

**STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 ACQUISITION SERVICES
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933**

March 23, 2004

**CHANGE NOTICE NO. 3
 TO
 CONTRACT NO. 071B1001448
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR Sallie Mae Servicing Corporation 11100 USA Parkway A-327 Fishers, IN 46038	TELEPHONE Todd Newton (614) 755-7401
	VENDOR NUMBER/MAIL CODE
	BUYER (517) 335-4804 Douglas S. Collier
Contract Compliance Inspector: Marlene Pierce Loan Servicing - FFELP/MI-Loan -- Department of Treasury	
CONTRACT PERIOD: 5 yrs From: April 1, 2000 To: September 30, 2005	
TERMS <p style="text-align: center;">N/A</p>	SHIPMENT <p style="text-align: center;">N/A</p>
F.O.B. <p style="text-align: center;">N/A</p>	SHIPPED FROM <p style="text-align: center;">N/A</p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;">N/A</p>	
MISCELLANEOUS INFORMATION:	

NATURE OF CHANGE (S):

Sallie Mae agrees, subject to the terms of the GLB Letter and the limitations of liability set forth in the Agreement(s), that in performing its obligations under such Agreement(s), it shall comply with all reuse, redisclosure, or other customer information handling, processing, security, and protection requirements that are specifically required of a non-affiliated third-party processor or servicer (or subcontractor) under the GLB Regulations and other applicable federal consumer privacy laws, rules, and regulations. Without limiting the foregoing, Sallie Mae agrees that:

- i. It is prohibited from disclosing or using any "nonpublic personal information" (as defined in the GLB Regulations) disclosed or provided by you or on your behalf to Sallie Mae, except solely to carry out the purposes for which it was disclosed, including use under an exception contained in 12 CFR sections 40.14 or 40.15 or 16 CFR sections 313.14 and 313.15, as applicable, of the GLB Regulations in the ordinary course of business to carry out these purposes; and



Contract #071B1001448
Change Notice #3
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- ii. It has implemented and will maintain an information security program designed to meet the objectives of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information, Final Rule (CFR Part 30, Appendix B) and the Federal Trade Commission's Standards for Safeguarding Customer Information (16 CFR Part 314).

Contract Administrator is changed to Marlene Pierce. All other terms and conditions remain the same.

AUTHORITY/REASON:

Per letter from vendor (Sallie Mae, Inc.) dated 6/27/03 and agency request dated 3/15/04.



Form No. DMB 234 (Rev. 1/96)
 AUTHORITY: Act 431 of 1984
 COMPLETION: Required
 PENALTY: Contract will not be executed unless form is filed

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 ACQUISITION SERVICES
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

March 23, 2004

**CHANGE NOTICE NO. 2
 TO
 CONTRACT NO. 071B1001448
 between
 THE STATE OF MICHIGAN
 and**

NAME & ADDRESS OF VENDOR Sallie Mae Servicing Corporation 11100 USA Parkway A-327 Fishers, IN 46038	TELEPHONE Todd Newton (614) 755-7401
	VENDOR NUMBER/MAIL CODE
	BUYER (517) 335-4804 Douglas S. Collier
Contract Administrator: Fred Hasselback Loan Servicing - FFELP/MI-Loan -- Department of Treasury	
CONTRACT PERIOD: 5 yrs From: April 1, 2000 To: September 30, 2005	
TERMS <p style="text-align: center;">N/A</p>	SHIPMENT <p style="text-align: center;">N/A</p>
F.O.B. <p style="text-align: center;">N/A</p>	SHIPPED FROM <p style="text-align: center;">N/A</p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;">N/A</p>	
MISCELLANEOUS INFORMATION:	

NATURE OF CHANGE (S):

This contract change is made to provide for the following changes. The cost to send out letters will be .51 per letter it is estimated that over the life of this contract thru 2005 a total estimated cost \$140,500.00 it is not anticipated that this dollar amount will exceed the total contract amount. This rate of first class postage increases.

Provide letter to comply with the Gramm-Leach-Bliley Act.

- 1) Issue letters to new consumers concerning the financial institutions policies regarding the disclosure and protection of nonpublic personal information.**
- 2) Issue letters not less than annually to all consumers regarding the disclosure and protection of nonpublic personal information.**

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

August 15, 2001

CHANGE NOTICE NO. 1
TO
CONTRACT NO. 071B1001448
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR Sallie Mae Servicing Corporation 11100 USA Parkway A-327 Fishers, IN 46038	TELEPHONE Todd Newton (614) 755-7401
	VENDOR NUMBER/MAIL CODE
	BUYER (517) 335-4804 Douglas S. Collier
Contract Administrator: Fred Hasselback Loan Servicing - FFELP/MI-Loan -- Department of Treasury	
CONTRACT PERIOD: 5 yrs From: April 1, 2000 To: September 30, 2005	
TERMS <p style="text-align: center;">N/A</p>	SHIPMENT <p style="text-align: center;">N/A</p>
F.O.B. <p style="text-align: center;">N/A</p>	SHIPPED FROM <p style="text-align: center;">N/A</p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;">N/A</p>	
MISCELLANEOUS INFORMATION:	

NATURE OF CHANGE (S):

This contract change is made to provide for the following changes. The cost to send out letters will be .51 per letter it is estimated that over the life of this contract thru 2005 a total estimated cost \$140,500.00 it is not anticipated that this dollar amount will exceed the total contract amount. This rate of first class postage increases. Provide letter to comply with the Gramm-Leach-Bliley Act.

- 3) **Issue letters to new consumers concerning the financial institutions policies regarding the disclosure and protection of nonpublic personal information.**
- 4) **Issue letters not less than annually to all consumers regarding the disclosure and protection of nonpublic personal information.**

AUTHORITY/REASON:

Per letter from Agency Procurement Tom Falik dated 8-8-01, and letter from vendor Monica Kinney Sallie Servicing Corp dated 5-8-2001, to comply with GLBA Public Law 106-102.

STATE OF MICHIGAN
 DEPARTMENT OF MANAGEMENT AND BUDGET
 OFFICE OF PURCHASING
 P.O. BOX 30026, LANSING, MI 48909
 OR
 530 W. ALLEGAN, LANSING, MI 48933

CONTRACT NO. 071B1001448
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR <p style="text-align: center;">Sallie Mae Servicing Corporation 11100 USA Parkway A-327 Fishers, IN 46038</p>	TELEPHONE Todd Newton (614) 755-7401 VENDOR NUMBER/MAIL CODE BUYER (517) 335-4804 Douglas S. Collier
Contract Administrator: Fred Hasselback <p style="text-align: center;">Loan Servicing - FFELP/MI-Loan -- Department of Treasury</p>	
CONTRACT PERIOD: 5 yrs From: April 1, 2000 To: September 30, 2005	
TERMS <p style="text-align: center;">N/A</p>	SHIPMENT <p style="text-align: center;">N/A</p>
F.O.B. <p style="text-align: center;">N/A</p>	SHIPPED FROM <p style="text-align: center;">N/A</p>
MINIMUM DELIVERY REQUIREMENTS <p style="text-align: center;">N/A</p>	
MISCELLANEOUS INFORMATION: <p>The terms and conditions of this Contract are those of ITB #071I0000411, those of Contract #071B1001010 Agreement and the vendor's proposal dated 6-14-00. In the event of any conflicts between the specifications, terms and conditions indicated by the State and those indicated by the vendor, those of the State take precedence.</p> <p>Estimated Contract Value: \$7,500,000.00</p>	

THIS IS NOT AN ORDER: This Contract Agreement is awarded on the basis of our inquiry bearing the ITB No.071I0000411. A Purchase Order Form will be issued only as the requirements of the State Departments are submitted to the Office of Purchasing. Orders for delivery may be issued directly by the State Departments through the issuance of a Purchase Order Form.

All terms and conditions of the invitation to bid are made a part hereof.

<p>FOR THE VENDOR:</p> <hr/> <p style="text-align: center;">Firm Name</p> <hr/> <p style="text-align: center;">Authorized Agent Signature</p> <hr/> <p style="text-align: center;">Authorized Agent (Print or Type)</p> <hr/> <p style="text-align: center;">Date</p>	<p>FOR THE STATE:</p> <hr/> <p style="text-align: center;">Signature David F. Ancell</p> <hr/> <p style="text-align: center;">Name State Purchasing Director</p> <hr/> <p style="text-align: center;">Title</p> <hr/> <p style="text-align: center;">Date</p>
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MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

MICHIGAN DIRECT STUDENT LOAN PROGRAM

STATE SECONDARY MARKET

MICHIGAN ALTERNATIVE STUDENT LOAN (MI-LOAN[®]) PROGRAM

CONTRACT

APRIL 1, 2000



**THIRD-PARTY SERVICING FOR THE
MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY**

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APPENDIX A CONTRACTOR’S TECHNICAL PROPOSAL

APPENDIX B CONTRACTOR PRICING



TERMS	DEFINITIONS
Contract	A binding agreement entered into by the State of Michigan resulting from a bidder’s proposal; see also “Blanket Purchase Order.”
Contractor	The successful bidder who is awarded the contract.
DMB	Michigan Department of Management and Budget
State	The State of Michigan
Blanket Purchase Order	Alternate term for “contract” used in the state’s computer system (Michigan Automated Information Network [MAIN])
Expiration	Except where specifically provided for in the contract, the ending and termination of the contractual duties and obligations of the parties to the contract pursuant to a mutually agreed upon date.
Cancellation	Ending all rights and obligations of the state and contractor, except for any rights and obligations that are due and owing.
Application	Both the process of applying for and the forms that are used to apply for a loan. Additional information or materials needed to complete the application process do not constitute a new application.
Billing Account	An account refers to a grouping of individual loans for the purpose of servicing. However, due to operational differences among student loan Servicers, the definition of an account may vary. Therefore, to maintain consistency, the state has defined what constitutes an account for billing purposes—a “Billing Account”.



<p>Billing Account – <i>Continued from Previous Page</i></p>	<p>When determining the number of accounts for billing purposes, all loans in the state’s portfolio which share the following characteristics are considered to be one account. The state uses only one (1) lender identification number.</p> <p><u>Social Security Number</u> – The borrower’s federal social security number.</p> <p><u>Program Type</u> – The state currently has two (2) loan programs—the michigan direct student loan program (MDSLPL), through which loans are originated, and the state secondary market (SSM), through which loans are acquired.</p> <p><u>Loan Type</u> – Each of the loan programs within the Federal Family Education Loan Program (FFELP) constitute a different type of loan. The loan types are the Subsidized Federal Stafford Loan, Unsubsidized Federal Stafford Loan, Federal SLS Loan, Federal Plus Loan, and the Federal Consolidation Loan.</p> <p><u>Guarantor</u> – The guaranty agency which provides the guarantee for the student loan under the FFELP.</p> <p><u>Guarantee Status</u> – The current condition of the guarantor’s guarantee on the loan. It is either still in effect and the loan is insured or the guarantee has been removed and the loan is uninsured.</p> <p><u>Federal Interest Rate Cap</u> – The maximum interest rate per the ffelp that may be assessed to the loan.</p> <p><u>Loan Status</u> – The current conditions under which the loan is being serviced (i.e., In-school, grace, repayment).</p> <p><u>Due Date</u> – The day, month and year in which the payment is due.</p>
<p>Bond Fund Series</p>	<p>The bonds sold to secure funds to make loans and the computer code used to identify specific bond fund series.</p>
<p>Borrower Account</p>	<p>A group of loans combined for general servicing and borrower repayment billing purposes. This refers to the reference of “account” in all servicing tasks unless stated otherwise.</p>
<p>Days</p>	<p>Business days unless specified otherwise.</p>
<p>Loan</p>	<p>The amount of money lent that is secured by a promissory note.</p>
<p>Promissory Note</p>	<p>A written legal document that promises to pay a debt according to specific terms.</p>
<p>Eligible School</p>	<p>FFELP – as designated by the u.s. department of education; MI-LOAN – a Michigan degree-granting college or university.</p>



SECTION I

CONTRACTUAL SERVICES TERMS AND CONDITIONS

I-A. PURPOSE

The purpose of this **Contract** is to obtain quotations for servicing the Michigan Higher Education Student Loan Authority's MICHIGAN DIRECT STUDENT LOAN PROGRAM, STATE SECONDARY MARKET, and MICHIGAN ALTERNATIVE STUDENT LOAN (MI-LOAN[®]) PROGRAM portfolios.

Contract awarded from this solicitation will be the following type:

- Lump sum/fixed price Contract
- Unit price Contract
- Part lump sum/fixed price, part unit price
- Other (specify) _____

I-B. TERM OF CONTRACT

The State of Michigan is not liable for any cost incurred by any bidder prior to signing of a Contract by all parties. The activities in the proposed Contract cover the period **April 1, 2001**, through **September 30, 2005**. Following the initial contract period, the State may choose to exercise up to two, two-year extension options, providing the pricing, terms and conditions offered by the contractor are acceptable to the State at that time. The State fiscal year is October 1st through September 30th. The prospective Contractor should realize that payments in any given fiscal year are contingent upon enactment of legislative appropriations.

I-C. ISSUING OFFICE

This **Contract** is issued by the State of Michigan, Department of Management and Budget (DMB), Office of Purchasing, hereafter known as the Office of Purchasing, for the State of Michigan, Michigan Higher Education Student Loan Authority. Where actions are a combination of those of the Office of Purchasing and Michigan Higher Education Student Loan Authority, the authority will be known as the State.

The Office of Purchasing is the sole point of contact in the State with regard to all procurement and contractual matters relating to the services described herein. The Office of Purchasing is the only office authorized to change, modify, amend, alter, clarify, etc., the prices, specifications, terms, and conditions of this Contract. The OFFICE OF PURCHASING will remain the SOLE POINT OF CONTACT throughout the procurement process, until such time as the Director of Purchasing shall direct otherwise in writing. See Paragraph II-C below. All communications concerning this procurement must be addressed to:

Doug Collier

Technology & Professional Services Division

DMB, Office of Purchasing

2nd Floor, Mason Building

P.O. Box 30026

Lansing, MI 48909

Telephone Number – 517/335-4804

Facsimile Number – 517/335-0046

Email Address – collierd1@state.mi.us

I-D. CONTRACT ADMINISTRATOR

Upon receipt at the Office of Purchasing of the properly executed Contract Agreement, it is anticipated that the Director of Purchasing will direct that the person named below be authorized to administer the Contract on a day-to-day basis during the term of the Contract. However, administration of [this Contract](#) implies no authority to change, modify, clarify, amend, or otherwise alter the prices, terms, conditions, and specifications of the Contract. That authority is retained by the Office of Purchasing. The Contract Administrator for this project is:

Frederick L. Hasselback

Department of Treasury

Michigan Higher Education Student Loan Authority

P. O. Box 30051

Lansing, MI 48909

I-E. COST LIABILITY

The State of Michigan assumes no responsibility or liability for costs incurred by the Contractor prior to the signing of [this Contract](#). Total liability of the State is limited to the terms and conditions of [this Contract](#).

I-F. PRIME CONTRACTOR RESPONSIBILITIES

The Prime Contractor will be required to assume responsibility for all contractual activities offered in this proposal whether or not that Contractor performs them. Further, the State will consider the Prime Contractor to be the sole point of contact with regard to contractual matters, including payment of any and all charges resulting from [this Contract](#). If any part of the work is to be subcontracted to [this Contract](#) a list of subcontractors, including firm name and address, contact person, complete description of work to be subcontracted, and descriptive information concerning subcontractor's organizational abilities. The State reserves the right to approve subcontractors for this project and to require the Primary Contractor to replace subcontractors found to be unacceptable. The Contractor is totally responsible for adherence by the subcontractor to all provisions of [this Contract](#).

I-G. NEWS RELEASES

News releases pertaining to this document or the services, study, data, or project to which it relates will not be made without prior written State approval, and then only in accordance with the explicit written instructions from the State. No results of the program are to be released without prior approval of the State and then only to persons designated.

I-H. CONFIDENTIALITY

The Contractor will be bound by the same standards of confidentiality as the State employees. Contractor may not release any products or portions of products resulting from [this Contract](#) without approval of the Contract Administrator.

I-I. DISCLOSURE

All information in a bidder's proposal and [this Contract](#) is subject to the provisions of the Freedom of Information Act, 1976 Public Act No. 442, as amended, MCL 15.231, *et seq.*

I-J. ACCOUNTING RECORDS

The Contractor will be required to maintain all pertinent financial and accounting records and evidence pertaining to [this Contract](#) in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan. Financial and accounting records shall be made available, upon request, to the State of Michigan, its designees, or the Michigan Department of Auditor General at any time during the Contract period and any extension thereof, and for three (3) years from the expiration date and final payment on [this Contract](#) or extension thereof.

I-K. INDEMNIFICATION

a. General Indemnification

The Contractor shall indemnify, defend and hold harmless the State, its departments, divisions, agencies, sections, commissions, officers, employees and agents, from and against all losses, liabilities, penalties, fines, damages and claims (including taxes), and all related costs and expenses (including reasonable attorneys' fees and disbursements and costs of investigation, litigation, settlement, judgments, interest and penalties), arising from or in connection with any of the following:

- (1) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from (1) the product provided or (2) performance of the work, duties, responsibilities, actions or omissions of the Contractor or any of its subcontractors under this Contract;

- (2) Any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from a breach by the Contractor of any representation or warranty made by the Contractor in the Contract;
- (3) any claim, demand, action, citation, or legal proceeding against the State, its employees and agents arising out of or related to occurrences that the Contractor is required to insure against as provided for in this Contract;
- (4) any claim, demand, action, citation or legal proceeding against the State, its employees and agents arising out of or resulting from the death or bodily injury of any person, or the damage, loss or destruction of any real or tangible personal property, in connection with the performance of services by the Contractor, by any of its subcontractors, by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable; provided, however, that this indemnification obligation shall not apply to the extent, if any, that such death, bodily injury or property damage is caused solely by the negligence or reckless or intentional wrongful conduct of the State;
- (5) any claim, demand, action, citation or legal proceeding against the State, its employees and agents which results from an act or omission of the Contractor or any of its subcontractors in its or their capacity as an employer of a person.

b. Patent/Copyright Infringement Indemnification

The Contractor shall indemnify, defend and hold harmless the State, its departments, division, agencies, sections, commissions, officers, employees and agents from and against all losses, liabilities, penalties, fines, damages (including taxes), and all related costs and expenses (including reasonable attorney's fees and disbursements, costs of investigation, litigation, settlement, judgments, interest and penalties) incurred in connection with any action or proceeding threatened or brought against the State to the extent that such action or proceeding is based on a claim that any piece of equipment, software, commodity or service supplied by the Contractor or its subcontractors, or the operation of such equipment, software, commodity or service, or the use or reproduction of any documentation provided with such equipment, software, commodity or service infringes any United States or foreign patent, copyright, trade secret or other proprietary right of any person or entity, which right is enforceable under the laws of the United States. In addition, should the equipment, software, commodity, or service, or the operation thereof, become or in the Contractor's opinion, be likely to become, the subject of a claim of infringement, the Contractor shall, at the Contractor's sole expense (i) procure for the State the right to continue using the equipment, software, commodity or service or, if such option is not reasonably available to the Contractor, (ii) replace or modify the same with equipment, software, commodity or service of equivalent function and performance

so that it becomes non-infringing, or, if such option is not reasonably available to the Contractor, (iii) accept its return by the State with appropriate credits to the State against the Contractor's charges and reimburse the State for any losses or costs incurred as a consequence of the State ceasing its use and returning it.

c. Indemnification Obligation Not Limited

In any and all claims against the State of Michigan, or any of its departments, divisions, agencies, sections, commissions, officers, employees and agents, by any employee of the Contractor or any of its subcontractors, the indemnification obligation under the Contract shall not be limited in any way by the amount or type of damages, compensation or benefits payable by or for the Contractor or any of its subcontractors under workers' disability compensation acts, disability benefits acts, or other employee benefits acts. This indemnification clause is intended to be comprehensive. Any overlap in subclauses, or the fact that greater specificity is provided as to some categories of risk, is not intended to limit the scope of indemnification under any other subclause.

d. Continuation of Indemnification Obligation

The duty to indemnify will continue in full force and effect notwithstanding the expiration or early termination of the Contract with respect to any claims based on facts or conditions which occurred prior to termination.

