holder's signature is not readily available, a Medallion Signature Guarantee or notarized signature from an FDIC insured institution is required for address changes, transfers, rollovers, and certain other Account changes.

Notices and Statements. All correspondence will be mailed to the Account Holder's address of record. Account Holders are responsible for ensuring the address of record is current.

Changes to the Statute and Regulations. The General Assembly of the State may, from time to time, pass legislation, which may directly or indirectly affect Maryland 529, including the terms and conditions of the Maryland 529 Prepaid College Trust and this Disclosure Statement.

Changes to the Contract. We may amend the terms of this Contract from time to time to comply with changes in the law or regulations or if we determine it is in Maryland 529's and/or the Prepaid College Trust's best interest to do so. However, we will not retroactively modify existing Contract provisions in a manner adverse to you or your Beneficiary, except to the extent necessary to assure compliance with applicable state (including the Enabling Legislation) and federal laws or regulations or to preserve the favorable tax treatment to you, your Beneficiary, Maryland 529, or the Prepaid College Trust. We will promptly notify you of such amendments, and you will be bound thereby unless you notify us in writing of your intent to terminate the Contract within 60 days of the date of the notice.

Guide to Interpretation. This Contract is intended to qualify for the tax benefits of Section 529 of the Code. Notwithstanding anything in this Contract to the contrary, this Contract will be interpreted and/or amended to comply with the requirements of that section and applicable regulations.

Board Discretion. In order to comply with changes in the law or regulations, carry out our obligation as fiduciary of Maryland 529 under the Enabling Legislation, and/or maintain the actuarial soundness of the Prepaid College Trust, we may, at any time in our sole discretion, determine the acceptance of an Enrollment Form and the Contract prices applicable to the related Account or provide a waiver to specific provisions of this Contract. Any decision or waiver may apply to one, a selected number, or all Accounts and may be for a limited duration. In addition, pursuant to the Enabling Legislation, in certain circumstances, if we determine that the market value of the assets of the Prepaid College Trust exceeds the amount needed to satisfy all scheduled payments of Benefits currently due or scheduled to be due under all Contracts by 30% or more, in our sole discretion, we may provide for a rebate from the excess to Account Holders of existing Contracts. Any rebate would be an amount determined solely by us.

Factual Representation. All factual determinations regarding your or your Beneficiary's residency, Disability, the existence of hardship, and any other factual determinations regarding this Contract will be made by us based on the facts and circumstances of each case.

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

Precedence. In the event inconsistencies are found in the documents governing the Prepaid College Trust, the order of precedence from most governing to least governing will, except as to provisions that expressly provide otherwise in the Declaration, be as follows: (i) the IRC, (ii) the Enabling Legislation and other Maryland law; (iii) the Declaration; (iv) Board policy; and (v) this Contract. In addition, if there are any inconsistencies between this Contract and the Enrollment Form and/or the Certificate of Tuition Benefits, the terms of this Contract shall prevail.

Claims. Any claim by you or your Beneficiary against the Board pursuant to this Contract shall be made solely against the assets of the Prepaid College Trust. The obligations of the Prepaid College Trust under this Contract are payable out of monies received from you and earnings from investments, and no recourse shall be had by you or your Beneficiary against any of the Plan Officials (defined below) in connection with any right or obligations arising out of this Contract. This Contract is not an obligation of the State, and neither the full faith and credit nor the taxing power of the State can be pledged to the payment of Benefits hereunder. All obligations hereunder are legally binding contractual obligations of the Prepaid College Trust only, a program of Maryland 529, an independent agency of the State of Maryland.

Legislative Guarantee. The Enabling Legislation provides that in the event that funds in the Prepaid College Trust are insufficient to pay full Benefits in any given year, the Governor is required to include an amount in the following year's State budget to fully pay Benefits. As with the entire State budget, the Maryland General Assembly determines the final amount of the appropriation. If the Maryland General Assembly does not fully fund the budget request, we may adjust the terms of subsequent or current Contracts to ensure continued actuarial soundness of the Prepaid College Trust. Subject to the rights of Account Holders, any amount paid to the Prepaid College Trust from the State must be repaid to the State without interest in equal amounts over the following two fiscal years.

Applicable Law. This Contract shall be interpreted solely under the laws of the State of Maryland and applicable federal law, including Section 529 of the Code, as amended, without regard to the application of foreign laws.

Account Holder's Representations and Acknowledgements. I, as Account Holder, represent and warrant to, and acknowledge and agree with, Maryland 529 and the Prepaid College Trust regarding the matters set forth in this Contract, including that:

- I have carefully reviewed all information provided by the Board with respect to Maryland 529 and the Prepaid College Trust, including the Disclosure Statement included in the Enrollment Kit.
- I have been given an opportunity to ask questions and receive answers concerning the terms and conditions of the Prepaid College Trust and this Contract.
- I have been given an opportunity to obtain any additional information needed to complete my Enrollment Form and/or verify the accuracy of any information I have furnished.
- I cannot use my Account as collateral for any loan. I understand that any attempt to use my Account as collateral for a loan would be void. I also understand that neither Maryland 529 nor the Prepaid College Trust will lend any assets to my Beneficiary or to me.
- Except as described in this Contract, I will not assign or transfer any interest in my Account. I understand that, except as provided under Maryland law, any attempt to assign or transfer that interest is void.
- I am and my Beneficiary is either a citizen or a resident alien of the United States.
- I am or my Beneficiary is a Maryland or Washington, D.C. Resident.
- Neither the State of Maryland, the Board, Maryland 529, the Prepaid College Trust, the Board as trustee, any other agency of the State of Maryland, nor any other counsel, advisor, or consultant retained by, or on behalf of, those entities, nor any employee, officer, or official of any of those entities (collectively, the Plan Officials) is liable for a failure of Maryland 529 and/or the Prepaid College Trust to qualify as or to remain a Qualified Tuition Program, including any subsequent loss of favorable tax treatment under state or federal law.
- My statements, representations, warranties, and covenants will survive the termination of my Account.