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
PURCHASING OPERATIONS
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

October 12, 2009

CHANGE NOTICE NO. 9 TO CONTRACT NO. 071B1001010 between THE STATE OF MICHIGAN and

NAME & ADDRESS OF VENDOR **Nelnet Loan Services** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bob.beiersdorf@nelnet.net**		TELEPHONE (303) 696-5633 **Bob Beiersdorf** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 241-1916 **Jim Wilson**
Contract Compliance Inspector: Orv Erickson (517) 373-0538 **Loan Servicing--FFELP/MI-Loan - Department of Treasury**		
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**	To: **March 31, 2010**
TERMS **N/A**		SHIPMENT **N/A**
F.O.B. **N/A**		SHIPPED FROM **N/A**
MINIMUM DELIVERY REQUIREMENTS **N/A**		

NATURE OF CHANGE (S):

Effective immediately:

- **This Contract is hereby EXTENDED through March 31, 2010;**
- **Pricing and services as attached for FM40403-MHESLA Rehabilitation Project is incorporated into this Contract;**
- **Vendor contact is changed to Bob Beiersdorf;**

All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON:

Per request of Department of Treasury (PRF dated 9/1/09), Ad Board approval on 9/30/09, and DMB/Purchasing Operations' approval.

CURRENT AUTHORIZED SPEND LIMIT REMAINS: $79,711,848.00

Nelnet Change

Attached is the list of the items that need to be either verified, calculated and/or adjusted. The servicer's steps will require, at the minimum, the following:

- loan status code change

- credit bureau code change (2 codes are involved, plus possibly other actions)

- repayment term change

- monthly payment amount change

- steps to generate a disclosure statement

- steps to generate a Rehabilitation approval letter

- entry of a history comment

- notice to MI-LOAN of the updates being completed

- imaging of all documents

nelnet.
3015 SOUTH PARKER ROAD
SUITE 400
AURORA, CO 80014-2906
p 303.696.3699
www.nelnet.net
NELNET CORPORATE
SERVICES, INC.

April 2, 2009

Ms. Nancy Ivy
Michigan Higher Education Student Loan Authority
430 West Allegan Street
Lansing, MI 48922

Dear Nancy:

Firstmark Services is writing to provide you with a detailed estimate regarding the FM40403 – MHESLA Rehabilitation Project, in which MHESLA has requested.

Total development estimate for the project is as follows:
212 hours at $60.00 per hour = $12,720.00

Per loan update fee: $20.00.

I have attached a detailed implementation time line. Please sign below indicating your approval to move forward with this project. Once Firstmark receives your signed approval, I will request a resource be assigned.

Please let me know if you have any questions regarding this estimate.

Sincerely,

Patty Peters
Client Relations, Firstmark Services

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
PURCHASING OPERATIONS **December 30, 2008**
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

CHANGE NOTICE NO. 8
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR		TELEPHONE Bud Kern **(303) 696-3699**
Nelnet Loan Services **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**		VENDOR NUMBER/MAIL CODE
		BUYER/CA (517) 241-1916 **Jim Wilson**
Contract Compliance Inspector: Orv Erickson (517) 373-0538 **Loan Servicing--FFELP/MI-Loan - Department of Treasury**		
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**	To: **September 30, 2009**
TERMS **N/A**	SHIPMENT **N/A**	
F.O.B. **N/A**	SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**		

NATURE OF CHANGE (S):

Effective immediately, the Contract Compliance Inspector for this Contract is hereby changed to Orv Erickson (517) 373-0538. All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON:

Per request of Department of Treasury and DMB/Purchasing Operations' approval.

NATURE OF CHANGE (S):

CURRENT AUTHORIZED SPEND LIMIT REMAINS: $79,711,848.00

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
PURCHASING OPERATIONS **March 6, 2008**
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

CHANGE NOTICE NO. 7
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **Nelnet Loan Services** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**		TELEPHONE Bud Kern **(303) 696-3699** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 241-1916 **Jim Wilson**	
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**			
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**		To: **September 30, 2009**
TERMS **N/A**		SHIPMENT **N/A**	
F.O.B. **N/A**		SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**			

NATURE OF CHANGE (S):

Effective immediately, this Contract is hereby EXTENDED to September 30, 2009, and INCREASED by $2,000,000.00. All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON:

Per request of Department of Treasury, Ad Board approval dated 3/4/08, and DMB/Purchasing Operations' approval.