I-L. CONTRACTOR'S LIABILITY INSURANCE

The Contractor shall purchase and maintain such insurance as will protect him/her from claims set forth below which may arise out of or result from the Contractor's operations under the Contract (Purchase Order), whether such operations be by himself/herself or by any subcontractor or by anyone directly or indirectly employed by any of them, or by anyone for whose acts any of them may be liable:

- a. Claims under workers' disability compensation, disability benefit and other similar employee benefit acts. A non-resident Contractor shall have insurance for benefits payable under Michigan's Workers' Disability Compensation Law for any employee resident of and hired in Michigan; and as respects any other employee protected by workers' disability compensation laws of any other State the Contractor shall have insurance or participate in a mandatory State fund to cover the benefits payable to any such employee.
- b. Claims for damages because of bodily injury, occupational sickness or disease, or death of his/her employees.
- c. Claims for damages because of bodily injury, sickness or disease, or death of any person other than his/her employees, subject to limits of liability of not less than

- \$300,000.00 each occurrence and, when applicable \$300,000.00 annual aggregate, for non-automobile hazards and as required by law for automobile hazards.
- d. Claims for damages because of injury to or destruction of tangible property, including loss of use resulting therefrom, subject to a limit of liability of not less than \$50,000.00 each occurrence for non-automobile hazards and as required by law for automobile hazards.
 - e. Insurance for Subparagraphs (3) and (4) non-automobile hazards on a combined single limit of liability basis shall not be less than \$300,000.00 each occurrence and when applicable, \$300,000.00 annual aggregate.
 - f. Claims for damages because of Errors and Omissions in the performance of duties inherent to the student loan profession, subject to a limit of liability of not less than \$100,000.00 each occurrence and, when applicable, \$500,000.00 annual aggregate. For this coverage, the State requires that it be named as a co-insured party.

The insurance shall be written for not less than any limits of liability herein specified or required by law, whichever is greater, and shall include contractual liability insurance as applicable to the Contractor's obligations under the Indemnification clause of the Contract (Purchase Order).

BEFORE STARTING WORK, THE CONTRACTOR'S INSURANCE AGENCY MUST FURNISH TO THE DIRECTOR OF THE OFFICE OF PURCHASING, ORIGINAL CERTIFICATE(S) OF INSURANCE VERIFYING LIABILITY COVERAGE. THE CONTRACT OR PURCHASE ORDER NO. MUST BE SHOWN ON THE CERTIFICATE OF INSURANCE TO ASSURE CORRECT FILING. These Certificates shall contain a provision that coverages afforded under the policies will not be canceled until at least fifteen days prior written notice bearing the Contract Number or Purchase Order Number has been given to the Director of Purchasing.

I-M. LITIGATION

The State, its departments, and its agents shall not be responsible for representing or defending the Contractor, Contractor's personnel, or any other employee, agent, or subcontractor of the Contractor, named as a defendant in any lawsuit or in connection with any tort claim.

The State and the Contractor agree to make all reasonable efforts to cooperate with each other in the defense of any litigation brought by any person or persons not a party to [this](#) Contract.

The Contractor shall submit quarterly litigation reports providing the following details for all criminal and civil litigation arising out of, or relevant to, the performance of [this](#)

Contract in which the Contractor or subcontractor, or the Contractor's insurers or insurance agent are parties:

- Case number and docket number
- name of plaintiff(s) and defendant(s)
- names and addresses of all counsel appearing
- nature of claim
- status of case

The provisions of this section shall survive the expiration or termination of [this](#) Contract.

I-N. CANCELLATION

The State may cancel [this](#) Contract for default of the Contractor. Default is defined as the failure of the Contractor to fulfill the obligations of the quotation or Contract. In case of default by the Contractor, the State may immediately and/or upon 30 days prior written notice to the Contractor cancel [this](#) Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees, and procure the services from other sources, and hold the Contractor responsible for any excess costs occasioned thereby.

The State may cancel [this](#) Contract in the event the State no longer needs the services or products specified in [this](#) Contract, or in the event program changes, changes in laws, rules or regulations, relocation of offices occur, or the State determines that statewide implementation of [this](#) Contract is not feasible, or if prices for additional services requested by the State are not acceptable to the State. The State may cancel [this](#) Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees by giving the Contractor written notice of such cancellation 30 days prior to the date of cancellation.

The State may cancel [this](#) Contract for lack of funding. The Contractor acknowledges that, if this Contract extends for several fiscal years, continuation of this Contract is subject to appropriation of funds for this project. If funds to enable the State to effect continued payment under this Contract are not appropriated or otherwise made available, the State shall have the right to terminate this Contract without penalty at the end of the last period for which funds have been appropriated or otherwise made available by giving written notice of termination to the Contractor. The State shall give the Contractor written notice of such non-appropriation within 30 days after it receives notice of such non-appropriation.

The State may immediately cancel [this](#) Contract without further liability to the State, its departments, divisions, agencies, sections, commissions, officers, agents and employees if the Contractor, an officer of the Contractor, or an owner of a 25% or greater share of the Contractor, is convicted of a criminal offense incident to the application for or performance of a State, public or private Contract or subcontract; or convicted of a criminal offense including but not limited to any of the following: embezzlement, theft,

forgery, bribery, falsification or destruction of records, receiving stolen property, attempting to influence a public employee to breach the ethical conduct standards for State of Michigan employees; convicted under state or federal antitrust statutes; or convicted of any other criminal offense which in the sole discretion of the State, reflects on the Contractor's business integrity.

The State may immediately cancel [this](#) Contract in whole or in part by giving notice of termination to the Contractor if any final administrative or judicial decision or adjunction disapproves a previously approved request for purchase of personal services pursuant to Constitution 1963, Article 11, Section 5, and Civil Service Rule 4-6.

The State may, with 30 days written notice to the Contractor, cancel [this](#) Contract in the event prices proposed for Contract modification/extension are unacceptable to the State. See Sections II-E (FFELP and MI-LOAN), **Price Proposal**, I-R, **Modification of Service**, and I-T, **Revisions, Consents, and Approvals**.

I-O. ASSIGNMENT

The Contractor shall not have the right to assign this Contract or to assign or delegate any of its duties or obligations under this Contract to any other party (whether by operation of law or otherwise), without the prior written consent of the State. Any purported assignment in violation of this Section shall be null and void. Further, the Contractor may not assign the right to receive money due under [this](#) Contract without the prior written consent of the State Purchasing Director.

I-P. DELEGATION

The Contractor shall not delegate any duties or obligations under this Contract to a subcontractor other than a subcontractor named in the bid unless the State Purchasing Director has given written consent to the delegation.

I-Q. NON-DISCRIMINATION CLAUSE

In the performance of [this](#) Contract or purchase order, the bidder agrees not to discriminate against any employee or applicant for employment, with respect to their hire, tenure, terms, conditions or privileges of employment, or any matter directly or indirectly related to employment, because of race, color, religion, national origin, ancestry, age, sex, height, weight, marital status, physical or mental disability unrelated to the individual's ability to perform the duties of the particular job or position. The bidder further agrees that every subcontract entered into for the performance of any Contract or purchase order resulting herefrom will contain a provision requiring non-discrimination in employment, as herein specified, binding upon each subcontractor. This covenant is required pursuant to the Elliot Larsen Civil Rights Act, 1976 Public Act 453, as amended, MCL 37.2101, *et seq*, and the Persons with Disabilities Civil Rights Act, 1976 Public Act 220, as amended, MCL 37.1101, *et seq*, and any breach thereof may be regarded as a material breach of [this](#) Contract or purchase order.

I-R. MODIFICATION OF SERVICE

The Director of Purchasing reserves the right to modify this service during the course of this Contract. Such modification may include adding or deleting tasks which this service shall encompass and/or any other modifications deemed necessary. Any changes in pricing proposed by the Contractor resulting from the requested changes are subject to acceptance by the State. Changes may be increases or decreases.

IN THE EVENT PRICES ARE NOT ACCEPTABLE TO THE STATE, THE CONTRACT SHALL BE SUBJECT TO COMPETITIVE BIDDING BASED UPON THE NEW SPECIFICATIONS.

I-S. ACCEPTANCE OF PROPOSAL CONTENT

The contents of this [Contract](#) and the vendor's quotation will become contractual obligations. Failure of the successful bidder to accept these obligations may result in cancellation of the award.

I-T. REVISIONS, CONSENTS, AND APPROVALS

[This](#) Contract may not be revised, modified, amended, extended, or augmented, except by a writing executed by the parties hereto, and any breach or default by a party shall not be waived or released other than in writing signed by the other party.

I-U. ENTIRE AGREEMENT AND ORDER OF PRECEDENCE

The following documents constitute the complete and exclusive contract between the parties as it relates to this transaction. In the event of any conflict among the documents making up [this](#) Contract, the following order of precedence shall apply (in descending order of precedence):

- a. Any Contract resulting from the State's ITB/Addenda
- b. State's ITB and any Addenda thereto
- c. Contractor's response(s) to the State's ITB and Addenda

In the event of any conflicts between the specifications, terms, and conditions indicated by the State and those indicated by the Contractor, those of the State take precedence.

[This](#) Contract supersedes all quotations or other prior agreements, oral or written, and all other communications between the parties relating to this subject.

I-V. NO WAIVER OF DEFAULT

The failure of a party to insist upon strict adherence to any term of [this](#) Contract shall not be considered a waiver or deprive the party of the right thereafter to insist upon strict adherence to that term, or any other term, of the Contract.

I-W. SEVERABILITY

Each provision of this Contract shall be deemed to be severable from all other provisions of [this](#) Contract and, if one or more of the provisions of [this](#) Contract shall be declared invalid, the remaining provisions of [this](#) Contract shall remain in full force and effect.

I-X. HEADINGS

Captions and headings used in this Contract are for information and organization purposes. Captions and headings, including inaccurate references, do not, in any way, define or limit the requirements or terms and conditions of this Contract.

I-Y. RELATIONSHIP OF THE PARTIES

The relationship between the State and the Contractor is that of client and independent Contractor. No agent, employee, or servant of the Contractor or any of its subcontractors shall be or shall be deemed to be an employee, agent, or servant of the State for any reason. The Contractor will be solely and entirely responsible for its acts and the acts of its agents, employees, servants and subcontractors during the performance of this Contract.

I-Z. NOTICES

Any notice given to a party under this Contract must be written and shall be deemed effective, if addressed to such party as addressed below upon (i) delivery, if hand delivered; (ii) receipt of a confirmed transmission by facsimile if a copy of the notice is sent by another means specified in this Section; (iii) the third (3rd) Business Day after being sent by U.S. mail, postage pre-paid, return receipt requested; or (iv) the next Business Day after being sent by a nationally recognized overnight express courier with a reliable tracking system.

Either party may change its address where notices are to be sent giving written notice in accordance with this Section.

I-AA. UNFAIR LABOR PRACTICES

Pursuant to 1980 Public Act 278, as amended, MCL 423.231, *et seq*, the State shall not award a Contract or subcontract to an employer whose name appears in the current register of employers failing to correct an unfair labor practice compiled pursuant to

Section 2 of the Act. This information is compiled by the United States National Labor Relations Board.

A Contractor of the State, in relation to [this](#) Contract, shall not enter into a Contract with a subcontractor, manufacturer, or supplier whose name appears in this register. Pursuant to Section 4 of 1980 Public Act 278, MCL 423.324, the State may void any Contract if, subsequent to award of the Contract, the name of the Contractor as an employer, or the name of the subcontractor, manufacturer or supplier of the Contractor appears in the register.

I-BB. SURVIVOR

Any provisions of [this](#) Contract that impose continuing obligations on the parties including, but not limited to the Contractor's indemnity and other obligations shall survive the expiration or cancellation of this Contract for any reason.

I-CC. GOVERNING LAW

This Contract shall in all respects be governed by, and construed in accordance with, the laws of the State of Michigan. Any dispute arising herein shall be resolved in the State of Michigan.

I-DD. YEAR 2000 SOFTWARE COMPLIANCE

The vendor warrants that all software which the vendor either sells or licenses to the State of Michigan and used by the State prior to, during or after the calendar year 2000, includes or shall include, at no added cost to the State, design and performance so the State shall not experience software abnormality and/or the generation of incorrect results from the software, due to date oriented processing, in the operation of the business of the State of Michigan.

The software design, to insure year 2000 compatibility, shall include, but is not limited to: data structures (databases, data files, etc.) that provide 4-digit date century; stored data that contain date century recognition, including, but not limited to, data stores in databases and hardware device internal system dates; calculations and program logic (e.g., sort algorithms, calendar generation, event recognition, and all processing actions that use or produce date values) that accommodates same century and multi-century formulas and date values; interfaces that supply data to and receive data from other systems or organizations that prevent non-compliant dates and data from entering any State system; user interfaces (i.e., screens, reports, etc.) that accurately show 4 digit years; and assurance that the year 2000 shall be correctly treated as a leap year within all calculation and calendar logic.

I-EE. CONTRACT DISTRIBUTION

The Office of Purchasing shall retain the sole right of Contract distribution to all State agencies and local units of government unless other arrangements are authorized by the Office of Purchasing.

SECTION II – FFELP

WORK STATEMENT

II-A. BACKGROUND/PROBLEM STATEMENT

Act 222 of the Public Acts of 1975 created the Michigan Higher Education Student Loan Authority (MHESLA). Its purpose is threefold: (1) to provide loans to eligible students, (2) to provide loans to parents of eligible students, and (3) to acquire loans made to eligible students and parents of eligible students. The MHESLA is a Governor-appointed board which establishes policy and functions as the Board of Directors for the program. The MHESLA is a Division within the Bureau of MHESLA/MHEAA of the Michigan Department of Treasury.

The MHESLA administers the following three programs:

- Michigan Direct Student Loan Program (MDSLP)
- State Secondary Market of Michigan (SSM)
- Michigan Alternative Student Loan (MI-LOAN) Program

The work statement for the Michigan Alternative Student Loan (MI-LOAN) Program follows the FFELP work statement.

General information regarding the MDSLP and SSM programs is provided below:

Michigan Direct Student Loan Program

Since its inception in 1976, the MDSLP has served in the role of a lender of last resort for the Michigan Guaranty Agency (MGA), a component of the Michigan Higher Education Assistance Authority. At the present time, all loans originated and outstanding have been authorized by the Higher Education Act of 1965, as amended, and are guaranteed by the Michigan Guaranty Agency.

The MDSLP ensures all Michigan students and their parents access to the Federal Family Education Loan Programs (FFELP).

- Subsidized Federal Stafford Loan Program
- Unsubsidized Federal Stafford Loan Program
- Federal PLUS Loan Program
- Federal Consolidation Loan Program

Collectively, these programs represent the MHESLA's direct lending function.

State Secondary Market of Michigan

The purpose of the SSM is to purchase federally-insured student loans from financial institutions as a means of liquidating their assets and providing new capital to reinvest in the form of new student loans. The partnership between private lenders and the State of Michigan produces additional dollars for the lenders to offer new federal loans to their consumers and prospective customers.

As a state program intended to service solely the State of Michigan, the SSM enters into loan purchase agreements with only those lenders which have signed a loan guarantee agreement with the Michigan Guaranty Agency (MGA). However, purchases are not limited to Michigan guaranteed loans only, in the event the lender has signed agreements with multiple guarantors.

The State Secondary Market was initiated in April 1990, and its first purchase occurred in June of that year.

The State of Michigan has contracted for servicing the MDSLP and SSM portfolios since its inception. The purpose of this [Contract](#) is to secure continuing servicing for these two student loan programs. For these loans the third-party servicer must process, disburse and service the loans in compliance with federal statutes and regulations. Funding for MHESLA's programs is made available through either tax-exempt or taxable financing.

The MHESLA's outstanding portfolio for these two programs as of September, 1999 was approximately \$588 million and involved about 130,000 borrowers. The September 1999 monthly reports reflecting program activity are provided in Appendix 1. Fiscal year figures contained in the reports are fiscal year-to-date. The State's fiscal year is October through September.

II-B. OBJECTIVES

General

[This Contract is to provide](#) loan servicers to service the MHESLA's Michigan Direct Student Loan Program and State Secondary Market portfolios in accordance with the federal and state laws and regulations, guarantor requirements, state policies, and the terms specified under Section II-C of this [Contract](#).

The State is interested in having one primary and multiple secondary servicer(s) service their student loan portfolios. The primary servicer would inherit the outstanding MDSLP and SSM portfolios from the current primary servicer as of the effective date of the contract. Portfolios currently being serviced by a secondary servicer would remain with that secondary servicer as long as that servicer was again chosen as a secondary servicer through this ITB. If a current secondary servicer is not chosen as a secondary servicer through this ITB, the State would determine whether the primary or a new secondary servicer or servicers would receive the portfolio the current secondary servicer is servicing.

The secondary servicer(s) would be allowed to compete against the primary servicer for new business/accounts that would include MDSP originated loans and SSM purchases. The State will allow borrowers and SSM lenders to determine which of the servicers will service their loans. The State will try to maintain the same servicer for borrowers by combining their loans when they are being serviced by more than one of the servicers. In this situation, the borrower's loans would be combined with the servicer most recently chosen by the borrower/SSM lender unless the borrower specifies differently.

Servicer(s) refers to both the primary and secondary servicer(s) unless otherwise stated.

Specific

Specific objectives are:

- a. The servicer will provide comprehensive software, data processing and operational support for all functions.
- b. The servicer must provide MHESLA access to and printing from the servicer's system in a dedicated, on-line environment.
- c. All hardware and software needed by MHESLA for access to and printing from the servicer's system will be the responsibility of the servicer.
- d. The servicer must provide sufficient toll-free telephone lines to be used by the borrowers and schools.
- e. The servicer must safeguard in a secure environment all hardcopy documents, including the original promissory note. All promissory notes and other loan documents are and shall remain at all times property of the State. The servicer shall at all times hold all promissory notes in trust for the benefit of the State, subject to the servicer's obligations with respect to the promissory notes as set forth in the other provisions of this contract.
- f. The servicer must maintain loan data necessary for proper billing and application of funds, for the completion of federal reports and billing of interest and special allowance and for preparation of MHESLA's financial statements and reports.
- g. The servicer must maintain an accounting of funding sources at loan level and properly apply any payments accordingly.
- h. The servicer must comply with appropriate federal and state statutory, regulatory and procedural requirements in the making, disbursing, servicing and repayment of the loans. This includes correction of prior servicing errors at the time of discovery.
- i. The servicer's failure to comply with federal and/or state requirements which results in a financial loss to the State will be the financial responsibility of the servicer and may constitute grounds for termination of the contract.

- j. If the servicer's failure to meet processing and reporting deadlines as established within this [Contract](#) results in a financial loss to the State, it will be the financial responsibility of the servicer to reimburse the State for any such loss. (An example of this financial liability would be the servicer's reimbursement of investment earnings lost on funds in the case where the USDOE 799 figures were not provided within the specified timeframe or earnings were delayed due to preparation errors.)

Any loss to the State due to the servicer's failure to perform any requirement under this [Contract](#), federal regulations, statute, or guarantor policy, within the time frames stated herein, will become the liability of the servicer. This includes, but is not limited to, correction of prior servicer(s) or other party errors upon discovery.

- k. The servicer's failure to consistently meet processing or reporting deadlines for a 60-day period can result in termination of this contract.

II-C. TASKS

The following is a preliminary analysis of the major tasks involved for developing the end product of this [Contract](#). The contractor is not, however, constrained from supplementing this listing with additional steps, subtasks or elements deemed necessary to permit the development of alternative approaches or the application of proprietary analytical techniques.

TASK 1

MULTIPLE SERVICERS

a. General

The State may contract with more than one servicer to accommodate student loan servicing needs. In the event of multiple services, additional requirements will be necessary for each servicer.

b. Hardware and Software

The primary and secondary servicers will work with the State and/or the State's designee to determine the hardware that satisfies the constraints of working with multiple servicers. It is the State's intent to have a single platform to service the user interface for each of the servicers.

The servicers must work with the State and/or the State's designee to help design the necessary software interface to allow the State to easily switch between servicers' applications from each terminal/personal computer. The requirement to sign off one servicer's system and sign on to another's is not acceptable. It will be the responsibility of the primary servicer to provide the State with any necessary joint hardware. Software and discrete hardware by servicer will be the responsibility of the appropriate servicer. The primary servicer will be responsible to provide maintenance and trouble-shooting expertise to the State in response to any systems hardware and/or software problems which arise.

c. Consolidated Reporting

The State reserves the right to have the primary servicer produce consolidated financial, operational or statistical reports across all of the servicers. The secondary servicers will be required to provide the primary servicer the necessary information on paper, disk, tape or another method mutually agreed upon to produce the reports. In the event the State does require consolidated reporting, the reporting requirements identified in Task 26 will apply to these reports as well. The State will work with the servicers to determine transmission media for each such report. If the service is desired by the State, a contract change will be made.

d. Computerized Directory of Borrowers

The primary servicer must maintain a computerized directory of all borrowers serviced by each of the State's servicers, primary and secondary. This directory must include at least the following information: borrower name, social security number, loan identifier and servicer for each loan. The State reserves the right to add to the required directory information as necessary. This information must be accessible on-line by State personnel by name and/or social security number. Updates to this system must occur at least weekly by both the primary and secondary servicers. The servicers must work with each other and the State to determine the appropriate method of updating the directory.

The primary servicer may bill the state for the initial programming required to create and populate the directory.

e. Combining Borrower Accounts

On a monthly basis, the primary servicer will generate a report listing those borrowers that have loans serviced by multiple servicers. See Task 26 for general reporting requirements. The primary servicer will send a copy of this report to the State. The State will instruct the servicers in regard to the loan transfers needed to merge the borrower's loans with a single servicer. Typically, the most recent activity will determine to which servicer the loans will be transferred. The servicers involved must work together to ensure the conversion of the loans takes place within 30 days of the State's instructions. Once the loan transfer is completed, the centralized borrower directory must be updated to reflect the proper servicer.

All materials (forms, correspondence, payments, etc.) received by the prior servicer pertaining to the loan(s) converted must be forwarded to the appropriate servicer within a mutually agreed upon time frame. The prior servicer must work with the servicer that is now servicing the loan(s) in all situations that require action by both servicers, such as stop payment requests, return checks, stale date processing, etc.

The prior servicer must basically comply with the provisions in Task 28 (Deconversion to Another Servicer) and may bill the State at the deconversion rate identified in Year 5 of the pricing sheets.

The new servicer to whom the loans are being transferred, must confirm the presence of required loan documents and must convert the loans to the servicer's system. The documents to be reviewed are the application, applicable addenda, promissory note, notice of guarantee and proof of disbursement. The servicer may bill the State at the conversion rate identified in the pricing sheets.

TASK 2

HARDWARE AND SOFTWARE

a. General

The servicer must service the State's portfolio in accordance with applicable federal and state laws and regulations, and guarantor and State policy throughout the duration of the contract and ensure that the servicing system used to service the State's portfolio complies with these requirements. During the term of the contract, the servicer will provide an interface between the State and the servicer's servicing system being used.

The servicer's system must be able to interface with the guaranty agency and/or the guarantor's servicer and must be adaptable to required changes attributed to federal and/or state statutory, regulatory or procedural changes. Any systems modifications required as a result of the mandatory changes must be made, tested and in place by the effective date of the change.

If the State is serviced by multiple servicers, the servicers will have to work with the State in designing a system that will allow the State to communicate electronically with all servicers through one terminal. See Task 1.

b. Hardware/Software to be Used by the State

The servicer's system shall interface with the State's existing hardware. If the servicer is unable to interface with the State's existing hardware, they must provide hardware as required for appropriate access to their servicing system. All hardware, software and other materials needed to allow the State access to their servicing system, as well as any installation and maintenance required, are the responsibility of the servicer. A one-time fee for the cost of the materials, installation and maintenance may be identified by the servicer on the first year's pricing sheet. Cost for on-going maintenance may be identified on the remaining pricing sheets.

The servicer shall provide the State with a dedicated data circuit for purposes of on-line inquiry and on-line update. The State's access for either inquiry or update must be on-line in real-time. The State will reimburse the servicer for actual cost incurred for the initial set up and monthly line fee associated with the dedicated data circuit. If agreed to by the State, dial-up access may be permitted in situations of low usage. If a dial-up system is permitted by the State, it must allow the State the same capabilities as on-line access.

At the State's request, the servicer must provide a printer(s) to the State compatible with the servicer's system that will allow the State to print materials from their system. Any servicer-provided printer(s) must be acceptable to the State. The servicer may identify a one-time fee that will be charged to the State at the time the printer is provided. This is reflected in the pricing sheets.

All hardware provided to the State must be installed and in service by the date of conversion by the servicer. The servicer must provide troubleshooting help via telephone during the servicer's normal operational hours within 8 hours of the State's request for assistance and/or maintenance service to the State within 24 hours of the State's request for assistance.

c. On-line Access

The servicer will provide the State with on-line access to the data base for inquiries and updating, if the update option is available. Information access must be available by both the social security number and the borrower name. History inquiries will have filters available (payments only, deferment periods only, etc.) to assist in viewing, as determined by the State.

Some of the items for which on-line update capabilities would be beneficial to both the State and the servicer are identified below:

- Borrower address and telephone number.
- Reference names, addresses and telephone numbers.
- Cosigner address and telephone number, if applicable.
- History notations (both free-form and automated).

With regard to inquiries into the system, the State requires access to those data elements the State considers critical. The servicer will determine the format for display purposes. The required data elements are provided in Appendix 2.

d. System Up-Time and Response Time

The servicer's on-line system will meet, at a minimum, the following standards:

- (1) The system must be available 95% or more of the total time, as determined by a weekly average of five days, between the hours of 7:30 a.m. and 5:00 p.m. (EST) on weekdays (excluding State of Michigan holidays).
- (2) The access and response time must be maintained 90% of the time in a range between one (1) and five (5) seconds from the time the enter key or its equivalent is depressed until the requested information appears on the screen.

e. Servicer-Initiated Modifications and Enhancements

The servicer is free to modify or enhance its system without notification to the State, unless the change affects the servicer's manner of doing business with the State's borrowers or affects the remote-access information provided to the State. In these situations, the State must be notified prior to implementation and be provided a full understanding of the change. Because the servicer is responsible for compliance to federal and state statute, regulations and policy, the servicer will be financially liable should such modifications fail to comply with said requirements.

f. Backup and Recovery

The servicer must develop, document and perform daily data file backup procedures for data entry and transaction files, master files, as well as systems and application software libraries. Secure, off-site backups are mandatory for data entry, transaction, master and application software files. Demonstrated ability to restore all files is required. Back-up copies of system documentation, user manuals, and system operations manuals must also be stored off-site.

Documentation of the above must be available upon request of the State.

g. Security

The servicer must secure both its system and its facilities to protect the State's records. This includes access to all computer and record facilities so that only authorized persons are permitted entry into the facilities and controls that prevent the unauthorized access, entry or deletion of data into and from the data base. The State reserves the right to require the servicer's modification of its authorization levels if it is deemed appropriate. The servicer must be able to identify the person who entered each change made to the borrower's record.

h. Record Retention of Account Data

After a loan has been cancelled, disapproved, defaulted or paid-in-full, the servicer may remove the account record from the data base 90 days after the processing date of the final payment or adjustment which resulted in a zero account balance. For accounts that are deleted from the system, the servicer must be able to provide a complete history of the account including account detail data for the record retention period required by federal law and regulations.

i. Single Borrower Account

The servicer's system must be integrated so the State can recognize that a single borrower may have other FFELP loan accounts with the State within the servicer's system. For example, assuming the servicer's system segregates the loans for servicing by the type of loan, a review of a Federal Stafford Loan account must reflect whether or not there is another State account such as a Federal SLS or Federal Consolidation Loan account.

The State would prefer multiple types of loans being combined into a single repayment account, thereby causing a single monthly payment to the borrower, provided the loans can be properly identified and tracked for reporting purposes.

j. Disaster Plan

The servicer must have a fully documented data center disaster recovery plan in place that identifies backup resources and/or facilities that can continue to service the State's portfolio in the event of a disaster. Backup processing/facilities must be operational within 24 hours of the loss of the main processing facilities.

The servicer's processing facilities must also be protected from fire, power loss, flood, earthquake, vandalism, sabotage, and other physical or electrical damage to the extent possible with current data center construction and physical security techniques.

Documentation of, and the demonstrated ability to meet, the disaster recovery plan must be made available upon request by the State.

k. National Systems

The servicer must be able to interact with national systems and processes at the request of the State. An example of a national system is the National Student Loan Clearinghouse which is used to process Student Status Confirmation Reports and for on-line verification of enrollment. An example of a national processes is CommonLine, which provides schools with a standardized method for FFELP loan processing.

l. Guaranty Agency

The servicer for the State must interact and interface with the guarantor and/or the guarantor's servicer, if applicable. If the guarantor changes servicer during the duration of this contract, the servicer must adapt its processes and systems to accommodate the guarantor's new servicer.

TASK 3

SOFTWARE MAINTENANCE AND ENHANCEMENT

a. General

This task covers the software maintenance and enhancements performed by the servicer over the duration of the contract.

b. Federally Required Changes

Mandatory changes necessary to meet federal laws, regulations, procedural or reporting requirements shall be made by the servicer at no cost to the State. The servicer should take this into consideration in identifying unit costs.

c. Guaranty Agency Changes

Mandatory changes necessary to meet the requirements of the guaranty agency that are not related to federally mandated changes shall be made by the servicer and the State will be responsible for cost associated with the changes.

d. State Requested Changes

If the State requests the servicer to perform software maintenance and enhancements the State will be responsible for payment of same, unless those enhancements are necessary to meet contract requirements or Federal or State statutory, regulatory or procedural changes.

The procedure to be followed is described below:

- (1) The State will identify the requested changes.
- (2) Within 30 days of the State's request, the servicer will provide an estimate of the costs to the State and the timetable for implementation. The cost of preparing such an estimate will be absorbed by the servicer.
- (3) If acceptable, the State will approve the requested change(s) in writing and instruct the servicer to proceed.
- (4) If not acceptable, the State will discuss the servicer's estimate to determine what alterations may be made that would allow approval by the State.
- (5) If the State is requesting the same changes of multiple servicers, the State will work with the servicers to determine an acceptable average cost to be approved for all servicers.

- (6) If the change is requested by the majority of the lenders being serviced, the servicer will work with those lenders being serviced to pro-rate an acceptable average cost.

e. Payment of State Requested Changes

On the pricing sheets, the servicer will provide a fixed hourly rate for such services. This hourly rate must include all costs associated with the changes as requested by the State.

After written approval by the State and the servicer's completion of the project, the servicer will bill the State for the entire amount due for the project via its regular monthly invoice. However, the invoice must clearly relate the charge to the State's authorization and cannot exceed the estimate as previously identified by the servicer and as approved by the State.

f. Guaranty Services

The State agrees to reimburse the servicer for annual charges by the Guaranty Agency to allow for application imaging and remote guarantee printing for lenders participating in the State Secondary Market.

TASK 4

GENERAL SYSTEMS AND OPERATIONAL REQUIREMENTS

a. General

The intent of this task is to identify overall systems and operational requirements. Reference to days refers to business days unless specified otherwise. Time frame requirements must be adhered to. The State does recognize there will be individual borrower instances when adherence to a particular time frame will not be possible. However, the State will only tolerate this on an exception basis.

The servicer is expected to sign and process all student loan lender documents when acting as the State's agent. This would include, but not be limited to, loan applications, denial overrides, disbursements, deferments, and forbearances.

b. Compliance

The servicer's system and operation must comply with guarantor requirements and federal and state statutory, regulatory and procedural requirements. All instructions received from the State must be adhered to. The servicer must initiate corrective action for all servicing errors as soon as detected and immediately advise the State of issues that cannot be corrected. Notice of the corrective action must be provided to the borrower and all appropriate agencies by the servicer.

c. Program Reviews and Audits

The servicer must cooperate fully with respect to program reviews and audits conducted on the State's portfolio. The review/audit may be performed at the servicer's site or off-site. The servicer must provide the reviewers/auditors with access to the servicer's system, either through on-line inquiry or paper copies of screens, whichever method is preferred by the reviewers/auditors. The servicer must provide all loan data and documentation requested by the reviewers/auditors including the borrower's physical file. The servicer cannot charge the State for its internal costs associated with a program review or audit, such as staff time, audit tapes, computer usage, copies made, etc.

d. History

The servicer's system must record **ALL** activity and interaction, whether financial or non-financial, automated or manual, regarding a borrower's loan/account via a history system. This includes, but is not limited to, written correspondence to and from the borrower, oral conversations with the borrower, school, parents, etc., application approval/disapproval, the reason(s) for the disapproval, repayment due diligence, receipt date of deferment and forbearance forms, approved deferment and forbearance periods, rejected deferments and forbearances and the reason(s) for the rejection, location of physical file contents while in transit, and specific collection promises or reasons why payments were not made.

History entries must be made within one (1) day of the activity or interaction, be precise, complete, easily interpreted, and identify loans affected. The use of automated or canned messages is acceptable; however, the servicer's system must also allow free form messages by either the servicer or the State. To ensure the integrity of the State's records, the servicer's system must not allow history entries for the State's borrowers to be revised or deleted. All necessary changes must be done through an additional history entry which identifies and corrects the error. All history data must be transferred to the State or transferred to a subsequent servicer per the State's instructions at the termination of the contract.

e. Bond Fund Series Identification

Loans are financed through multiple bond funding series identified by a three (3) to five (5) digit alpha/numeric code. The servicer's system must be able to accommodate existing codes and new codes as necessary. Bond fund series identification is necessary for accounting purposes and is a required sort for many reports. The codes apply to each individual loan and must be visible on the system for the State's use.

Bond fund codes will be provided to the servicer along with instructions as to their use. Generally, they are entered in the system's loan record at the time of application entry. However, they may be assigned to a particular loan or group of loans when a fund series refinancing takes place or through some other manner.

f. Audit Trail

It is imperative that the servicer's history system provides a complete and accurate audit trail of all transactions affecting the loan data records. The transaction history/audit trail must be maintained in chronological order and by account and/or loan, as appropriate. At a minimum, the servicer's system must identify the user identification code, the date the transaction was processed, the document receipt date (effective date), if appropriate, and "change from" and "change to" information for each transaction. This information is necessary to promote the integrity of the data base and to facilitate efforts to analyze and audit accounts.

Audit trail data must be returned to the State or transferred to a subsequent servicer per the State's instruction at the end of the contract.

g. Status Codes

The servicer must utilize a series of status codes, viewable to the State, that identify the current status of the account, such as repayment, forbearance, bankruptcy, death, disability, delinquency, and default. When appropriate, the servicer will update the status code on the loan as part of the activity performed. The loan statuses currently used are listed in Appendix 2.

h. Telephone Contacts

The servicer must provide sufficient toll-free telephone lines to ensure at least a monthly average of 95% of the incoming calls received daily from 8:00 a.m. to 5:00 p.m. (EST/EDT) are answered without obstruction or delay. Upon request by the State, the servicer must provide statistical data regarding the toll-free lines, such as incoming calls attempted that did not get through because all lines were being used, callers that did get through but were put on hold and subsequently hung up prior to receiving assistance, and the average length of time callers remain on hold prior to being assisted. If the servicer uses an automated voice response system, the system must always allow the caller access to a servicer employee in case they need to talk directly to a person and it must be able to accommodate callers from rotary dial telephones.

The servicer's staff, whether responding to incoming calls or placing outgoing calls, must be adequately trained and have access to the data files necessary to research and resolve complex issues and questions so that a majority of the time, a second call will not be needed. Telephone inquiries that can not be satisfactorily handled during the call must be researched and a return call made within the same day, if possible, but no later than the next day. If the servicer is unsuccessful in reaching the caller, the servicer must respond to the caller, in writing, within five (5) days of receipt of the call.

The servicer's collectors who perform collection attempts on delinquent accounts must be in a position to review the full loan record and identify all repayment options available to assist the borrower in curing the delinquency. The collectors must be knowledgeable of the repayment options available for the various programs and be in a position to provide any necessary forms to allow the borrower to apply for the repayment option for which it appears the borrower qualifies.

If the servicer receives calls that are within the control and responsibility of the State, the servicer must immediately refer the caller to the State. The State will provide the servicer guidance with respect to the type of calls that are within the State's responsibility.

i. Written Correspondence and Document Processing

The servicer must train and maintain sufficient staff to handle issues, problems and questions of a complex nature within the time frames required by the State.

Written correspondence and documents (e.g. forbearance and deferment forms) received must be responded to by the servicer within ten (10) days of receipt. A copy of the correspondence/ document received and the servicer's response, if applicable, must be maintained.

Borrower requests for forms must be processed within five (5) days of the request.

If the servicer receives written correspondence or documentation that is within the control and responsibility of the State, the servicer must refer the materials to the State within five (5) days of receipt.

j. Outgoing Payments

The servicer is required to identify on all payment documents, excluding loan disbursements, the data below for payments sent to any party (State, Guarantor, borrower, etc.) for any reason if the payment relates to a borrower's record.