TOTAL REVISED AUTHORIZED SPEND LIMIT: $79,711,848.00

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
PURCHASING OPERATIONS
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

July 13, 2007

CHANGE NOTICE NO. 6
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **Nelnet Loan Services** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**			TELEPHONE Bud Kern **(303) 696-3699** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 241-1916 **Jim Wilson**
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**			
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**		To: **September 30, 2008**
TERMS **N/A**		SHIPMENT **N/A**	
F.O.B. **N/A**		SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**			

NATURE OF CHANGE (S):

Effective immediately, this Contract is hereby EXTENDED to September 30, 2008. All other terms, conditions, specifications, and pricing remain unchanged.

AUTHORITY/REASON:

Per DMB/Purchasing Operations and vendor/agency agreement.

TOTAL ESTIMATED CONTRACT VALUE REMAINS: $77,711,848.21

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 29, 2006

CHANGE NOTICE NO. 5
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **Nelnet Loan Services** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**			TELEPHONE Bud Kern **(303) 696-3699** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 335-4804 **Douglas S. Collier**
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**			
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**		To: **September 30, 2007**
TERMS **N/A**		SHIPMENT **N/A**	
F.O.B. **N/A**		SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**			

NATURE OF CHANGE (S):

Effective immediately this Contract is hereby EXTENDED to September 30, 2007 and INCREASED by $22,000,000.00. Also, the attached Contract amendment language and pricing are hereby attached and incorporated into this Contract. All other terms, conditions, specifications and pricing remain unchanged.

AUTHORITY/REASON:

Per DMB/Purchasing Operations and vendor/agency agreement.

INCREASE: $22,000,000.00

TOTAL REVISED ESTIMATES CONTRACT VALUE: $77,711,848.21

RFP TO EXTEND CONTRACT #071B1001010

Appendices

FFELP Data Elements for On-Line Access
FFELP Task 12: SSM Loan Examination Sheet
FFELP Pricing Sheets
MI-LOAN Data Elements/Fields for On-Line Access
MI-LOAN Administrative Rules
MI-LOAN Processing Manual
MI-LOAN Pricing Sheets
Security Control Requirements
State of Michigan Security Policies

SECTION I: BACKGROUND

GENERAL

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. MHESLA is a Governor-appointed board which establishes policy and functions as the Board of Directors for the program. MHESLA is a Division within the Bureau of Student Financial Services of the Michigan Department of Treasury (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 (Section III-B) follows the FFELP work statement (Section III-A).

Michigan Direct Student Loan Program

The Michigan Direct Student Loan Program provides financial assistance in the form of educational loans through the Federal Family Education Loan Program (FFELP). FFELP loans are available to students and their parents to be used to finance post secondary educational costs and for debt consolidation to assist with repayment.

FFELP includes the following individual loan programs:

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

State Secondary Market of Michigan

The State Secondary Market was established to purchase federally-insured educational 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 State Secondary Market was initiated in April 1990, and its first purchase occurred in June of that year.

As of September 2004, MHESLA's outstanding portfolio for the MDSLP and SSM programs combined was over $1 billion.

Michigan Alternative Student Loan (MI-LOAN®) Program

The MI-LOAN Program provides financial assistance in the form of educational loans to students and the parents of students attending Michigan degree-granting colleges and universities. The MI-LOAN Program assists those families who do not typically qualify for gift aid and/or federal financial aid programs, or who may need additional funds beyond what is available.

As of September 2004, the outstanding MI-LOAN Program portfolio was $105.6 million and involved 15,497 borrowers.

SECTION II: TECHNICAL ENVIRONMENT

The State's desktop suite standard is Microsoft Office (see policy 1310.22 [Desktop Suite Standard] at http://www.michigan.gov/dmb/0,1607,7-150-9131_9347-28166--,00.html). The State's database standard is at
http://www.michigan.gov/dmb/0,1607,7-150-9131_9347-28196--,00.html (policy 1310.34 [Database Management Systems]).

The servicer will adhere to all existing standards as described within the comprehensive listing of the State's existing technology standards at www.michigan.gov/dit/0,1607,7-139-7321---,00.html

SECTION III: TASKS

Contractor shall provide Services and staff, and otherwise do all things necessary for or incidental to the performance of work, as set forth below:

III-A: FFELP LOAN DELIVERABLES

TASK 1 - SERVICING SYSTEMS

a. General

The servicer must service MHESLA's portfolio in accordance with applicable federal and state laws and regulations, guarantor requirements, and Contract Administrator or designee's' direction throughout the duration of the contract, and ensure that the procedures and servicing systems used to service MHESLA's portfolio comply with these requirements. Any systems modifications necessary to meet the requirements of the contract must be tested and implemented by the effective date of the change or as agreed to by the Contract Administrator (See Section III-A Task 2d).

b. Hardware/Software to be Used by MHESLA

The servicer will provide an interface between MHESLA and the servicer's servicing system using the State's existing hardware (See Section II). If the servicer is unable to interface with the State's existing hardware, the servicer must provide hardware as required for appropriate access to its servicing system in accordance with Section II and Appendix H. All hardware, software and other materials needed to allow MHESLA access to the servicer's servicing system, as well as any installation and maintenance required, is the responsibility of the servicer. Costs for on-going maintenance may be identified on the remaining pricing sheet (Appendix C).

The servicer shall provide MHESLA with a dedicated data circuit or web access for purposes of on-line inquiry and on-line update. MHESLA'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 (See Appendix C). If web-based access is used, it must allow MHESLA the same capabilities as data circuit access. Access ID's and passwords will be provided to the Contract Administrator or designee.

All hardware provided to MHESLA must be installed and in service by the date of conversion (identified in the approved work plan, Section III-A Task 4b) by the servicer. The servicer must respond within 2 business hours of Contract

Administrator or designee's telephone request for assistance in identifying and resolving problems related to system hardware and/or software. This initial contact must include an estimated timeframe for resolution. Help must be available Monday through Friday, 8am to 5pm EST. The servicer must work with the Contract Administrator to coordinate installation of hardware/software with the Michigan Department of Information Technology (MDIT).

c. Servicer System Access

The servicer will provide MHESLA with real-time access to the servicing system for inquiries and updating, if the update option is available. Identify in this task response if update capabilities are available and specify update capabilities. 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. Specify in this task response, the available loan data filters.

Some of the items for which on-line update capabilities would be beneficial to both MHESLA 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).

If update capabilities are not available, the servicer must accommodate MHESLA's need to update data regarding borrowers through another method that is mutually acceptable to the Contract Administrator or designee and servicer. History updates must be processed within one (1) day of the servicer's receipt; all other updates must be processed within five (5) days of receipt.

With regard to inquiries into the system, MHESLA requires access to those data elements MHESLA considers critical. A list is provided in Appendix A. The servicer will determine the format for display purposes. MHESLA reserves the right to add data elements to this list as requested by the Contract Administrator or designee. The servicer may bill the State for development of new data elements at the system changes fee specified in the pricing sheets (Appendix C).

d. System Up-Time and Response Time

The servicer's 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 (5) days, between the hours of 7:30 a.m. and 5:00 p.m. (EST) on weekdays (excluding State of Michigan holidays, located at http://www.michigan.gov/documents/MDCS_Reg5-08_2001_20757_7.pdf).