- Borrower's name
- Borrower's Social Security Number
- Loan/Promissory note number
- Bond fund series identifier
- Reason for remittance (e.g. loan overpayment, returned claim payment, payment received after death of borrower)

The servicer must enter a history comment stating who the payment was sent to, if other than the borrower, and the reason for the payment. The payment transaction history must identify the amount of the payment.

k. Borrower Mailings

The servicer must mail required notices, disclosures, repayment coupons, etc. to borrowers within five (5) days of the activity/transaction.

l. Guarantor Updates and Reports

The servicer will be responsible for promptly processing all guarantor reports received and for submitting necessary reports and loan status updates to the guarantor, as described in these tasks, as well as any other reports or data that is requested by the guarantor. Reports and data must be submitted weekly, or as required by the guarantor, and must identify changes which occurred during the time period covered by the report. Reports must be in the format required by the guarantor. The servicer must be able to provide proof that the data was provided to the guarantor, if requested.

m. Response to the State and/or the Guaranty Agency

If the State and/or the guaranty agency request information from the servicer, the servicer must respond within five (5) days. This includes verbal responses as well as requests for copies of account documents/materials or the borrower's file.

n. Legislative/News Media Contacts

The servicer must use all reasonable efforts to notify the State within 24 hours after receipt of any verbal or written inquiries received from a United States Congressman, State Legislator or their staff members related to services under this contract. Prior to responding to such an inquiry, the servicer must make the State aware of the inquiry and obtain approval of their proposed response. The response must then be provided within one (1) day of the State's clearance.

The servicer must immediately refer any verbal or written inquiries received from the news media related to services under this contract to the State.

o. Hard Copy Documentation Retention

The servicer must retain the original promissory note and other documents as required by federal or state statute and regulations or the guarantor in a secure, fire resistant environment. These documents must be maintained as long as required by federal or state statute, regulations or policy. Prior to the destruction of these documents, the servicer must secure the State's written approval.

At the State's request, the servicer must be able to provide the original or an acceptable copy of all other documentation or correspondence related to a borrower's account.

p. Copying of Materials

The servicer must copy all incoming and outgoing documents (with the exception of blank forms), written correspondence and the borrower's file contents by microfilm, microfiche, imaging or other format acceptable to the State. The servicer must retrieve and make available legible copies as requested by the State.

q. Facsimile and E-mail Capabilities

The servicer must have facsimile and e-mail capabilities to enable the State, guarantors and borrowers to immediately send materials to the servicer or immediately receive materials from the servicer. Costs for facsimile and e-mail transmissions generated by the servicer will be the responsibility of the servicer.

r. Social Security Number Changes

If the servicer becomes aware of a social security number discrepancy, the servicer must attempt to obtain a copy of the borrower's social security card or other guarantor acceptable documentation to verify the correct number. The servicer must process social security number changes monthly without loss of account history. Upon discovery of the discrepancy, the servicer will enter an item in the borrower's account history that identifies the incorrect number being researched. When the discrepancy is resolved, a history entry must identify when the correction was done. In addition, the servicer will notify the guaranty agency of the change.

s. Name Changes

The servicer will update the demographic file to reflect all name changes by the borrower and record the documenting source and prior name in the account history file. If required by the guarantor, the servicer will notify the guaranty agency of the change.

t. Good and Bad Address Flag

The servicer must have a method to identify for the State if the borrower's address on the servicer's system is good or bad.

u. Forms and Materials

The servicer shall be responsible for the cost, printing and distribution of the following forms and materials:

- (1) Any computer generated notifications.
- (2) All other forms needed that are not provided by the guarantor.

Any revisions needed in the forms or brochures provided by the servicer as a result of federal and/or state changes are the financial responsibility of the servicer.

The composition and format of all forms, letters and materials must be coordinated with and approved by the State prior to use or dissemination. The servicer must at all times maintain an adequate supply of forms and materials.

v. Overnight Delivery of Mail

If the State requests the servicer to mail materials for overnight delivery, the State will absorb the costs of such mailing. The State will provide instructions regarding billing.

w. Court Ordered Documentation

The servicer must provide originals, if required, or copies of any documentation that is mandated as a result of a court order. The servicer may charge the State for such copies, not to exceed \$.25 per sheet. The State will provide instructions regarding billing.

x. Expert Witness and Testimony

The servicer, if necessary, must provide experts to serve as witnesses and provide testimony on behalf of the State. Such services will be provided at the request of the State and may require the servicer's appearance in court, at hearings or at any other circumstances deemed as necessary by the State. Any costs incurred by the servicer will be reimbursed by the State.

y. Training

The servicer is responsible, at no additional charge to the State, to thoroughly train the State in the use of its systems and an understanding of the servicer's operational procedures. Upon request, the servicer must provide the State with copies of its operational procedures. If deemed necessary by

the State, training must be provided at the State's location. The servicer is liable for any such training in the event of modifications and enhancements to its existing system. Such training must be provided prior to the implementation of the modifications/enhancements. If the State desires training for subsequent modifications/enhancements to be at the State's location, the servicer will be reimbursed for travel and training costs. The State will provide instructions regarding billing.

z. Enhancements

The State is interested in enhancements that will allow the State to provide more service to the State's borrowers as well as to facilitate the State's ability to use and interact with the servicer's system. Such enhancements could include the ability to access and print file materials/documents through the State's terminals/personal computers on site, the ability to select and display only specific data from an account history, such as deferments, etc.

aa. Portfolio Analysis

Periodically, the State will need to review its portfolio for various analyses. Upon request, the servicer must provide a master file record on magnetic tape or other medium identified by the State. File layout information including reference name, data description, beginning and ending relative positions, length in bytes, picture and type must be provided. The servicer may bill the State for these tapes at the price identified in the pricing sheets.

bb. State Records Held by a Third Party

Certain account materials for some of the State's borrowers are maintained by Image Express Inc., a records storage company located in St. Paul, Minnesota. These materials correspond to servicing that was provided prior to January, 1998, by previous servicers that went out of business. It is the responsibility of the servicer to interact with Image Express to obtain documents as needed to properly service borrower's accounts. Costs assessed by Image Express for document copies and searches regarding the State's portfolio may be passed on to the State through the monthly billing.

If account materials are needed for activities that occurred prior to January, 1998, and they are not among the servicer's file materials, Image Express is a source that may be contacted regarding the missing materials. However, as there is a cost incurred when requesting materials from Image Express, it is expected that when appropriate time frames allow, the servicer will first contact other sources before contacting Image Express. These contacts would include the State, school, guarantor and, if the loans were purchased through the State Secondary Market, the prior lender. In addition, it is expected that the servicer will service loans in a timely manner which will allow sufficient time for contacting other sources prior to contacting Image Express.

The servicer must provide the State with a list identifying contacts made with Image Express. The list must include information such as the borrower's name, SSN, date of request, materials requested,

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date of receipt, account/loan number. This information is necessary for the State to reconcile costs charged by Image Express and to inform the State when a particular item has been requested. The request and receipt of the document or it's availability must be noted in the servicing history.

TASK 5

CONVERSION TO INCOMING SERVICER

This Task is relevant only if the State's current servicer is not awarded this servicing contract.

a. Current Servicer

The State's educational loan portfolio is currently serviced by UNIPAC located in St. Paul, Minnesota, Denver, Colorado and Lincoln, Nebraska. The current servicer will hereafter be referred to as the incumbent servicer.

The incoming servicer that is awarded this contract can expect to use magnetic tape cartridges of the existing loan data base (in the incumbent servicer's format) to convert the existing system's data to the file structure required by the incoming servicer's system.

b. Work Plan

Within 30 days of contract signing, the incoming servicer must submit a comprehensive conversion work plan for approval by the State. The incoming servicer must be ready to begin working on the conversion by October 1, 2000 with full conversion and operation by December 31, 2000.

Being operational specifically means the incoming servicer's ability to process all activities included in and required by this contract. The planning, scheduling, testing, evaluating and implementing of the takeover in conversion must have been completed by that date.

c. General Requirements

The incoming servicer will be responsible for and must provide all resources required for conversion planning and implementation activities, including, but not limited to:

- (1) Overall takeover/conversion project planning and management.
- (2) Conducting an on-site analysis of the incumbent servicer, if necessary, to identify and/or document takeover activities and requirements.
- (3) Defining specifications, coding, testing, implementation, and verification of all file and data conversion programs.
- (4) Implementing the system, including required hardware, software, modems and circuit lines, etc.

- (5) Providing documentation of procedures and on-site training of State staff for the understanding and utilization of the incoming servicer's system, to be made available and performed within 30 days of the data conversion.
- (6) Sending an introductory letter to all borrowers within ten (10) days of conversion which includes the incoming servicer's address and toll-free telephone number and an account statement. This letter must be approved by the State before implementing. For borrowers with loans already in repayment, the incoming servicer must also immediately provide a coupon book/billing statement and payment instructions.

d. Testing

The incoming servicer must develop and implement a comprehensive systems test of the conversion to confirm that their system is operating correctly and accurately to the specifications defined within this ITB. Final acceptance testing, including evidence of correctness of all systems transactions, reports and overall system balancing, must be performed to the satisfaction of the State prior to implementation. The State must accept the testing results as complete and acceptable in writing before implementation can proceed.

e. Progress Reports

Biweekly progress reports must be prepared by the incoming servicer and submitted to the State identifying the status of the conversion including any problems encountered, the next steps and other information necessary for the success of the conversion.

f. State Involvement

The incoming servicer must work closely with the State in the development and implementation of the conversion of its data files from the incumbent servicer. This is necessary so that the State agrees with and understands interpretations made for the conversion.

g. Data Base Conversion

The incoming servicer will be required to verify receipt of the existing data base from the incumbent servicer with appropriate control totals and to provide a report to the State of the converted data base. The State will evaluate the sample conversion, determine the acceptability of the control totals and approve the loading of the data base and files into the incoming servicer's system.

h. Hardcopy Documents

The incoming servicer will be required to verify receipt of the borrowers' files which contain the original, signed promissory note and other loan documents. Borrower files will be transmitted to the incoming servicer by the incumbent servicer in batches. Each batch will include a transmittal that lists the included files. Upon receipt of the batch, responsibility for the borrower files included is

transferred from the incumbent servicer to the incoming servicer. By use of a bar code or other method acceptable to the State, the incoming servicer must initiate a method of tracking the borrower files received to allow for access by the servicer's staff. This is necessary as the incoming servicer will be responsible for proceeding timely with pending issues regarding these borrower's loans such as origination and repayment document processing, claim filing, etc. All financial penalties and/or fees assessed against the State due to untimely processing is the liability of the incoming servicer. The incoming servicer must compensate the State for the amount of its loss within 60 days.

Within 90 calendar days of the completed conversion of the data base and receipt of all borrower files, the incoming servicer must have completed an audit (1) of the promissory notes in the borrowers' file to the borrower's open loans on the data base, and (2) to confirm the presence of the application and any applicable addenda, promissory note, notice of guarantee and evidence of disbursement for each of the borrower's open loans. A written report identifying loan and document exceptions in social security number order must be provided to the State within fifteen (15) days following that period. The incoming servicer is responsible for requesting any missing documents from the incumbent servicer within five (5) days of becoming aware the document is missing. The incoming servicer will be financially liable for any loss to the State for loans because these documents cannot be located if the document was not listed as an exception to the State following the incoming servicer's file audit.

i. Notification

The incoming servicer will notify all current borrowers and eligible schools that there has been a change in the servicer for MHESLA's student loan portfolio. The notifications will include a letter from the incoming servicer introducing their company as the new servicer and a letter on MHESLA's letterhead that confirms the change in servicer. In addition, the incoming servicer must provide informational materials to the schools that is directed at current and future applicants explaining the change in servicer and MHESLA's role in the student loan process. The letters and all informational materials must include information on how the borrower or school can contact the incoming servicer. These materials must be approved by MHESLA before use. For all letters sent to borrowers, an entry must be made in the borrower's account history that identifies the letters and when they were sent. The notifications must be completed within 60 days after the incoming servicer is in receipt of the electronic data base of all MHESLA borrowers.

j. Costs for Conversion

The bidder's loan servicing unit price must include up-front conversion costs. Unit servicing costs cannot be billed by the incoming servicer until the contract is operational.

TASK 6

LOAN SERVICING: APPLICATION ENTRY, APPROVAL AND DISCLOSURE STATEMENT MAILING

a. General

The servicer must provide a computer system to process the origination of Federal Stafford (Subsidized and Unsubsidized) and PLUS Loan applications. The system must track the application from initial entry, approval/disapproval, disbursement and transfer for subsequent repayment servicing.

b. Application Requests

The servicer must provide applicants with all necessary application materials for the Federal Stafford (Subsidized and Unsubsidized) and/or PLUS Loans upon request. In addition, the servicer must include with the application mailing general information regarding the loan programs which has been approved by the State.

c. Application Entry

The servicer is responsible for processing loan applications for the Federal Stafford Loan Program (Subsidized and Unsubsidized) and the Federal PLUS Loan Program. The servicer must have a system on which to enter applications which allows entry of, and review of, all data elements required for loan guarantee and which discloses the status of the application in the entry/approval/disapproval/disbursement process. In addition, a four-digit alpha-numeric field must be available for fund series designation which will be assigned by the State. The servicer's system must identify which type of application is being processed.

d. Tracking of Applications

The servicer's system must be able to track the applications following initial entry. At a minimum, the following status codes must be available:

- Application Entered
- Pending
- Cancelled
- Denied/Disapproved
- Approved by Lender
- Approved by Guarantor
- Awaiting Executed Promissory Note
- Awaiting Disbursement
- Disbursed

The servicer's system must update the applicant/borrower's account with the proper status at the time the activity occurs.

e. Application Review

The servicer is responsible for reviewing the loan applications for accuracy and completeness. If an application is deficient in any way, it is the servicer's responsibility to obtain any additional information or corrections necessary before proceeding with processing.

The servicer is responsible for performing additional application reviews for requirements that are specific to the State. Currently, the State has an "Area of Service" requirement for loans originated. This requires the applicant or student for whom the applicant is borrowing to have a Michigan connection. To meet this requirement the applicant/student must:

1. Have a Michigan address; or
2. Attend a school with a Michigan address; or
3. Be a resident of Michigan; or
4. Have a prior active loan with the State.

Review to determine if an applicant meets this requirement must be performed by the servicer along with any other additional review items the State may require.

f. Application Approval

The servicer is responsible for completing on the State's behalf the lender section of each loan application that meets the State's approval.

g. Submission for Guarantee

For application processes in which a guarantee has not been issued prior to receipt of the application, the servicer is responsible for submitting the application to the guarantor for guarantee processing. The servicer must be capable of submitting the application by electronic means for guarantee to ensure the most timely application processing possible. This transmission must take place within 48 hours of application approval by the State/servicer.

h. Receipt of the Notification of Loan Guarantee and Updating for Disbursement

The servicer must have the capability of receiving the guarantor's notification of guarantee by electronic means. Upon receipt of the notification of guarantee, the servicer must match it with the loan application. In some application processing scenarios, the notification of guarantee is received before the loan application. In such a case, the servicer must be able to update their system to reflect the guarantee and await receipt of the application. If the application is not received in 30 calendar days, the servicer must contact the school and/or the applicant to request the application.

Prior to disbursement, the servicer must compare the notification of guarantee information against the loan application information to confirm there are no discrepancies (such as disbursement dates, loan periods, applicant name or social security number, etc.). If any discrepancies are found, the servicer is responsible for resolving them.

The servicer will then update the system to show the guaranty agency's approval and update the system for disbursement.

i. Disclosure Mailings

The servicer is responsible for preparing, if appropriate, and mailing the Notification of Loan Guarantee and Disclosure Statement and other disclosures to the applicant in accordance with state and federal requirements, after the loan has been approved by the guaranty agency.

j. Copying of Material

The servicer is required to copy the loan documents and related materials by microfilm, microfiche, imaging or other method acceptable to the State prior to placing them in a secured area for safekeeping.

k. Servicing Fees

Origination fees may be billed for each application received and processed by the servicer on MHESLA's behalf. This includes applications received as paper applications and those received through an electronic method. In addition, an application is considered to have been received when a guarantee is received from the guarantor, whether or not the servicer has actually received the application. Origination fees may be billed once the application or guarantee has been entered onto the servicer's computer system and origination processing on the application has been initiated.

TASK 7

LOAN SERVICING: CONSOLIDATION APPLICATION PROCESSING

a. General

The servicer must provide a computer system to process the origination of consolidation applications in accordance with federal laws and regulations. The system must track the application from initial entry, approval/disapproval, disbursement and guarantor notification.

b. Application Requests

The servicer must provide potential applicants with all necessary application materials upon request. In addition, the servicer must include with the application mailing general information regarding the Federal Consolidation Loan Program. This information must be approved by the State.

c. Application Receipt and Entry

The servicer must maintain a process to receive consolidation applications and enter the application data onto the servicer's computer system. In addition, a four-digit alpha/numeric field must be available for fund series designation which will be assigned by the State.

d. Corrections or Missing Information

The servicer must review the application materials, including Verification Certificates, and identify missing or unreasonable data (e.g., birth date equals today's date). The servicer is responsible for gathering all application data and forms necessary to process the consolidation application from the parties involved.

e. Tracking of Applications

The servicer's system must be able to track the applications following initial entry. At a minimum, the following status codes must be available:

- Application Entered
- Pending Edit Resolution
- Pending Verification Certificate Receipt
- Approved/Disapproved
- Disbursed

The servicer's system must update the applicant's account with the proper status at the time the activity occurs.

f. Approval/Disapproval

The servicer must review the consolidation application, including Verification Certificates, and approve or disapprove the application in accordance with federal law and regulations.

g. Disbursement

The servicer is responsible for disbursing, no less frequently than weekly, to the loan holders to pay off the educational loans included in the consolidation.

h. Consolidation Increases

The servicer must be prepared to process consolidation loan increases as allowed by federal laws and regulations.

i. Guarantor Notification

The servicer is responsible for notifying the guarantor of the consolidation loan and providing any information that the guarantor requires.

j. Borrower Notification/Disclosure

The servicer is responsible for notifying the borrower that the consolidation has been completed and providing a disclosure statement and repayment schedule within five (5) days following the disbursement or loan increase. The servicer must ensure a coupon book/billing statement is sent to the borrower prior to the first payment date.

k. Copying of Materials

The servicer is required to copy all consolidation application materials by microfilm, microfiche, or imaging prior to placing them in a secured area for safe-keeping.

l. Costs for Consolidation Application Processing

The servicer's price quotation for consolidation loan origination includes the entire process beginning with providing consolidation applications to prospective applicants through disbursement to loan holders.

m. Liability

If the servicer approves and/or disburses a Federal Consolidation Loan not in accordance with federal law and regulations which results in a loss to the State, the servicer is financially liable to reimburse the State to the extent of the State's loss. If the guarantee is removed and no cure is available, the servicer is immediately liable for the current principal and interest due.

TASK 8

LOAN SERVICING: DISAPPROVED LOANS

a. General

This task identifies the servicer's responsibilities in the handling of Federal Stafford (Subsidized or Unsubsidized) and Federal PLUS Loan Applications which are disapproved for guarantee by the guarantor or the State.

b. Disapproval Update

After the servicer receives notification of rejection from the guaranty agency or determines the applicant does not meet the State's criteria, the servicer will update their system to reflect denial and the reason for denial.

c. Disapproval Mailing

The servicer will notify the applicant and the school of the disapproval action.

d. Loan Documents

The servicer will keep the disapproved loan documents, including the application materials and, if appropriate, the guaranty agency's rejection notice. These documents can be maintained in hard copy or microfilm, microfiche, imaging or another format acceptable to the State.

e. Appeals

Should the servicer receive either telephone or written communication from a disapproved applicant seeking to appeal the disapproval action, the servicer will review the appeal within ten (10) days to ascertain if the loan application/applicant now meets State and guarantor requirements. If so, the application must be resubmitted to the guarantor for approval/disapproval. The State reserves the right to review any denial appeal. Currently, the State reviews all appeals to override a Federal PLUS Loan adverse credit denial. In the case of a Federal PLUS Loan adverse credit denial, the servicer will refer all written appeals along with the disapproved application and materials to the State. In the case of verbal Federal PLUS Loan adverse credit appeals, the servicer will request the applicant to submit a written appeal with supporting documentation, if applicable. If the State overrides the denial, the servicer will be advised in writing of the override. The servicer will then resubmit all necessary information to the guarantor for approval/disapproval.