(2) The access and response time must be maintained 95% of the time, in a range of less than 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 must notify in writing and provide a full understanding of the change (if necessary) to the Contract Administrator or designee prior to 1. Implementation of changes that result in a modification to information/data presented on-line and/or report format and 2. System modifications that affect the processing of transactions posted to the student's accounts (i.e. account set-up, payments, etc.). Because the servicer is responsible for compliance to federal and state statute and regulations, guarantor requirements, and Contract Administrator or designee's direction, the servicer will be financially liable should such modifications fail to comply with requirements of the contract (See Section VI-B.3).

f. Backup and Recovery

The servicer must develop, document and perform daily data file backup 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. Upon request by Contract Administrator or designee the servicer must demonstrate the ability to restore all files. Back-up copies of system documentation, user manuals, and system operations manuals must also be stored off-site. This documentation must be available upon request of the Contract Administrator or designee.

g. Security

The servicer must provide annual testing of all access controls and other security features to determine they are working properly. Annual certification must be provided in writing to the Contract Administrator or designee in the form of a SAS70 report.

Please provide the security control information required in Appendix H and submit with proposal.

h. Record Retention of Account Data

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

i. Single Borrower with Multiple Loans/Accounts

The servicer's system must identify when a single borrower has multiple loans/accounts with MHESLA within the servicer's system. For example, if the servicer's system segregates loans for servicing by the type of loan, review of a Federal Stafford Loan account must reflect whether the borrower has other accounts, such as Federal SLS or Federal Consolidation Loan accounts.

MHESLA would prefer that all of a borrower’s loans be combined into a single account to reduce confusion and simplify the loan process for the borrower.

j. Business Continuity and 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 MHESLA's portfolio in the event of a disaster. Backup processing/facilities must be operational within 48 hours of the loss of the main processing facilities. Documentation of, and the demonstrated ability to meet, the disaster recovery plan must be provided with the proposal.

k. National Systems

The servicer must be able to interact with national systems and processes at the request of the Contract Administrator or designee. 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 process is CommonLine, which provides schools with a standardized method for loan processing.

l. Guaranty Agency

The servicer must interact and interface with appropriate guarantors and/or the guarantors' servicers, as necessary. If a guarantor changes servicer during the duration of this contract, the servicer must adapt its processes and systems to accommodate the guarantor's new servicer.

Servicer's Response to this Task:

TASK 1 - SERVICING SYSTEMS

b. Hardware/Software to be Used by MHESLA
Nelnet will conform to the language stated in the prior contract. "The servicer must provide trouble shooting help via telephone during the servicer's normal operational hours within (8) hours and/or maintenance service to the State within 24 hours of the State's request for assistance." Our normal operational hours are 6:30 a.m. to 9:00 p.m. (MST).

d. System Up-Time and Response Time
Nelnet will conform to the language stated in the prior contract. "The access and response time must be maintained 90% of the time in a range between one (1) and (5) seconds from the time the enter key or its equivalent is depressed until the requested information appears of the screen."

g. Security

2004 11 30 Nelnet
SAS 70 Type ...

PLEASE NOTE THAT THE ATTACHED AUDIT DOCUMENTATION IS CONFIDENTIAL AND SHOULD NOT BE SHARED WITH ANY OUTSIDE ORGANIZATIONS. YOU ARE ONLY PERMITTED TO SHARE THIS AUDIT DOCUMENTATION WITH YOUR PUBLIC ACCOUNTANT. IF YOU WOULD LIKE TO PROVIDE THIS DOCUMENTATION TO ANY OTHER ORGANIZATIONS, PLEASE OBTAIN MY SPECIFIC APPROVAL BEFORE SHARING THIS INFORMATION.

11/18/05 - MICHIGAN DEPARTMENT OF TREASURY, OFFICE OF PURCHASING

b. Hardware/Software to be Used by MHESLA
MHESLA agrees. This revises the standards in the third paragraph regarding the servicer's assistance in identifying and resolving problems relating to system hardware and/or software.

d. System Up-Time and Response Time
MHESLA agrees. This revises the standard regarding access and response time identified in d. (2) from 95% to 90%.

g. Security
Nelnet's security policies/procedures are adequate pending the State's acceptance of Nelnet's responses to clarifications requested on 11/18/05.

NELNET RESPONSE
b. Hardware/Software to be Used by MHESLA
Both parties agree.

d. System Up-Time and Response Time
Both parties agree.

g. Security

TASK 2 - 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. Federal and State Requirements

Mandatory changes necessary to ensure MHESLA's portfolios are serviced in accordance with federal and state statute, regulations, procedures and/or reporting requirements must be implemented by the servicer at no cost to the State. The servicer should consider this in identifying unit costs.

c. Guaranty Agency Changes

Mandatory changes to the servicer's system necessary to ensure MHESLA's portfolios are serviced in accordance with guaranty agency requirements that are not related to federally mandated changes must be implemented by the servicer. If the required changes are unique to MHESLA and will not be used for other lenders being serviced by the servicer, the State will reimburse the servicer for costs associated with the changes at the rate for system changes identified on the pricing sheets (Appendix C). If the required changes will be used to service multiple lenders being serviced by the servicer, the State will reimburse the servicer for a portion of the costs associated with the changes at the rate for system changes identified on the pricing sheets (Appendix C). The State's portion of the costs shall be determined based on a ratio of the volume of MHESLA's portfolio to the volume of all affected lenders' portfolios. If another method is used to calculate the State 's portion, the method must be approved in writing by the Contract Administrator.

d. State Requested Changes

If MHESLA requests the servicer to perform software maintenance and enhancements, the servicer may bill the State at the System Changes fee (See Appendix C) for such enhancements, unless those enhancements are necessary to meet contract requirements.

The procedure to be followed is described below:

(1) The Contract Administrator or designee will identify the requested changes.

(2) Within 30 days of the Contract Administrator or designee's request, the servicer will provide an estimate of the costs to the Contract Administrator or designee and the timetable for implementation. The servicer is responsible for the cost of preparing such an estimate.

(3) If acceptable, the Contract Administrator or designee will approve the requested changes and associated costs, in writing, and instruct the servicer to proceed.

(4) If not acceptable, the Contract Administrator or designee will discuss the servicer's estimate with the servicer to determine what alterations may be made that would allow approval by the Contract Administrator or designee. Upon reaching agreement, the Contract Administrator or designee will approve the requested changes and associated costs, in writing, and instruct the servicer to proceed.

(5) If the changes are also being requested by other lenders being serviced, after reaching agreement on the changes and associated costs, the State will reimburse the servicer for a portion of the costs associated with the changes at the rate for system changes identified on the pricing sheets (Appendix C). The State's portion of the costs shall be determined based on a ratio of the volume of MHESLA's portfolio to the volume of all affected lenders' portfolios or other method accepted in writing by the Contract Administrator or designee.

e. Payment of State Requested Changes

On the pricing sheets (Appendix C), the servicer will provide a fixed hourly rate for system changes. This hourly rate must include all costs associated with the changes.

After written approval by the Contract Administrator or designee and the servicer's completion of the change, the servicer will bill the State for the entire amount of the change via its regular monthly invoice. However, the invoice must clearly relate the charge to the Contract Administrator or designee's authorization and cannot exceed the estimate as previously identified by the servicer and as approved by the Contract Administrator or designee. If the requested change will take several months to complete, the servicer may contact the Contract Administrator or designee to discuss other payment arrangements

f. Guaranty Services

There may be instances when guarantors offer optional services to lenders for a fee that MHESLA wishes to receive or desires to provide to lenders participating with the State Secondary Market. In such instances, the Contract Administrator or designee will request the servicer to obtain these services from the guarantor and the State will reimburse the servicer for the associated guarantor service fees. A change notice will be issued if such services are to be performed. If system changes are required, the steps in Section III-A Task 2d will be followed.

Servicer's Response to this Task:

TASK 2 - SOFTWARE MAINTENANCE AND ENHANCEMENT

b. Federal and State Requirements

When major changes are mandated by federal or state statute or regulations, Nelnet follows our system methodology in implementing all changes required. The cost associated with this would be prorated based on loan volume. Reporting requirement changes, specific to MHESLA, would need to go through Nelnet's intake process and follow Task 2d. This needs to be considered in pricing.

f. Guaranty Services

MHESLA may suggest guarantor enhancements through Nelnet's normal intake process. All projects are reviewed and prioritized. Nelnet will determine whether or not resources will be committed to any requested enhancements.