TASK 9

LOAN SERVICING: DISBURSEMENT FOR FEDERAL STAFFORD AND PLUS LOANS

a. General

The servicer will disburse Federal Stafford and PLUS loans per instructions provided by the guaranty agency and in accordance with school requested disbursement dates. It will be the servicer's responsibility to comply with federal regulations and handle all transactions associated with disbursement.

b. Multiple Disbursements

Federal Stafford and PLUS loans will be multiply disbursed per the direction of the guaranty agency and the school. Up to four disbursements will be identified for each loan.

c. Co-payable Check Disbursement

Federal Stafford and PLUS loans disbursed by check must be made co-payable to the borrower and to the school and must be mailed to the school for delivery to the borrower. Any exceptions to this process must be in accordance with federal law and regulations.

d. Check Stock

It is the servicer's responsibility to design and present the proposed check and check stub to the State for approval. After the State's approval, it will be the servicer's responsibility to maintain a sufficient supply.

(1) Check Information

In addition to traditional check information, the face of the check must contain the State's name (Michigan Higher Education Student Loan Authority) as the lender of the loan, the social security number of the borrower, and the name and address of the servicer.

(2) Check Stub Information

The check stub must include the State's name (Michigan Higher Education Student Loan Authority) as the lender of the loan, the name and social security number of the borrower, the total loan amount, the origination fee (if applicable), the guarantee fee (if applicable), the net check amount, the type of loan disbursed (Subsidized Federal Stafford, Unsubsidized Federal Stafford, or PLUS), the alpha numeric fund designation code, and the name and address of the servicer.

e. Electronic Funds Transfer

The servicer will offer Electronic Funds Transfer (EFT) services for student loan disbursements to schools in accordance with federal law and regulations. EFT disbursement must be available by type of loan (Stafford, PLUS) and be designated at school level. This will provide each school flexibility to determine the disbursement process that is best for them. The servicer will use commercially reasonable efforts to provide timely EFT, within one business day, if possible.

The State permits and authorizes the servicer to disburse funds by EFT to those schools so designated by the State.

f. Timeliness of Disbursement

The servicer cannot disburse loans before the disbursement dates identified by the school. Additionally, those loans ready for disbursement prior to or by the dates identified by the school must be disbursed within five (5) days of the dates identified by the school or within five (5) days of the date the loan could be disbursed based on the servicer's receipt of all required documentation.

g. Frequency of Disbursement

The State requires daily disbursement of loans for each program.

h. Notification to Borrower

The servicer is responsible for sending a notice of disbursement to the borrower.

i. Disclosures

The servicer must comply with federal disclosure requirements prior to or at disbursement.

j. Account Maintenance

The servicer must perform the necessary account maintenance including a status code to update the system confirming the loan was disbursed. The update must include the disbursement date, total disbursement amount, origination fee amount (if applicable), guaranty fee amount (if applicable), net disbursement amount, and the check number or an indication that the loan was disbursed by EFT, whichever is appropriate.

k. 120 Day Check Cashing Requirement

It is the servicer's responsibility to monitor loans disbursed by check for the federal 120 day check cashing requirement. The servicer must refuse for payment any check presented after the 120th day from date of issuance. If the check is not cashed within 120 days, the servicer must proceed with cancellation of that disbursement.

l. Returned Checks

It is the servicer's responsibility to receive and void returned checks and to reissue the check(s), if appropriate. If the check is reissued, the servicer must make the necessary adjustments to the account to reflect the new data and report the revised disbursement information to the guaranty agency. If the check cannot be reissued, the servicer is responsible to initiate and process a cancellation or loan reduction.

m. Stop Payments

It is the servicer's responsibility to issue stop payments as requested or necessary. After confirmation that the stop payment is in effect, the servicer will reissue the check, if appropriate. If the check is reissued, the servicer must make the necessary adjustments to the account to reflect the new data and report the revised disbursement information to the guaranty agency. If the check cannot be reissued, the servicer is responsible to initiate and process a cancellation or loan reduction.

n. Reissued Checks

The servicer must reissue checks within ten (10) days of the determination that the check is to be reissued. The servicer must make the necessary adjustments to the account to reflect the new data and report the revised disbursement information to the guaranty agency.

o. Late Disbursements

The servicer must be capable of identifying and issuing late disbursements according to state and federal requirements. Within ten (10) days of receipt of the late disbursement request, the servicer will adjust the account, if necessary, and issue the late disbursement. An appropriate history item must be entered in the borrower's account history reflecting the late disbursement.

The servicer must notify the guarantor of the late disbursement per the guarantor's instructions.

p. Guaranty Agency Reporting

The servicer is responsible for reporting all disbursement data to the guaranty agency per the guaranty agency's instructions. A paper and/or a magnetic tape process may be available for reporting this information. Currently, a magnetic tape process is being used. If the servicer wants to use a different reporting process, they must first advise the State and work with the State to revise appropriate procedures before the new process may be implemented. In addition, should the guaranty agency charge an insurance fee, it is the servicer's responsibility to calculate and report the fee.

Disbursement data must be forwarded to the State to be received by the fifteenth of the month. The State will prepare a check, if appropriate, and forward the materials to the guaranty agency by the twentieth of the month.

q. Costs for "Application Processing"

The unit cost per loan for "application processing" includes providing applications to prospective applicants, guarantee processing, disbursement and associated processing.

r. Liability

If the servicer improperly disburses the State's loans which result in a loss to the State, the servicer is financially liable to reimburse the State to the extent of its loss.

TASK 10

LOAN SERVICING: GENERAL LOAN SERVICING

a. General

The servicer is responsible for performing general servicing associated with the State's portfolio in accordance with state, federal and guarantor requirements. This would include cancellations, adjustments, reinstatements, demographic updates, etc.

b. Status Code

The servicer must maintain a status code which identifies loans that have been cancelled.

c. Account Maintenance

The servicer will update the account as necessary within ten (10) days of receipt of the request and supporting documentation, if required. An appropriate history comment must be entered in the borrower's loan history identifying the action taken and the date it occurred.

d. Other Changes

The servicer will be responsible for making any changes as requested by the State. In addition, the servicer will make any name and/or address changes as reported by the borrowers and report this information to the guaranty agency, if required by the guarantor.

e. Notification

The servicer will notify the borrower of all adjustments made to the account that affect the loan. The servicer will notify the guarantor of the action taken per the guarantor's instructions. The school must be notified of loan cancellations.

f. Cancellation Note Processing

Within 30 days of the cancellation date, the servicer must notify the borrower of the cancellation and that the cancelled promissory note is available upon request. The servicer will house the promissory note, cancellation letter and other loan documents in a secure area for the time period required by federal law and regulations.

If a promissory note is "cancelled" and returned to the borrower in error, the servicer will be liable for reimbursement of the outstanding balance of the loan on which the error occurred unless the servicer can secure the borrower's signature on a duplicate note. Should reimbursement be required, the servicer must make full reimbursement to the State within 60 calendar days of either the State's or the servicer's awareness of the occurrence.

TASK 11

LOAN SERVICING: IN-SCHOOL AND GRACE STATUSES

a. General

Federal Stafford Loans (Subsidized and Unsubsidized) do not enter repayment until the conclusion of the in-school and grace periods. The intent of this task is to identify servicer responsibilities for loans while in these statuses.

b. Status Code

The servicer must maintain a status code which identifies loans which are in an in-school or grace status.

c. Interest Accrual

Only Subsidized Federal Stafford Loans are eligible for federal interest subsidy. Therefore, the servicer must clearly identify Subsidized Federal Stafford Loans from Unsubsidized Federal Stafford Loans. Interest which accrues on eligible loans during the in-school and grace periods is billed to the U.S. Department of Education quarterly for payment. Interest which accrues on loans ineligible for interest subsidy is the responsibility of the borrower.

In the event a loan is subsequently determined ineligible for federal interest subsidy, the servicer must have a designation to identify the ineligible status. Loans which have lost eligibility must not be included in quarterly federal interest billings.

d. Grace Period Adjustments

Federal Stafford Loans have grace periods varying from six (6) to twelve (12) months, dependent upon the interest rate of the loan. If the servicer adjusts the grace period, the servicer will update the account appropriately, enter a history comment and redisclose to the borrower. The servicer is also required to report revisions to the guaranty agency per their direction.

e. Repayment Schedule

While the loan is in grace period, the servicer must establish the borrower's repayment schedule. This is required prior to conversion to repayment so the borrower is notified of the loan repayment terms and the expected first payment date and amount.

f. Borrower Mailings

The servicer is responsible for notifying the borrower that the grace period is about to end and for providing all repayment disclosures in accordance with state, federal and guarantor requirements.

g. Student Status Confirmation Reports from Schools

The servicer will be responsible for submitting student status confirmation reports to schools for borrowers in an in-school status unless arrangements are made with the guaranty agency to perform this function. If students drop below half time attendance or withdraw, the agreement must include having the guaranty agency notify the servicer of the enrollment change.

h. Enrollment Information

If a school submits or the guaranty agency reports enrollment information directly to the servicer, the servicer will process the information as instructed in Task 12.

i. Yearly Contact

The servicer must have at least yearly contact with the borrower. If a change notification has not been sent to the borrower for a 12-month period, the servicer will generate an account statement to the borrower reflecting the current status of the account. If the statement is returned due to a bad address, the servicer will perform skip tracing. This will reduce the number of bad addresses which may be found when the loans convert to repayment status.

j. Separation Date Contact

The servicer will send an account statement to borrowers at least 30 calendar days prior to their separation date for verification of the account status.

k. Payments

If borrower payments or school refunds are received while the account is in an in-school or grace status, the servicer will process the payment as identified in Task 20.

TASK 12

LOAN SERVICING: ENROLLMENT INFORMATION

a. General

The purpose of this task is to identify the servicer's responsibility in the processing of enrollment information.

b. Assessment of Information

Regardless of the source of the enrollment information, the servicer must assess the information prior to entry into the system. There may be an occasion where more current information has already been received by the servicer. If it appears the servicer has already processed more current information, the servicer will verify enrollment information contained on the National Student Loan Clearinghouse website if the school is a participant. A history comment citing the data certified and the date and method of the verification will be entered. If the enrollment information was in the form of a notification generated by the guaranty agency, it is the responsibility of the servicer to work with the guaranty agency to ensure that the guaranty agency's records agree with those of the servicer.

c. Guaranty Agency Reporting

If the servicer receives the enrollment information directly from the school or National Student Loan Clearinghouse website, the servicer, after appropriate account maintenance has been performed, must report the information to the guaranty agency.

d. Retention of Enrollment Information

The servicer must maintain all enrollment information received in hard copy form and/or on microfilm, microfiche, imaging or other format acceptable to the State. If any financial liabilities are levied on the State because the servicer could not produce either the hard copy document or an acceptable copy, the servicer will be financially liable to reimburse the State for any such loss.

e. Student Requests for Enrollment Forms

If a student verbally reports an enrollment change to the servicer or requests an enrollment form, the servicer must provide the student with a deferment form. Enrollment information certified on a deferment form can be accepted for processing, regardless of the status of the loan (e.g. in default status).

TASK 13

LOAN SERVICING: INELIGIBLE LOANS

a. General

If it is determined that the student did not qualify for the loan disbursement(s), as defined in federal regulations, the loan or portion of the loan which the student should not have received is considered ineligible.

b. Status Code

The servicer must have a status indicator to identify ineligible disbursements to allow the State visual identification and reporting capabilities.

c. Assessment

The guaranty agency notifies the servicer of separation dates which are prior to issued disbursements. The servicer will investigate to determine if the borrower was ineligible for the loan or a portion of the loan. If the borrower was ineligible, the servicer will designate the loan or a portion of the loan as ineligible and notify the State.

d. Account Maintenance

The servicer must take the following action if a full loan or a partial loan (e.g., second/third disbursement) is determined to be ineligible.

(1) Full Loan

The servicer must perform the appropriate maintenance on the account including an indicator that the loan does not qualify for federal interest subsidy. (The effective date of that disqualification is the date of the first disbursement which may have occurred in a prior quarter. Therefore, the servicer would need to make a prior quarter federal interest adjustment.)

(2) Partial Loan

If only a portion of the loan is affected, such as the second/third disbursement amount, the servicer must perform the appropriate due diligence as required by federal regulations for the ineligible portion of the loan. The servicer must maintain an indicator that the partial loan amount does not qualify for federal interest subsidy. (The effective date of that disqualification is the disbursement date which may have occurred in a prior quarter. Therefore, the servicer would need to make a prior quarter federal interest adjustment.)

The eligible and ineligible portions of the loan must be identified separately on the computer screens accessed by the State.

e. Borrower Notification

The servicer must immediately demand payment in full of the ineligible portion of the loan, including principal, accrued interest, and special allowance attributable to the ineligible portion of the loan, as required by federal regulations.

f. Full Payment Received

If the borrower pays the demanded amount in full in compliance with federal regulations, the servicer will take the following action:

(1) Full Loan Situation

The servicer will treat the loan as a paid in full and refund to the federal government the interest benefits and special allowance repaid by the borrower.

(2) Partial Loan Situation

The servicer will apply the amount repaid by the borrower as a prepayment of principal and refund to the federal government the interest benefits and special allowance attributable to the ineligible portion of the loan.

g. Partial or No Payment Received

If the borrower fails to pay the amount demanded within the time frame allowed by federal regulations, the servicer will proceed with default processing on the total outstanding balance of the loan and refund to the federal government interest benefits and special allowance received on the ineligible portion of the loan.

TASK 14

LOAN SERVICING: REPAYMENT TERMS

a. General

The servicer must comply with federal and state requirements in converting a loan to repayment and in repayment processing.

b. Repayment Disclosure

The servicer must complete and mail the repayment disclosures in compliance with state and federal regulations, but in all cases, prior to the first payment due date. Data regarding conversion to repayment must be reported to the guaranty agency as required by federal regulations and guaranty agency policy.

c. First Payment Date

The servicer must schedule the first payment date in compliance with federal regulations. If the servicer fails to schedule the first payment timely, which results in a loss to the State, the servicer is financially liable to reimburse the State to the extent of its loss.

d. Repayment Length

The maximum repayment length for Federal Stafford, SLS and PLUS loans is ten (10) years, exclusive of authorized periods of deferment and forbearance. The maximum repayment length for Consolidation loans varies from 10 to 30 years, dependent on the total eligible outstanding educational debt. The servicer's system must verify that the length of repayment on the State's loans does not exceed the period allowable by federal regulations.

e. Method of Payment

The servicer has the option of either utilizing coupon books or a monthly billing statement as its method of billing the borrower. Regardless of the option chosen, the servicer must provide the coupon book/monthly statement to the borrower no later than 25 calendar days prior to the first payment due date. If monthly statements are used, subsequent statements must be mailed no later than three (3) weeks prior to the next payment due date. Should a duplicate be required, the servicer will issue duplicates at no cost to the State.

The State may choose to allow various methods of payment by the borrowers such as automatic payment to the State by the borrower's bank (ACH). The servicer must be able to accommodate various methods of payment.

f. Monthly Payment Amount

Federal regulations require a minimum monthly payment amount. However, the minimum payment may be reduced if the lender approves and provided the loan will be fully repaid within the maximum repayment period. The servicer will always schedule the monthly payment at the minimum amount, unless a higher payment is required to meet the federally required payoff period.

g. Reduced Monthly Payments

In those cases where the monthly payment amount as scheduled by the servicer is required to meet payoff requirements, a reduction in monthly payments is not possible. Should the servicer receive such requests, the servicer must inform the borrower that reduced monthly payments are not permissible due to federal requirements, but that forbearance can provide a temporary reduced payment by the payment of interest only.

If the monthly payment amount as scheduled by the servicer results in an amount less than the payoff requirement and it appears that it is in the best interest of the borrower to reduce the monthly payment in order to avoid default, the servicer must offer reduced payments to the borrower.

h. Graduated or Income Sensitive Monthly Payments

The servicer must offer graduated and income sensitive monthly payments in accordance with federal law and regulations.

i. Changed Payment Amount

If the servicer changes the payment amount as allowed in paragraph "f." or "g.", the servicer must make the necessary adjustments to the account. In addition, the servicer must redisclose the repayment terms to the borrower and issue a revised repayment statement/coupon. The revised repayment schedule must be reported to the guaranty agency if the guaranty agency so requires.

j. Retroactive Due Date Notification

If the servicer learns that the borrower's loan should have been in repayment at an earlier date, the servicer is required to process a due date change, including all loan maintenance, adjustments, history comments, capitalization of accrued interest, etc. This must be done in accordance with federal and state requirements and within the period required by the guarantor based on the date of the servicer's receipt of the notification. In addition, the borrower must be notified and provided with a repayment schedule, if appropriate.

If the servicer learns that the borrower's eligibility for a deferment has ceased, the servicer is required to terminate the deferment and process all loan maintenance, adjustments, history

comments, capitalization of accrued interest, etc. in accordance with federal and state requirements and within the period required by the guarantor based on the date of the servicer's receipt of the notification. In addition, the borrower must be notified and provided with a repayment disclosure and coupon book or billing statement.

The servicer must report any enrollment information or deferment expiration information received to the guaranty agency as required by federal regulations and guaranty agency policy.

k. Department of Defense (DOD) Loan Repayment Forms

The servicer is responsible for the completion and processing of DOD Loan Repayment Forms that are received from our borrowers. Any deficiencies/problems associated with these forms must be handled by the servicer.

l. Refinancing of Federal SLS and PLUS Loans

The servicer must refinance Federal SLS and PLUS Loans for those borrowers requesting same. It is the servicer's responsibility to properly interpret and administer the refinancing options available by federal law. Forms used for refinancing can be those of the servicer, if approved by the State and guaranty agency, or forms provided by the guaranty agency. If there is a loss to the State due to the servicer's improper handling of a refinanced loan, the servicer must reimburse the State to the extent of its loss.

m. Verification Certificates From Other Consolidating Lenders

The servicer is responsible for completing, in accordance with federal regulations, Consolidation Verification Certificates that are received from other consolidating lenders for our borrowers. However, before the servicer may certify the State's loan(s) are eligible for consolidation, the servicer must verify that the consolidating lender is a current holder of a loan for that borrower.