11/18/05 - MICHIGAN DEPARTMENT OF TREASURY, OFFICE OF PURCHASING

b. Federal and State Requirements

MHESLA itself cannot approve servicing contract amendments, but must submit proposed amendments to the Department of Management and Budget for review and approval/disapproval by the State Administrative Board. Consequently, MHESLA cannot guarantee the approval of future proposed contract amendments. However, MHESLA must ensure that our student loan portfolios are serviced in accordance with applicable statute and regulations. For this reason, it is necessary that pricing be fixed for the contract extension period and that the servicer take this into consideration in identifying unit costs.

Pricing is fixed for the contract extension period per Section V (Compensation and Payment) of the extension RFP. Any pricing changes must be approved in writing by both parties per Section I-T (Revisions, Consents and Approvals) of the Contractual Services Terms and Conditions.

f. Guaranty Services

MHESLA agrees.

NELNET RESPONSE

b. Federal and State Requirements

Both parties agree.

TASK 3 - GENERAL SYSTEM AND OPERATIONAL REQUIREMENTS

a. General

This task identifies overall systems and operational requirements. Reference to days refers to business days unless specified otherwise. Contract time frame requirements must be adhered to. MHESLA does recognize there will be individual borrower instances when adherence to a particular time frame will not be possible. However, MHESLA will only tolerate this on an exception basis.

The servicer is expected to sign and process all student loan lender documents when acting as MHESLA's agent, unless specifically instructed otherwise by the Contract Administrator or designee. This would include, but not be limited to, loan applications, denial overrides, disbursements, deferments, and forbearances.

b. Compliance

The servicer's systems and operations must comply with federal and state statute and regulations, guarantor requirements, and Contract Administrator or designee's direction. The servicer must adhere to all instructions received from the Contract Administrator or designee with regard to MHESLA 's portfolio. As soon as detected, the servicer must initiate corrective action for all servicing errors, regardless of the source of the error and the party responsible, and immediately advise the Contract Administrator or designee of situations that cannot be corrected. Notice of the corrective action must be provided to the borrower and all appropriate parties by the servicer.

c. Privacy Notices

The Gramm-Leach-Bliley (GLB) Act requires lenders to provide customers with periodic privacy notices, including an annual privacy notice. The servicer must provide all required notices to MHESLA's customers in compliance with GLB Act requirements. The servicer may bill the State at privacy notices fee identified on the pricing sheets (Appendix C).

d. Borrower Benefit Initiatives

MHESLA offers borrower benefit initiatives to assist borrowers by lowering their cost of borrowing and to encourage timely repayment of their loans. These benefits vary by initiative, but may involve the reduction of, adjustment to, reimbursement/rebate of, and/or elimination of loan principal, origination fees, guarantor fees, and/or interest rates. All borrowers may be eligible, or eligibility may be restricted by type of loan, date of origination, date of acquisition, and/or meeting repayment requirements, such as a specific number of on-time payments or making on-time payments for a specific length of time. These examples are intended to identify how the borrower benefit initiatives may vary and are not intended to be an exhaustive list of the possible variations that might be required.

MHESLA's current borrower benefit initiatives include:

Electronic Payment Savings - Electronic Payment Savings provides an interest rate reduction to all borrowers if their payments are made through an electronic method.

Prompt Pay Savings - Prompt Pay Savings provides certain borrowers an interest rate reduction on loans first disbursed on or after 7/1/97 through 12/31/02, if specific criteria regarding timely repayment are met.

Michigan Students First - Michigan Students First provides certain borrowers with reimbursement of the amount of the origination fee and an interest rate reduction on loans first disbursed on or after 1/1/03, if specific criteria regarding timely repayment are met.

Michigan Advantage Consolidation Loan - Michigan Advantage Consolidation Loan provides certain borrowers with an interest rate reduction if specific criteria regarding timely repayment are met.

Detailed specifications regarding the initiatives currently offered by MHESLA will be provided to the servicer by the Contract Administrator or designee.

The servicer must provide the resources necessary to support MHESLA 's current and future borrower benefit initiatives. This includes, but is not limited to, State access to view the borrower's status for each initiative on-line and tracking/status reports for the initiatives. The servicer must also be able to discontinue any implemented initiatives within 30 days of the Contract Administrator or designee's written request to do so.

e. Combining Borrower Accounts

The Contract Administrator or designee 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 Contract Administrator or designee's instructions.

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 comply with the provisions in Section III-A Task 16 (Deconversion to Another Servicer) and may bill the State at the deconversion rate identified in Year 2 of the pricing sheets (Appendix C).

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 in accordance with Section III-A Task 4. 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 for combining borrower accounts at the conversion fee identified in the pricing sheets (Appendix C).

f. 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, refunds, repayment due diligence, NSF returns, 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 pre-determined automated messages is acceptable; however, the servicer's system must also allow free form messages by either the servicer or MHESLA. To ensure the integrity of MHESLA's records, the servicer's system must not allow history entries for MHESLA's borrowers to be revised or deleted. All necessary changes must be done through an additional history entry that identifies and corrects the error.

g. Audit Trail

The servicer's history system must provide 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 and to facilitate efforts to analyze and audit accounts.

h. Bond Funding Source Identification

Loans are financed through multiple funding sources, which must be identified by separate codes (Section III-A Task14b). The servicer's system must be able to accommodate existing funding sources and new funding sources as necessary. Bond funding source 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 systems for MHESLA's use.

The Contract Administrator or designee will provide bond fund codes and instructions to the servicer as appropriate. 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 source financing takes place or through some other manner.

i. Status Codes

The servicer's system must utilize a series of status codes, which are updated with the proper status as the activity occurs, and can be used to track application processing and identify the status of loans/accounts. These statuses must include but are not limited to approved, disapproved, cancelled, disbursed, in-school and/or grace, repayment, deferment, delinquency, and claim/default. These codes must be viewable to MHESLA. The Contract Administrator or designee will provide in writing any additional statuses, if needed.

j. Staff

The servicer must maintain sufficient staff that is thoroughly trained and capable of addressing issues/questions of a complex nature within the time frames required in the contract. Those issues/questions may include but are not limited to originations, borrower benefits, repayment terms, and deferment or forbearance options available.

Staff must be knowledgeable of and adhere to Contract Administrator or designee's direction when addressing issues/questions, such as policy advising the borrower to contact MHESLA for review and approval of forbearance when the borrower has previously used 60 months or more.

Staff that performs collection attempts must be knowledgeable of the repayment options available for the various programs, and have access to the borrower's loan record and all other necessary data files so they may identify all repayment options available to assist the borrower in curing the delinquency.

k. Telephone Contacts

Sufficient toll-free telephone lines must be provided to ensure at least a weekly 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 written request by the Contract Administrator or designee, 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 telephone response system, the system must always allow the caller access to a servicer employee and it must be able to accommodate callers from rotary dial telephones.

Staff responding to incoming calls or placing outgoing calls must have access to information necessary to research and resolve complex issues and questions, so that a majority of the time, a second call will not be needed. Issues/questions that cannot be satisfactorily resolved during the call must be researched and a return call made 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 the initial call.

Staff must provide borrowers with any forms necessary to apply for the repayment option for which it appears the borrowers qualify.

Actions needed in response to telephone calls, such as form requests, account maintenance and processing of verbal forbearance requests must be completed by the servicer within five (5) days.

l. Written Correspondence, Notifications and Document Processing

Written correspondence, notifications and documents received, such as borrower letters, enrollment data, forbearance requests and deferment forms, must be processed/responded to 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.

m. Outgoing Payments

With the exception of loan disbursements, all payments relating to a borrower's loan that are sent to any party (State, Guarantor, borrower, etc.) for any reason, must include the following data:

Borrower's name
Borrower's Social Security Number
Loan/Promissory note number
Bond funding source identifier
Reason for remittance, such as loan overpayment, returned claim payment, payment received after death of borrower

The servicer must enter a history comment stating whom 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.