TASK 15

LOAN SERVICING: REPAYMENT DUE DILIGENCE

a. General

The servicer must follow federal and state due diligence requirements in the collection of loans. When attempting to contact the borrower, the procedure must be acceptable to the State.

b. Due Diligence

It is the servicer's responsibility to ensure that federal and state requirements are adhered to in the repayment servicing of Federal Stafford, SLS, PLUS and Consolidation Loans. The servicer must provide its collection notices and letters (including the final demand letter) to the State for submission to the guaranty agency for approval prior to use. When performing telephone due diligence, the State requires the servicer to allow the telephone to ring a minimum of six (6) times before determining the call will not be answered.

c. Delinquency Status Levels

For each loan, the servicer must track the number of days delinquent. This information must be viewable to the State.

d. History Items

It is critical that the servicer enter clear and concise history items for purposes of further collections and communications with the borrower. Generic type history notations are not acceptable if the servicer reaches the borrower and there is either a promise to pay or deferment/forbearance form request.

e. Preclaims Assistance

During the delinquency cycle prior to claim submission, the servicer must request preclaims assistance from the guaranty agency per their instructions and as required by federal regulations. In addition, the servicer will be responsible for reporting cured delinquencies to the guaranty agency in accordance with their requirements.

f. Skip Tracing

The servicer is responsible for skip tracing in the event mail is returned as undeliverable or they become aware of an invalid phone number for the borrower or endorser. The servicer must comply with federal regulations regarding skip tracing.

When the servicer locates the borrower or endorser, the servicer must appropriately update the borrower's record indicating the source of the revised address and report the address change to the guaranty agency. If the skip tracing was done to resolve a loss of guarantee, the servicer must maintain acceptable evidence of location as required by federal regulations.

If the servicer is unable to locate the borrower or endorser, the servicer must request skip tracing assistance from the guaranty agency.

g. School Notification of Delinquent Loans

If the guaranty agency notifies schools of delinquent loans on behalf of its lenders, the servicer will not be responsible for this reporting requirement as required by the federal default regulations. However, if the guarantor discontinues this service or the State acquires loans held by a guarantor which does not provide this service, the servicer will be responsible for notifying schools of delinquent accounts per federal regulations on behalf of the State.

h. Specialized Collection

The State reserves the right to require the servicer to subcontract for specialized collection efforts. The State must approve the subcontractor selected by the servicer.

If the State determines that specialized collection is in the best interest of the State, the State will notify the servicer at least 90 days before implementation. The servicer must submit accounts to the subcontractor electronically based on the perimeters identified by the State (loan balance and delinquency stage).

The State will work with the servicer and the subcontractor to establish this process. Should this be required, the State will pursue a contract change that would permit separate pricing to cover the servicer's costs.

TASK 16

LOAN SERVICING: DEFERMENTS

a. General

It is the servicer's responsibility to assess a borrower's eligibility for and to process deferment requests per federal regulations.

b. Deferment and Post-Deferment Grace Accumulators

The servicer is required to maintain a deferment accumulator for each type of deferment, which reflects the total deferment period granted for that type of deferment. For those deferment types which have a maximum length, the servicer will verify, based on past deferments granted, that the borrower qualifies for additional deferment before authorizing a new deferment. The servicer must adjust the deferment accumulator for each deferment approved, rescinded, or terminated early.

For those borrowers who qualify for post-deferment grace, there must be an accumulator that identifies the total number of months of post-deferment grace the borrower has received.

c. Processing of Deferment Requests

It is the responsibility of the servicer to review and either approve or deny deferment requests. The borrower must be notified of the approval or denial action and, if appropriate, the reason for denial. If the deferment is approved, as part of the approval process, the loan must be updated to identify the type of deferment and the deferment beginning and ending dates must be entered in the loan history. If the deferment is denied, the loan history must be updated with a detailed explanation of the reason for denial. For denials that are based on ineligibility, the deferment form must be retained. However, if the denial is because the form is incomplete, the servicer does not need to retain the form and will return it to the borrower.

The servicer must report approved deferments to the guaranty agency per federal regulations and guaranty agency policy.

d. Post-Deferment Grace Periods

Loans which were disbursed prior to October 1, 1981, qualify for a six (6) month post-deferment grace period. The servicer must grant the post-deferment grace period to those borrowers who qualify. If the borrower has several loans and not all loans qualify for a post-deferment grace period, the servicer must be able to segregate the loans accordingly for billing and due diligence purposes.

e. Requests for Deferment from Loan Applications

Upon receipt of a borrower's request for deferment on a loan application, the servicer will be responsible for processing the request for deferment on the applicable loan(s) according to federal regulation.

f. Deferment Documentation

The servicer must retain deferment forms that are approved or denied for reasons of eligibility in hard copy form, microfilm, by imaging or in another format acceptable to the State. For denied deferment requests, the servicer must also retain a copy of the letter to the borrower explaining the reason for denial. If any financial liabilities are levied because the servicer cannot produce either the hard copy document or an acceptable copy of the document, the servicer will be financially liable to reimburse the State for any such loss.

g. Prior Delinquency

Deferment requests must be processed for loans which have a delinquency prior to the deferment start, provided the borrower is eligible for the deferment. The servicer must process an administrative forbearance for or obtain a signed discretionary forbearance from the borrower in accordance with federal law and regulations to resolve the delinquency prior to the deferment start date before processing the deferment.

h. Retroactive Deferments

If the servicer is informed of a retroactive expiration of a deferment, the servicer must capitalize the outstanding interest as permitted by federal regulations. This must occur within the period required by federal regulations and the guarantor's requirement, based on the date of the servicer's receipt of the notification.

TASK 17

LOAN SERVICING: FORBEARANCE

a. General

It is the servicer's responsibility to assess a borrower's eligibility for and process forbearance requests per federal regulations and State policy.

b. Administrative and Mandatory Forbearance

It is the servicer's responsibility to assess administrative and mandatory forbearance eligibility per federal regulations. The servicer must properly interpret the requirements and the required documentation to justify and authorize forbearance.

c. Discretionary Forbearance

The servicer will promote use of discretionary forbearance to help cure delinquent loans. The State's lender of last resort portfolio is a high risk portfolio, and there are situations where forbearance might be the only repayment option available to a borrower to help them avoid default action.

d. Forbearance Accumulators

The servicer is required to maintain a forbearance accumulator for each type of forbearance which reflects the total forbearance period granted for that type of forbearance. For those forbearance types which have a maximum length, the servicer will verify the borrower qualifies for additional forbearance based on the past period granted prior to authorizing additional forbearance. The servicer must adjust the forbearance accumulator for each forbearance approved, rescinded or terminated early.

e. Forbearance Form

If a federal form is not required, the servicer's form must be approved by the State and guaranty agency prior to use. It must allow for capitalization of interest which accrues and is still outstanding at the end of the forbearance period. If the servicer does not have its own form or if the State and/or guaranty agency do not approve the servicer's form, the guaranty agency's form will be used.

f. Processing Forbearance Requests

It is the responsibility of the servicer to review and either approve or deny forbearance requests. The borrower must be notified of the approval or denial and, if appropriate, the reason for denial.

If the forbearance is approved, the servicer must determine the appropriate length of forbearance based upon the borrower's circumstances. The loan status must be updated to identify the type of

forbearance applied and the forbearance period must be documented on the servicer's system. If the forbearance request is denied, the loan history must be updated with a detailed explanation of the reason for denial. For denials that are based on ineligibility, the forbearance form must be retained. However, if the denial is because the form is incomplete, the servicer does not need to retain the form and will return it to the borrower.

The servicer must report all forbearance authorizations to the guaranty agency if required by federal regulations and/or guaranty agency policy.

g. Forbearance Payment Options

The servicer will give the borrower the option to pay all or a portion of the interest which accrues. If the borrower initially chooses to pay the interest, but later decides not to, the servicer must allow the borrower the option to change the payment method to capitalization in lieu of submitting the payment. If the borrower changes the payment option, the servicer must then capitalize any interest outstanding at the end of the forbearance period.

h. Redisclosure

The servicer will redisclose to the borrower if interest was capitalized. The redisclosure must identify any repayment schedule changes that may be necessary as a result of the increased principal balance. If the monthly payment amount changed and the servicer utilizes a coupon book as the method of billing, the servicer must generate a revised coupon book to the borrower. The servicer must report the revised repayment schedule to the guaranty agency, if required by federal regulations and/or guaranty agency policy.

i. Forbearance Documentation

The servicer must retain forbearance forms that are approved or denied for reasons of ineligibility in hard copy form, microfilm, by imaging or in another format acceptable to the State. For denied forbearance requests, the servicer must also retain a copy of the letter to the borrower explaining the reason for denial.

If any financial liabilities are levied because the servicer cannot produce either the hard copy document or an acceptable copy of the document, the servicer will be financially liable to reimburse the State for any such loss.

TASK 18

LOAN SERVICING: CLAIM PROCESSING

a. General

The servicer must determine if the borrower meets claim filing requirements according to federal statute and regulations. If the requirements are met, the servicer must immediately file the appropriate claim with the guaranty agency, per the agency's instructions, and update the loan status to claim filed.

b. Notifications

Upon receipt of notification that the borrower may be eligible for loan cancellation claim filing, the servicer must attempt to obtain required documentation from all sources (borrower, current and prior lenders, court system, family members, school, etc.) to evaluate the situation in order to file a claim in accordance with federal regulations. For all claim types where the servicer is unable to make a determination, the State shall be notified when the servicer ceases their efforts.

Upon receipt of bankruptcy notification, the servicer must immediately file a "Proof of Claim" with the Bankruptcy Court as required by federal regulations.

Upon receipt of documents confirming a death which makes the borrower eligible for loan cancellation, the servicer must return to the sender any payments received from the estate or paid on behalf of the borrower after the date of death. The determination of death may be made on the basis of a death certificate or other proof of death that is acceptable under applicable state law and by the guaranty agency.

c. Claim Package

The servicer must prepare and submit the claim package per instructions of the appropriate guaranty agency. If the servicer fails to file the claim timely, which results in a loss to the State, the servicer will be financially liable to reimburse the State to the extent of its loss. Do not file a claim if the loan amount is below the guarantor claim allowance minimum. Instead, delete the loan from the servicing system within the timeframe specified in Task 2.

d. Loan Status

As soon as the servicer submits the claim package to the guarantor, the servicer must update the loan status to reflect the claim filed status and identify the claim type. If the claim type cannot be identified in the status area, it will be included in the history comment.

e. History Comment

The servicer will enter a comment in the account history regarding the claim processing. It will include:

- Bankruptcy - The date the borrower filed for bankruptcy.
- Permanent Total Disability - The date the disability began.
- Death - The deceased date of the borrower/student.
- Closed School - The last date of attendance at the closed school.
- Delinquency Default - The next payment due date.
- Ineligible Loan - The last date of attendance at the school involved.

The servicer must also enter a history comment stating the date that the claim was submitted to the guaranty agency.

f. Copying of Material

Prior to mailing the claim package to the guaranty agency, the servicer must copy it in its entirety by microfilm, imaging or other format acceptable to the State.

g. Incomplete Claims

If the guaranty agency returns the claim package because it is incomplete, the servicer must immediately attempt to locate the missing document(s) internally. Within one (1) day, contact will be made with the State and all outside agencies providing record retention for the State, to initiate search for the document(s). If the document(s) are located, notice to cancel the search will be given to those agencies involved in the search. If the servicer cannot locate the document(s) or fails to refile the claim timely, which results in a loss to the State, the servicer will be financially liable to reimburse the State to the extent of its loss.

h. Payments Received After Claim Filed But Prior to Claim Purchase

The servicer must maintain the loans which are in a claim filed status at the principal balance outstanding as of the date the claim form was prepared. If the borrower subsequently makes payments, the servicer must reject the payments from application to the borrower's loan. The servicer must establish a control account for these rejected payments. On a daily basis, the servicer will analyze payments in the control account to determine if claim withdrawal is appropriate per the policy of the State. If the payment(s) are not sufficient to allow withdrawal of the claim, the servicer must forward the payments to the guarantor within 30 calendar days of the claim payment being applied to the loan.

i. Payments Received After Claim Purchase

If the servicer receives payments after the guaranty agency has purchased the claim, the servicer must forward the payments to the guaranty agency within 30 calendar days of receipt.

j. Contact with Borrower

If the servicer has contact with the borrower after the claim has been filed, but before the claim payment posts, all efforts must be made to avert the claim by means of forbearance, deferment or other arrangements as appropriate.

k. Claim Withdrawal

If the servicer, prior to claim payment posting, receives full payment of the delinquent amount or receives forms (forbearance, deferment, bankruptcy dismissal, etc.) which will bring the loan current or cancel the claim, the servicer must withdraw the claim from the guaranty agency within 24 hours and fax the State a daily listing of those accounts. The item(s) received must be applied to all applicable loans within ten (10) days of receipt.

l. Denied Claim

If the loan guarantee is lost because the guaranty agency denies the claim, the servicer must attempt to cure the violation in compliance with federal regulations. The servicer may not assess a cure fee if the claim denial is the result of a servicer error. If the cure is not successful and the claim denial is the result of a servicer error, the servicer will be financially liable to immediately reimburse the State in the amount of their loss.

m. Monitoring Claim Payments

The servicer must monitor accounts to insure that the full claim payment is received. Refer to Task 20 regarding claim underpayments and overpayments. If the payment is not received within 90-120 calendar days, the servicer must notify the State.

n. Purging Loans Off The System

The servicer may purge loans off the system after they have been paid-in-full for at least 90 calendar days. However, the servicer is responsible to perform any research required to obtain purged data when requested by the State or when it is needed to complete any duty required by this contract at no additional charge to the State. This will include but not be limited to cumulative reports at various levels, such as borrower level, loan level, note level, and customer number level.

TASK 19

LOAN SERVICING: CURE PROCESS FOR LOSS OF GUARANTEE

a. General

This task refers to loans which the servicer and/or the State determine have lost guarantee due to improper servicing or loans which have had claims denied by the guaranty agency. This task identifies the servicer's responsibility for cure processing.

b. Loss of Guarantee

On a monthly basis, the servicer must notify the State of loans which have lost guarantee. This includes loans for which a claim was denied by the guaranty agency and loans which the servicer or the State determined had lost guarantee and on which claims were not filed. In addition, the servicer must have a method to track loans for which only a portion of the loan has lost guarantee and include these loans in the report to the State.

c. MHESLA Billing

The servicer may not charge the State a servicing fee for unguaranteed loans if the loss of guarantee is due to the servicer's error.

d. Federal Billing Adjustment

The servicer must make appropriate adjustments on the next quarterly federal interest and special allowance billing. If the violation is cured, a subsequent adjustment by the servicer will be necessary. The servicer must reimburse the State for the lost federal interest benefits and special allowance which are to be paid to the State quarterly.

e. Cure Procedures

If a cure is permissible or possible under the cure procedures as issued by the U.S. Department of Education, the servicer is responsible to attempt to cure the violation(s).

f. Cure Attempt Time Limit

The servicer must begin the cure process within ten (10) days of the claim denial notification or the servicer's awareness that a violation has occurred. The servicer has a maximum of twelve (12) months from the violation notification or awareness date to correct the violation. The State cannot be charged for the cure process for any violations that are as a result of the servicer's failure to comply with federal or guaranty agency requirements.

g. Successful Cures

If the servicer is successful in curing the violation, the servicer must immediately refile the default claim with the guaranty agency and/or request guarantee reinstatement, if applicable.

h. Unsuccessful Cures

If the servicer is not successful in curing the violation within twelve (12) months, the servicer is financially responsible and shall arrange for reimbursement to the State for outstanding principal and interest plus lost federal interest benefits and special allowance

i. Incurable Loss of Guarantee

If the reason for the loss of guarantee is not covered by the cure procedures (cannot locate original, signed note, etc.) and cannot be cured, the servicer will be financially liable as indicated in paragraph "j".

j. Financial Liability

If the loss of guarantee is due to the servicer's error, the servicer will be financially liable to reimburse the State at the end of the allowed cure period. Reimbursement must be within 60 calendar days for the outstanding principal and interest on the loan, plus any lost federal interest benefits or special allowance, if applicable, through the date of the servicer's payment to the State. Situations requiring reimbursement to the State include, but are not limited to, those described below:

- (1) Violations, not cured within the State's specified time period, that would result in a denied claim if filed with the guaranty agency.
- (2) Denied claim that is not cured within the State's specified time period.
- (3) Loss of guarantee for which there is no cure. When there is no cure available, there is no cure time period and the servicer must reimburse the State within 60 calendar days.
- (4) Returned claims that are deficient in documentation which the servicer cannot locate nor has acceptable copies.

In addition, for claims resubmitted after cure, the servicer will be responsible for payment of special allowance and interest which the guaranty agency will not cover in its claim payment to the State and which was lost as a result of the violation(s).

k. Assignment of Note

If the servicer becomes liable for total payment of the loan to the State, the State will assign the promissory note to the eligible lender designated by the servicer upon receipt of payment.

l. Deletion of Accounts

In those cases where the State assigns the promissory note to the servicer's lender in accordance with this task, the servicer must, within three (3) days of receipt of the assigned note, delete the loan from the State's portfolio.

TASK 20

LOAN SERVICING: APPLICATION OF PAYMENTS

a. General

The servicer must record and apply all payments received to the borrowers' loans. Those payments which are received by the State will be forwarded to the servicer for application to the borrower's loan.

b. Payments Received

Each business day, all payments are to be microfilmed, imaged or copied in another format acceptable to the State. The payments must be deposited on the date of their receipt.

c. Payment Review/Borrower Notification

The servicer must either (1) review the payment document to determine if it contains any qualifying language that would restrict the State's enforcement of the promissory note and applicable federal statute and regulations, or (2) in accordance with federal statute, notify the borrower where communications concerning disputed debts are to be sent. If a notification regarding disputed debts is not provided to the borrower, payment documents containing qualifying language must not be accepted and must be returned to the payee with a letter explaining the reason for return.

The servicer is responsible for reviewing any correspondence received with the payment for directions from the payee as to the application of the payment and/or for questions the payee may have included with the payment.

d. Date of Payments

The servicer must apply payments to the loan record within three (3) days of the servicer's receipt of the payment effective as of the date of receipt. The effective date of the payment must be the date the servicer, incumbent servicer or the State received the payment.

e. Application of Borrower Payments

Payments are to be applied in accordance with federal and/or guarantor requirements. If the payment equals the scheduled payment amount, the servicer will advance the next payment due date by one payment. If the borrower's payment does not equal the scheduled payment amount, refer to paragraph "e." or "f."

Payoff payments received as a result of a consolidation loan are to be treated as borrower payments and processed the same.

Payments must be proportionately applied to the outstanding loans contained within the borrower's account and deposited in the appropriate fund account(s) based on the proportionate amount applied to the loan(s).

f. Partial Payments

In the case of partial payments (less than the scheduled payment amount), the servicer will not advance the next payment date except as permitted by federal regulations and authorized by the State. When additional payment is received from the borrower which, when added to the partial payment, equals a scheduled payment amount, the servicer will advance the next payment date.

g. Refunds

Refunds received from schools are to be applied in accordance with federal regulations. When the servicer receives the refund, the servicer must recognize it as a refund and process accordingly. A history comment must be entered which identifies the reason for the refund and to which loan disbursement it applies.

h. Payments and Refunds Received by the State

The servicer will devise and make available a transmittal form which the State will use in transmitting payments or refunds received by the State to the servicer. The transmittal form must include loan identification, the type of payment (regular payment, refund, claim payment, etc.) and the date the payment was received by the State. The servicer will apply the payment or refund submitted by the State to the loan record within five (5) days of receipt of the State's transmittal.

Payments received by the State, but made payable to the servicer, will be forwarded to the servicer for processing.

i. Late Charges and Collection Costs

The State currently does not assess late charges or collection costs. However, the State reserves the right to implement late charges or collection costs through the duration of this contract. If the State should take such action, the State will notify the servicer 90 calendar days prior to implementation of same.

j. Non-Sufficient Funds (NSF) Check

If a check is returned as NSF, the servicer must within 24 hours of receipt of the returned check, resubmit the check for payment. No adjustment of the account is necessary at that time. If the check is accepted for payment after the second submission, there is no further processing required by the servicer. If the check is refused the second time, the servicer must back out the payment and resume due diligence as though the payment had not been received. This maintenance must occur within eight (8) days of the servicer's receipt of the second refusal. The servicer will enter a history

comment regarding the NSF check which includes the check number. The servicer must return the refused check to the borrower and request replacement of the payment.

k. Overpayments of \$5 or More

If the account is overpaid by the borrower, the servicer must wait at least 20 calendar days to ensure the check was accepted for payment by the financial institution on which it was drawn and then return the overpayment to the borrower. The refund check must be mailed no later than 45 calendar days after the overpayment occurred. Overpayments which are the result of payoff payments from a consolidation loan must be returned to the consolidation lender. The servicer is financially liable for refunds made in error and must reimburse the State to the extent of its loss.

After overpayment processing has been completed, the servicer must complete paid-in-full processing.

l. Account Balances of \$25 or Less

The servicer must write off the balance remaining on an account 30 calendar days after the final billing statement has been sent if the balance (principal and interest) is \$25 or less. The State must be notified of each account that is written off. Once the write off is completed, the servicer will proceed with paid-in-full processing.

m. Claim Payments

Currently, the Michigan Guaranty Agency (MGA) sends claim payments to the State and the State transmits the payments to the servicer. This process is done to facilitate immediate repurchase of accounts brought current for which a claim recall could not be performed prior to guaranty agency purchase. However, the State reserves the right to change this procedure and will give the servicer notification prior to implementation. When a guarantor other than MGA is involved, the claim payments will be transmitted directly to the servicer for processing.

If the claim payment overpays the account, the servicer must refund the overpayment to the guaranty agency as required by guaranty agency policy. All overpayments must be reported to the State.

If, after application of the claim payment, a balance (principal and interest) of \$25 or less remains, it may be written off. If the balance is more than \$25.00, the servicer must evaluate the reason for the claim underpayment (e.g., calculation error, interest penalty, interest deduction) and, if appropriate, submit a request for supplemental claim payment within 30 days of receipt of the claim payment. The servicer must notify the State of all requests for supplemental claim payment and amounts written off.

n. Payments Received After Claim Filed But Prior to Default Purchase

The servicer must maintain the defaulted loan at the principal balance outstanding as of the date the claim form was prepared. If the borrower subsequently makes payments, the servicer must reject

the payments from application to the borrower's loan. The servicer must establish a control account for these rejected payments. After receipt of the claim payment, the payments must be forwarded to the guarantor within ten (10) days.

o. Payments Received After Default Purchase

If the servicer receives payments after the guaranty agency has purchased the default, the servicer must forward the payments to the guaranty agency within ten (10) days of receipt.

p. Servicing Fees

Servicing fees may be charged no longer than 60 days after the servicer's receipt date of full payment, full cancel, full refund, or guarantee removal notice.

TASK 21

LOAN SERVICING: PAID-IN-FULL PROCESSING

a. General

The servicer will perform paid-in-full processing when the borrower's payment or a payment made on behalf of the borrower (excluding default claim payments) results in the loan being paid-in-full.

b. Loan Status and Bond Fund Identifier

The servicer must update the loan's status to paid-in-full and retain the Bond Fund identifier so both are viewable by the State.

c. Processing Time

The servicer must hold any paid-in-full action for 30 calendar days to insure that the check is accepted for payment. After the 30 calendar day period has expired, the servicer must process the loan as a paid-in-full within 15 calendar days.

d. Note Processing

Two options exist for paid-in-full processing. The servicer may choose either option below:

- (1) The servicer will mark the original promissory note(s) as "Paid" and return it to the borrower. A copy of the promissory note(s) marked "Paid" must be retained in the borrower's file.
- (2) The servicer will inform the borrower that the "Paid" promissory note is available upon request when notifying the borrower of the paid-in-full status. If the borrower requests the promissory note(s), a copy of the promissory note(s) marked "Paid" must be retained in the borrower's file.

e. Record Retention

The servicer will copy the entire folder contents by microfilm, microfiche, imaging or other format acceptable to the State and retain the paid-in-full files in a secure place for the time period required by federal law and regulations.

f. Guaranty Agency Reporting

The servicer must report paid-in-full loans to the guaranty agency according to the guaranty agency requirements. Loans paid-in-full by consolidation must be identified as such.

g. Liability

If in error the servicer returns the incorrect promissory note(s) to the borrower for a loan(s) which is still outstanding, the servicer must reimburse the State within 60 calendar days the amount of the outstanding balance of the loan(s) on which the error occurred, inasmuch as the State no longer has a valid promissory note.

h. Purging Loans Off The System

The servicer may purge loans off the system after they have been paid-in-full for at least 90 calendar days. However, the servicer is responsible to perform any research required to obtain purged data when requested by the State or when it is needed to complete any duty required by this contract at no additional charge to the State. This will include but not be limited to cumulative reports at various levels, such as borrower level, loan level, note level, and customer number level.

TASK 22

LOAN SERVICING: SECONDARY MARKET LOAN SUPPORT

a. General

MHESLA operates a secondary market that purchases FFELP loans made by other student loan lenders. This assists both students and lending institutions. By purchasing a lender's student loans, new capital is provided to the lender allowing the lender to make more student loans which is of help to students. The servicer must provide support for the secondary market operation as identified below.

b. Lender Marketing and Contracts

MHESLA will be responsible for marketing, negotiating and executing the state secondary market agreements with lenders participating in the Michigan Guaranty Agency programs. It is desirable for the servicer to provide an experienced marketing representative acceptable to MHESLA to visit existing and potential clients upon request MHESLA.

c. Local Lender Loans Program

As an optional service, MHESLA offers support to lenders participating in the Local Lender Loans Program by agreeing to cover origination and servicing costs if the lender agrees to sell to MHESLA within a specified time frame those loans involved.

The servicer will perform complete origination and servicing for the participating lender based on an agreement between the servicer and the lender. The servicer will charge the lender the same fees that it charges MHESLA for these services and MHESLA will absorb the lender's costs. The lender will sell the loans involved to MHESLA within twelve months of the first disbursement date. If the lender fails to sell the loans to MHESLA within the twelve month period or the loans at the time of sale are determined to be ineligible for sale to MHESLA, the lender will reimburse the State for all origination and servicing costs incurred by MHESLA.

The servicer must be able to track loans made through this program in order to provide MHESLA with statistical information regarding these loans. This will include, but is not limited to, statistics regarding the loans in the program, those that are ready for purchase, those the lender does not sell at the proper time, those that do not meet MHESLA's loan purchase criteria at sale time, etc. These reports will include different data depending on the stage of the loans at the time the report is created. Reports created prior to time of sale must include the number and amount of loans for each lender involved. Those reports created at time of sale will include at minimum the borrower's name, social security number, loan number, if appropriate, lender, loan amount, and first disbursement date. The data for each lender must be a separate section of the report and include the total number of loans and the amount of the loans. The report must include a summary page for all lenders in the program.

The invoice must identify fees for the Local Lender Loans Program by identifying the program and the lender's name.

d. Loans Eligible for Purchase

MHESLA will purchase loans in in-school, grace and repayment status. However, loans in repayment Status must meet additional criteria regarding delinquency.

e. Instructions for Purchase

MHESLA, in conjunction with the servicer, will prepare a guide to be provided to lenders to instruct them in the procedures to be followed in the loan purchase process if the loans are currently serviced by the lender. The servicer will provide to MHESLA any and all of the information necessary to facilitate the conversion process. The information will be provided on the forms agreeable to MHESLA. The forms may need to be revised periodically, and the servicer must be able to accommodate these revisions.

f. Packaging

MHESLA reserves the right to negotiate the sale based on the servicer's preparation of the loans to be sold. The servicer must provide a sufficient number of personnel to travel to the lender's location to perform this function in a timely manner. The servicer will perform the functions normally performed by the selling lender at this stage including, but not limited to, document verification, copying, securing account histories, completion of necessary forms, packaging files for transfer, etc. It is understood, however, that the lender may not allow the servicer access to certain bank areas and/or materials that are needed for the sale. In that case, the selling lender will be responsible for providing these materials to the servicer to complete the packaging process. The inspection must commence and be completed within a time frame agreed to by the MHESLA. Prior to any commitment to purchase loans under this condition, MHESLA will discuss the proposed sale with the servicer for scheduling purposes.

MHESLA will reimburse the servicer salary, travel and lodging costs or a packaging fee or \$1,000, whichever is higher. This fee is for the packaging done by the servicer to prepare the loan files for transfer to the servicer's location. It is in addition to the conversion fee that is identified on the pricing sheet.

g. Receipt of Loans to Be Converted onto the System

Upon receipt of the loans from the selling lender, the servicer will notify the selling lender and MHESLA within 24 hours of receipt that the loans have arrived. This notification will inform the selling lender if there are any boxes expected that did not arrive. Therefore, the servicer must have reviewed the boxes received to determine if there are any missing prior to acknowledging receipt of the loans to the selling lender.

h. Inspection of Documents

The servicer will be responsible for inspecting documents based on criteria provided by MHESLA. This criteria may be revised periodically and the servicer must be able to accommodate these revisions. The documents to be reviewed are the application, promissory note, guarantee, and proof of disbursement. Through this process, the servicer will identify which loans do not meet MHESLA's criteria, and notify MHESLA.

The servicer must verify that the total of the loans to be converted equal the number and amount of loans submitted by the selling lender.

i. Determination of Portfolio Average Borrower Indebtedness (ABI) and Bond Indemnification

The verification of the loan balances used in the ABI calculation will be mutually agreed upon between MHESLA and the servicer. Prior to the sale, the servicer must notify MHESLA by facsimile the figures necessary to complete the calculations. At this point, MHESLA will determine the premium and transfer fees plus assign the bond identification. Forms will be provided by MHESLA.

j. Two Tier Purchasing Process

MHESLA uses a two-tier process in the purchasing of student loans. The two tiers are based on two dates—the “first cutoff date” and the “second cutoff date”. The first cutoff date is the date of the last loan activity provided by the lender at the time the loans were shipped. This would be the date of the loan histories provided by the lender. The second cutoff date is the date of the last loan activity provided by the lender that encompasses all loan activity that has occurred from the first cutoff date through the second cutoff date.

k. Determination of the Second Cutoff Date

After the servicer has identified those loans eligible for purchase, the servicer must contact the selling lender and jointly determine the date to be used as the second cutoff. The servicer will then instruct the selling lender to forward to them all the activity that has occurred on the loans to be purchased from the first to the second cutoff date and instruct the selling lender to hold all activity that occurs on the loans to be purchased after the second cutoff date without updating their account records. Upon receipt of the loan activity from the first to the second cutoff date, the servicer will process the materials received updating the loans as appropriate. The processing of these materials is to be done within five (5) days. Once the processing of these materials is completed, the servicer must reconcile their records to those the selling lender has provided to verify that the number and amount of loans agree.

l. Determination of Sale Date

Once the processing of the materials from the first cutoff date to the second cutoff date is completed, the servicer must contact the selling lender and jointly determine the sale date. The servicer will then

instruct the selling lender to forward to them all the activity that has occurred on the loans to be purchased since the second cutoff date. Upon receipt, the servicer will hold all account materials updating the loans after the purchase date. The processing of these materials is to be done within five (5) days.

Again, the servicer must reconcile the number and amount of loans to the figures the selling lender has provided.

m. Notification of Sale to MHESLA

Once the servicer has processed the loan activity through the second cutoff date, the servicer must notify MHESLA by facsimile the approximate amounts that will be involved in the sale. The servicer will supply the number of borrowers, number of loans, the current principal balance including capitalized interest, and the ABI amount. This information will be broken down by loan type, status and disbursement date, or as requested by MHESLA. Additional information may be requested and forms will be provided as needed. MHESLA will use these figures to complete a Loan Purchase Confirmation formally identifying for the selling lender the approximate amount of the sale. The Loan Purchase Confirmation is MHESLA's legal document confirming the sale with the selling lender and must be executed prior to the sale taking place. MHESLA will notify the servicer in writing by facsimile the authorization to proceed with the sale along with the bond identification numbers. The servicer may not proceed with the sale until MHESLA has authorized in writing by facsimile that the servicer may proceed.

n. Sale and Conversion of Loans to the System

The servicer will be responsible for processing the sale and converting the loans purchased to the servicer's loan servicing system. The servicer will process conversions on a schedule mutually agreed upon with MHESLA.

o. Sale Amounts

Upon completion of the sale, the servicer must notify MHESLA's fiscal unit by facsimile by 9:30 a.m. EST/EDT on the day following the sale of the number of loans purchased, the number of borrowers included and the breakdown of the amount of principal and interest purchased. The sale information must also be broken down by loan status (i.e. in-school, grace and repayment), loan type (i.e. Subsidized Federal Stafford, Unsubsidized Federal Stafford, Federal SLS, Federal PLUS and Federal Consolidation Loans) and the loan category (i.e. first disbursement on or before 6/30/98 or first disbursement on or after 7/1/98 and Local Lender Loans criteria). This breakdown is necessary to accommodate state reporting needs and must be in a format acceptable to MHESLA. The data provided will be used by MHESLA to determine the amount of funds to be wired to the selling lender.

p. Reconciliation

The servicer must forward to the selling lender by overnight mail a report identifying the loans that have been purchased. The information on this report must include, but is not limited to, the date of the sale, the borrower's name and social security number, each loan purchased per borrower with a breakdown of principal and interest, plus a total amount purchased per borrower and total amount purchased per sale. The selling lender will use this report to reconcile our sale records to their account records. Additionally, a hard copy of this report must be forwarded to MHESLA within five (5) days.

q. Processing of Loan Activity After Sale

The servicer will provide the selling lender with a supply of forms to record payment, cancellation and refund information. The selling lender will forward to the servicer all materials received on the loans sold. Upon receipt, the servicer will process these materials within five (5) days updating the loans as appropriate.

r. Exception Loans

The servicer will review the exception loans with the MHESLA. MHESLA will assume liability for the purchase of the loan(s) but the servicer retains liability for proper servicing once the loan is converted to the servicer's system.

The servicer must inform MHESLA in writing of the exception loans and provide detailed reasons for the exceptions. The servicer will provide this information within five (5) days of the file review completion.

s. Resolution of Exception Loans

The servicer will reflect in the borrower's history the receipt of missing documents or other actions which resolve the exception issue.

t. Servicing of the Loans

The servicer will be responsible for the servicing of the loan regardless of the status of the loan at the time of purchase by the State.

u. Notification to the Borrower

The servicer must notify the borrower within ten (10) days of conversion to their system that the loan has been purchased by MHESLA's secondary market. These borrower notifications must comply with federal statutes and rules and regulations.

v. Guaranty Agency Reporting

The servicer must notify the appropriate guaranty agency of the purchase within the time frame required by the guarantor. The servicer can report this information either manually, assuming the guaranty agency is acceptable to manual submission, or electronically. If the servicer chooses to submit the information electronically, the servicer must use the transmission specifications of the appropriate guaranty agency. The servicer must submit all information as required by the guarantor.

w. Multiple Guarantors

The State utilizes multiple guarantors. The servicer must disburse and/or service the loans based on the requirements of the guaranty agency which guaranteed the loan. The unit cost contained on the pricing schedule must take this into account.

Currently, MHESLA's secondary market operation is limited to lenders participating with the Michigan Guaranty Agency (MGA) and the Illinois Student Assistance Commission (ISAC). However, MHESLA may change their policy in the future to purchase loans guaranteed by other guarantors. Prior to negotiating purchase of loans guaranteed by a guarantor other than Michigan or Illinois, MHESLA will discuss the potential purchase and servicing of the loans with the servicer.

x. Liabilities

If the servicer fails to correctly perform the file review of loans for the application, promissory note, guarantee and proof of disbursement, and the state is unable to recourse the loans to the original lender due to not being informed of the exceptions by the servicer, the servicer will be liable to reimburse MHESLA for the outstanding balance.

TASK 23

LOAN SERVICING: CREDIT BUREAU REPORTS

a. General

The servicer will be responsible for providing credit bureau services to the State, as needed, in accordance with federal statute and regulations. This requires the servicer to secure and maintain membership in one or more of the national credit bureaus. The servicer must inform the State of the credit bureau(s) which the servicer plans to utilize for the State's portfolio.

b. PLUS Application Processing

The State currently uses the MGA's credit review service for PLUS Loan applications. Through this service, MGA performs the federally required credit review for each PLUS loan applicant on behalf of the lender. The lender/servicer is then notified of those applicants who have adverse credit. The servicer will be responsible for the denial processing of these applications and informing the applicants of their denial due to the adverse credit.

If this service is not available through the guarantor, it will be the servicer's responsibility to obtain credit bureau reports on PLUS Loan applicants and assess the credit bureau reports in accordance with federal law and regulations to determine if the applicants have an acceptable credit history. The servicer will, in all cases, deny PLUS Loan applications on the State's behalf from applicants who do not have an acceptable credit history and notify the applicants of this action.

General Inquiries from denied PLUS Loan applicants seeking clarification or further information regarding the denial, including those applicants denied for adverse credit, will be answered by the servicer. However, applicant appeals due to extenuating circumstances regarding adverse credit will be addressed by the State. All such appeals, along with the denial letter and corresponding credit bureau report, must be faxed to the State within three (3) days of receipt.

c. PLUS Loan Applicant Prescreening

In addition to the processing of PLUS Loan applications through the regular process, the servicer must maintain a process through which a preliminary assessment of a PLUS Loan applicant's credit history can be performed to determine if the applicant would potentially qualify for a federal PLUS Loan. The purpose is to quickly determine if an applicant qualifies for a PLUS Loan without going through the application process. If the applicant does not qualify for a PLUS Loan, the school can immediately proceed with an unsubsidized Stafford Loan for the student.

In the current process, the school has the PLUS applicant complete a form providing needed information and authorizing the servicer to request and review a copy of their credit history. This information is transmitted to the servicer. The servicer requests and reviews the applicant's credit history in accordance with federal requirements for PLUS Loan eligibility and determines whether or not the applicant appears to qualify for a PLUS Loan. This information is then transmitted back to the school.

d. Other Application Processing

Other federal loans made by the State are not subject to creditworthiness standards. However, the State reserves the right, either based on policy change or changes mandated at the federal or state level, to employ creditworthiness standards as a condition of eligibility. If creditworthiness is an eligibility factor, the servicer will be responsible for obtaining and assessing credit bureau reports as specified by the State.

e. Reporting to Credit Bureau(s)

On a monthly basis, the servicer will report all borrowers to national credit bureaus in accordance with federal regulations in the manner designated by the credit bureau. The initial report must be made when the loan is disbursed. Negative, past due reporting will be reflected when a borrower's loan becomes 60 days delinquent. Prior to 60 days delinquent, the loan will be reported as a current account. Monthly updates will be required until the loan is no longer outstanding. The final report to the credit bureaus will reflect the reason for the zero balance due (defaulted, paid in full, etc.).

In the event of the State's repurchase of a defaulted account, the servicer will file the necessary report or correction with the credit bureaus within five (5) days of the repurchase action.

f. Credit Bureau Disputes and Corrections

The servicer will be responsible for reviewing and responding to credit bureau disputes filed by borrowers as a result of the servicer's reporting of the State's loans to the credit bureau(s). The servicer must respond to such disputes within five (5) days of the servicer's receipt of the dispute notice.

As a result of either a dispute investigation or direct contact by the borrower, if it is determined that a correction to the credit bureau(s) is in order, the servicer must submit the correction within three (3) days of the servicer's confirmation that the correction is in order.

g. Credit Verification Inquiries

Borrowers must authorize the State to release credit information regarding their loans. Most credit inquiries request the borrower's beginning account balance and date that the account was opened, current balance, monthly payment amount, next payment amount, terms, any past due amount and a rating. The servicer must respond to such authorized inquiries on behalf of the State within five (5) days of the servicer's receipt of the inquiry.

TASK 24

LOAN SERVICING: REPURCHASES

a. General

Repurchases refer to loans which the State repurchases from the guaranty agency after the guaranty agency has paid a claim to the previous holder of the loan, which may or may not have been the State.

b. Default Repurchases

A lender may choose to repurchase loans and identify the criteria under which they are willing to repurchase. Assessment to repurchase a loan(s) paid by claim will be performed by the servicer, in accordance with the State's criteria. The servicer will be responsible for securing and retaining documentation from the borrower required to complete repurchase of the loan(s).

In addition, the servicer will perform repurchases on those accounts identified by the State.

c. Rehabilitation Repurchases

Pursuant to federal statute, defaulted borrowers have the right to establish eligibility to have their defaulted loan(s) rehabilitated and sold by the guarantor back to a lender. The State serves as a rehabilitation lender for the guaranty agencies.

Notification will be received from the guaranty agency informing the servicer of the defaulted borrower and the loan(s) that qualify to be rehabilitated. File documentation and data elements needed to create an account record for the borrower will be provided by the guaranty agency.

d. Borrower Documentation to Support Repurchase

The servicer will be responsible for securing and retaining documentation from the borrower required to complete repurchase of the loan.

e. Guaranty Agency Documentation/Data Elements Verification

The servicer will verify that the documentation and data elements needed to establish an account for the borrower have been received. If there are any documents or data elements missing, the servicer will contact the appropriate party directly to request what is missing.

f. Fund Source

The State will assign the fund series for the repurchased loans, which the servicer will enter in the loan record.

g. Account Payment to the Guaranty Agency

Once the servicer has the documentation/data elements necessary for the State to repurchase the loan(s) and has received the correct principal and interest amounts from the guaranty agency, the servicer will notify the State of the borrowers name(s), loan(s), social security number(s), and the payoff amount(s) involved. Upon receipt of this information, the State will reimburse the guaranty agency for the loan(s). Within a mutually agreed upon time frame from receiving all required documentation, the servicer must establish and service the loan for the State.

h. Notification to Borrower

The servicer must notify the borrower of the loan repurchase in accordance with federal law and regulations, provide the borrower with a repayment disclosure, if applicable, and either a coupon book or a billing statement.

i. Collateral and Folder

The servicer must ensure that the loan collateral is received from the guaranty agency and has been assigned to the State. All documentation received by the servicer must be copied by microfilm or imaging and held to be placed in the borrower's folder.

j. Reporting to Credit Bureaus

The servicer will be responsible for reporting the repurchased loan to the credit bureau(s) as with other loans.

k. Servicing the Loan

The servicer will service the loan based on the servicing requirements contained herein and in accordance with federal law and regulations and guarantor/State requirements.

TASK 25

LOAN SERVICING: MONTHLY RECONCILIATION TAPE

a. General

Previously, the State received a monthly reconciliation tape that was used to compare the State's loan records on the servicer's system to the guarantor's loan records. This reconciliation is not currently being done. However, the State reserves the right to implement this process again, if so desired.

If this process is implemented, the following requirements would apply.

b. Tape Layout

The servicer must use the tape specifications provided by the guarantor for the reconciliation tape. If this process were to be implemented, it would be necessary for the servicer to contact the guarantor for the tape layout in use.

c. Edit Processing

The servicer will run the tape data against their records of the State's loans and create an edit report of each data item which does not match the data contained within the servicer's records or for which no record is found (e.g. incorrect social security numbers). The servicer must also prepare a list of all the State's loans contained within the servicer's record which are not contained within the guarantor's record. The servicer must provide the State with a copy of the edits and the list of loans not contained within the guarantor's record.

d. Multiple Guarantors

In the event the State's portfolio consists of multiple guarantors, the servicer must accept each guarantor's reconciliation tape in the layout provided by that guarantor.

e. Costs

Should this service be required, the servicer's costs will be covered by the State.

TASK 26

FINANCIAL AND MANAGEMENT REPORT REQUIREMENTS

a. General

The servicer shall provide the State financial reports which the State will use to account for its loan portfolio in both the origination and servicing of the loans. The servicer must prepare reports and reconciliation of all transactions affecting student loan accounts. Transaction categories must include, but are not limited to, cash payments, non-cash payments, loan disbursements, loan reductions and cancellations, and possible assignment of loans to new fund series resulting in fund series code changes. The servicer is responsible for preparing any special accounting reports which the servicer and the State mutually agree are necessary to reconcile servicer and State accounting records at no additional cost to the State.

The servicer will also provide the State with management reports necessary to monitor the servicer's performance in administering the State's portfolio in accordance with this contract. The management reports required are identified following paragraph "h".

The servicer will maintain appropriate records to support the reporting needs of the State and other funding transaction participants to whom the State must provide portfolio data.

b. Fund Series Listing

The State's FFELP loans are funded through the sale of bonds and notes. The following list identifies the funding series in the State's current portfolio.

<u>Fund Series</u>	<u>Fund Series</u>
Operating Funds	XII R
XII A & B	XII R Local Lender Loans Program
XII C & D	XV A & B
XII E & F	XV C
XII G & H	XV C Local Lender Loans Program
XII I & J	XVI
XII K & L	XVI Local Lender Loans Program
XII M & N	XVII C
XII O	XVII C Local Lender Loans Program
XII P	XVIII A
XII P Local Lender Loans Program	XIX A
XII Q	XIX A Local Lender Loans Program
XII Q Local Lender Loans Program	

Where requested, report data must be broken down and identified by these codes. Loans originated and loans acquired through the State Secondary Market must be identified separately within each funding series.

Although the same code may be used for both Subsidized and Unsubsidized Federal Stafford Loans, some reports require this loan data to be separated.

c. Servicer Financial Statements

The servicer will provide the State with their financial statements at the servicer's fiscal year end or upon request by the State. The financial statements must include an income statement, balance sheet, and statement of cash flow.

d. Reporting Method

The State prefers to receive reports through an electronic method, such as e-mail, the Internet, or computer disk, that would allow for electronic storage and would work with the servicer to accomplish this. However, if an electronic method is not possible, the State will accept reports on microfiche.

If microfiche is the reporting method used, the servicer must provide two (2) microfiche copies of each report, unless otherwise agreed to by the State, that are compatible with the State's microfiche reader-printer equipment which is currently a Minolta RP 600Z. The microfiche header label must identify the data as being MHESLA reports. All reports within each bond fund may be grouped together for the report period on separate microfiche reports sheets. In addition to the microfiche, the servicer will be required to provide the State with a hard copy when so requested. All hard copy reports must be printed single-sided.

e. Timeliness

The servicer must submit required reports to the State within seven (7) calendar days of the report period close date (weekly, monthly, quarterly, etc.) unless otherwise agreed to by the State.

f. Report Formats

The State will specify the data elements required in each report; however, the format of the reports will be at the servicer's option. Several sample report formats have been provided.

All reports must have a header at the top of each page of the report. The header must include the following data unless specified otherwise: servicer's name, "MHESLA", report title, section title and fund series, if applicable, report period covered (to-from, end date, month/year, etc.), page number, and run date. All dates must be shown in month, day, year format (MM/DD/CCYY). The report data elements, section breakdowns and summary data are identified within each report description.

For each report, the servicer will submit a summary page even if there is no activity during the report period to ensure all reports are received. The header of the summary page, for reports for which no activity occurred, must include all header information required above.

Subsidized Federal Stafford Loans must be reported separately from Unsubsidized or Non-Subsidized Federal Stafford Loans.

The State utilizes more than one guarantor and all management reports must be separated by guarantor.

There may be times when the State requires a change to the format or content of one or more of the State's reports. In these situations, the servicer must accommodate the State's needs. The State will provide written notification to the servicer of required changes.

g. Ad Hoc Reports

There will be times when the State requires a one-time report or wishes to receive a new report on a regular basis. These reports may be for use by the schools our borrowers are attending or by the State. In these situations, the servicer must accommodate the State's needs. The State will work closely with the servicer to identify report parameters, such as data elements, sort, time period, frequency, etc. The servicer may bill the State for these reports at the price identified on the pricing sheets.

The servicer is required to provide the State with the ability to create and print out customized reports at the State's site using the loan data from the servicer's system. Materials, including software, necessary to accomplish this along with required training must be provided by the servicer at no additional cost to the State. This will allow the State to create one-time reports at will, without servicer involvement, when specific information or statistical data is needed.

h. Reports

Five different types of reports occur. Respectively, there are four (4) Management Loan Origination Reports, nineteen (19) Management Loan Servicing Reports, three (3) Management Loan Consolidation Reports, three (3) State Secondary Market Loan Management Reports, nineteen (19) Financial Reports, and two (2) School Reports.

MANAGEMENT LOAN ORIGINATION REPORT 1

APPLICATIONS ENTERED BY SCHOOL TYPE

(a) The purpose of this report is to provide the State with the volume of applications entered for proprietary/vocational and nonproprietary/nonvocational schools for the Direct Lending lender grouping. Determination of the school type will be based on federal regulations and/or as determined by the Secretary of Education.

(b) Detail data elements: Federal school identification number/branch number, school name, number of applications entered by school type-proprietary/vocational, nonproprietary/nonvocational or without federal school identification number.

(c) Report Sections:

Detail - All fund series/loan programs for Direct Lending only. Individual loan detail is not required. Number of applications entered for each school within type of school and listed in descending number of applications entered order for all school types.

Summary - Number and percentage of applications entered for each school type and for all school types. Number of applications entered for the top ten schools and the percentage that the number of applications entered for the top ten schools is to the total applications entered.

NOTE - Subtotal percentage figures must be broken down to the tenth place and the sum of the column totals must equal 100%.

(d) The servicer will submit this report to the State on a monthly basis.

(e) If the reporting method is microfiche, hard copy is required

SERVICER: (Company Name)
LENDER: MHESLA - 825585

GUARANTOR: APPLICATIONS ENTERED BY SCHOOL TYPE
REPORT: SECTION: FUND SERIES:

REPORT PERIOD:
PAGE:
RUN DATE:

School ID#/Branch	School Name	NUMBER OF APPLICATIONS ENTERED:	Without School ID#	Totals
		Proprietary/ Vocational	Nonproprietary/ Nonvocational	

TOTAL APPLICATIONS ENTERED:

PERCENTAGE TO THE TOTAL APPLICATIONS ENTERED:

_____	_____	_____	_____	_____
=====	=====	=====	=====	=====
_____ %	_____ %	_____ %	_____ %	100%

TOTAL NUMBER OF APPLICATIONS ENTERED FOR THE TOP 10 SCHOOLS:

PERCENTAGE OF APPLICATIONS ENTERED FOR THE TOP 10 SCHOOLS TO THE TOTAL APPLICATIONS ENTERED:

_____	_____ %
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MANAGEMENT LOAN ORIGINATION REPORT 2

APPLICATIONS IN PROCESS

- (a) The purpose of this report is to provide the State a listing of loan applications entered on the servicer's system but pending full disbursement. The servicer must be able to identify at what stage of the approval/disbursement process the application/loan is in and the number of days that the application/loan has been pending in that status. The servicer must recognize the following application/loan status categories: application entered, lender approved, pending guarantee, guaranteed, pending disbursement, partially disbursed, fully disbursed.
- (b) Detail data elements: Social Security Number, loan number, borrower's name, fund code, loan program, application entry date, loan period end date, last scheduled disbursement date, application/loan status, number of days in that status.
- (c) Report Sections:
 - Detail - All fund series/loan programs for Direct Lending only. By application/loan in descending number of days pending order regardless of the status.
 - Summary - Number of applications/loans in process for each loan program and total applications/loans in process.
- (d) The servicer will submit this report to the State on a weekly basis.
- (e) If the reporting method is microfiche, hard copy is required.

SERVICER:
LENDER:
GUARANTOR:
REPORT:
SECTION:
FUND SERIES:

(Company Name)
MHESLA - 825585
MGA
APPLICATIONS IN PROCESS

REPORT PERIOD:
PAGE:
RUN DATE:

SSN	LOAN NUMBER	BORROWER NAME	FUND CODE	LOAN PROGRAM	APPLICATION ENTRY DATE	LOAN PERIOD END DATE	LAST SCHEDULED DISBURSEMENT DATE	APPLICATION/LOAN STATUS	NUMBER OF DAYS
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NUMBER OF APPLICATIONS IN PROCESS

FEDERAL STAFFORD - SUBSIDIZED:
FEDERAL STAFFORD - UNSUBSIDIZED:
FEDERAL PLUS:

TOTAL:

MANAGEMENT LOAN ORIGINATION REPORT 3**DISBURSEMENT REGISTER**

- (a) The purpose of this report is to provide the State a daily listing of each loan disbursement issued for the State's Direct Lending lender grouping for each disbursement date so that the State may monitor the servicer for compliance to federal regulations.
- (b) Detail data elements: disbursement date, Social Security Number, loan number, borrower's name, check/EFT/master check number, disbursement method code (check, EFT, or master check), federal school identification number/branch number, loan program fund code, loan program, disbursement amount, guarantee fee amount, origination fee amount, net check/EFT/master check amount for each disbursement, disbursement number of total scheduled disbursements.
- (c) Report Sections:
- Disbursement Detail in Check/EFT/Master Check Number Order - Refer to the disbursement reporting requirements in the Financial Reports section for format and data elements.
- Disbursement Detail in Social Security Number Order - Detail reported daily by disbursement for all fund series/loan programs for Direct Lending lender grouping only by disbursement number within Social Security Number order.
- Summary by Disbursement Number - Total number of disbursements, amount disbursed, guarantee fees, origination fees, net check/EFT/master check amounts for all loan programs within disbursement number order.
- (d) The servicer will transmit the Disbursement Detail - Social Security Number Order section of the report to the State on a daily basis but may hold the full original Disbursement Register daily reports and send them to the State on a weekly basis. The servicer may provide microfiche of the daily reports to the State on a monthly basis at the servicer's option.
- (e) If the reporting method is microfiche, hard copy for fax is required.

SERVICER:
 LENDER:
 GUARANTOR:
 REPORT:
 SECTION:
 FUND SERIES:

(Company Name)
 MHESLA - 825585
 MGA
 DISBURSEMENT REGISTER
 DISBURSEMENT DETAIL - CHECK/EFT/MASTER CHECK NUMBER ORDER

REPORT PERIOD:
 PAGE:
 RUN DATE:

CHECK/ EFT/MAST CHK #	CHECK/EFT/ MAST CHK CODE	SCHOOL ID#	LOAN PROG	SSN	LOAN NUMBER	BORR NAME	DISB AMT	GUAR FEE	ORG FEE	NET CHK/EFT/ MAST CHK AMT	DISB # OF # TOTAL SCHD DISB	FUND CODE
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REPORT PERIOD:
 PAGE:
 RUN DATE:

 (Company Name)
 MHEsla - 825585
 MGA
 DISBURSEMENT REGISTER
 DISBURSEMENT DETAIL - SOCIAL SECURITY NUMBER ORDER
 FUND SERIES:

SSN LOAN NUMBER BORR NAME CHECK/ EFT/MAST CHK# CHECK/EFT/ MAST CHK CODE SCHOOL ID# FUND CODE LOAN PROG DISB AMT GUAR FEE ORIG FEE NET CHK/EFT/MAST CHK AMT DISB # OF # TOTAL SCHED DISB

MANAGEMENT LOAN ORIGINATION REPORT 4

MISSING FUND CODE NUMBER

- (a) The purpose of this report is to provide the State a listing of applications entered into the origination system without input of the designated loan program fund code number. The loan program fund code number is required to project the availability of funds for future disbursements.

This report is a subsection of the Michigan Direct Monitoring of Commitments by Bond Issue financial report. Refer to that report in the Financial Reports section for reporting requirements, format and data elements.

- (b) Detail data elements: application entry date, loan program, Social Security Number, loan number, borrower's name.

- (c) Report Sections:

Detail - By loan number within Social Security Number within loan program within entry date for Direct Lending lender grouping only.

Summary - Total number of applications entered without a fund code number for total portfolio.

- (d) The servicer will submit this report to the State on the same cycle as the Michigan Direct Monitoring of Commitments by Bond Issue financial report.
- (e) If the reporting method is microfiche, hard copy is required

SERVICER:
LENDER:
GUARANTOR:
REPORT:
SECTION:
FUND SERIES:

(Company Name)
MHESLA - 825585
MGA
MISSING FUND CODE NUMBER

REPORT PERIOD:
PAGE:
RUN DATE:

APPLICATION
ENTRY DATE

LOAN
PROGRAM

SSN

LOAN
NUMBER

BORROWER
NAME

TOTAL NUMBER OF APPLICATIONS ENTERED WITHOUT A FUND CODE NUMBER:

MANAGEMENT LOAN SERVICING REPORT 1

BORROWER BILLED INTEREST REPORT

- (a) The purpose of this report is to provide the State a listing of loans for which an interest billing was sent to the borrower during the report period for periods of deferment, at conversion to repayment, or for periods prior to the first payment due date.
- (b) Detail data elements: Social Security Number, loan number, borrower's name, fund series, loan program, interest rate, code to identify whether the interest rate is variable, fixed, or split (e.g.: 8-10%), loan status, date interest billing was generated, outstanding principal balance, billed interest amount, start date of period billed, end date of period billed.
- (c) Report Sections:
 - Detail - All fund series/loan programs for total portfolio by loan within Social Security Number order.
 - Summary - Number of loans billed for total portfolio.
- (d) The servicer will submit this report to the State on a quarterly basis.



Task 26

REPORT PERIOD:
PAGE:
RUN DATE:

SERVICER: (Company Name)
LENDER: MHESLA - 825585
GUARANTOR: MGA
REPORT: BORROWER BILLED INTEREST REPORT
SECTION:
FUND SERIES: 825585 - TOTAL PORTFOLIO

SSN	LOAN NUMBER	BORROWER NAME	FUND CODE	LOAN PROGRAM	INTEREST RATE	VARIABLE FIXED SPLIT	LOAN STATUS	DATE INTEREST BILLED	OUTST. & PRINCIPAL BALANCE	BILLED INTEREST AMOUNT	PERIOD BILLED FROM-TO
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NUMBER OF LOANS BILLED:

MHESLA 2000 ITB: FFELP

II-86

A:\BBILLINT 0-F(6/19/95)