n. Borrower Notifications/Mailings

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

The servicer will notify the borrower of all adjustments made to the account that affect the loan.

o. Guarantor Updates and Reports

The servicer is responsible for promptly processing all guarantor reports received and for submitting necessary reports and loan status updates to the guarantor, as required by federal or state statute and regulations or the guarantor. Reports and data must be submitted weekly, or as required by the guarantor, and must identify changes that 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 by the Contract Administrator or designee.

p. MHESLA and/or Guaranty Agency Requests

If Contract Administrator or designee and/or the guaranty agency request information from the servicer, or request the servicer to take specific action, the servicer must comply within five (5) days. This includes, but is not limited to, verbal responses, requests for copies of account documents/materials or the borrower's file, mailing of forms, account maintenance, etc.

q. Legislative/News Media Contacts

All verbal or written inquiries received from the news media related to services under this contract must be immediately referred to the Contract Administrator for response.

All reasonable efforts must be made to notify the Contract Administrator within 24 hours after receipt of any verbal or written inquiries from United States Congressmen, State Legislators, or their staff members related to services under this contract.

Prior to responding to legislative inquiries relating to services under this contract, the servicer must provide proposed responses to the Contract Administrator for review. The servicer must then respond to the inquiries within one (1) day of receiving written approval from the Contract Administrator.

r. Record Retention

The servicer must retain the original promissory note and supporting documents as required by federal or state statute and regulations, guarantor requirement or Contract Administrator or designee's direction in a secure fire resistant environment. 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 approved by the Contract Administrator or designee. The servicer must retrieve and make available the original or acceptable copies as requested by the Contract Administrator or designee. Provide format of copied documents in this task response.

s. Facsimile and E-mail Capabilities

The servicer must have facsimile and e-mail capabilities to enable MHESLA, guarantors, schools 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.

t. 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.

u. 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.

v. Good and Bad Address Flag

The servicer must have a method viewable on the servicer's system to identify for MHESLA if the borrower's demographic information is accurate or inaccurate.

w. Forms and Materials

The servicer shall be responsible for the cost of 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 because 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 in writing by, the Contract Administrator or designee prior to use or dissemination. The servicer must at all times maintain an adequate supply of forms and materials.

x. Overnight Delivery of Mail

If MHESLA requests the servicer to mail materials for overnight delivery, the State will absorb the costs of such mailing. Costs should be identified on the invoice as overnight mail.

y. 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.

z. 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 Contract Administrator or designee and may require the servicer's appearance in court, at hearings, or at any other circumstances deemed as necessary by the Contract Administrator or designee. Only travel costs incurred by the servicer will be reimbursed by the State at state travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf). The servicer must provide supporting documentation for travel costs incurred on invoice.

aa. Training

The servicer is responsible, at no additional charge to the State, to train MHESLA thoroughly in the use of its systems and an understanding of the servicer's operational procedures. Upon request, the servicer must provide the Contract Administrator or designee with copies of its operational procedures. If deemed necessary by the Contract Administrator or designee, training must be provided at MHESLA's location. The servicer is liable for any such training in the event of non-State requested modifications and enhancements to its existing system. Such training must be provided prior to the implementation of the modifications/enhancements. If the Contract Administrator or designee desires training for subsequent non-State requested modifications/enhancements to be at MHESLA's location, the servicer will be reimbursed for travel costs at State travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf). The servicer must provide with invoice, supporting documentation for travel costs incurred on the invoice.

bb. Enhancements

MHESLA is interested in enhancements that will allow MHESLA to provide more service to its borrowers, as well as to facilitate MHESLA 's ability to use and interact with the servicer's system. Such enhancements could include, but are not limited to, the ability to access and print file materials/documents through MHESLA 's terminals/personal computers on site, the ability to select and display only specific data from an account history, such as deferments, etc.

cc. State Records Held by a Third Party

Certain account materials for some of MHESLA'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 by previous servicers prior to January 1998.

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. It is the responsibility of the servicer to interact with Image Express to obtain documents as needed to service borrower's accounts properly. Additional contacts should include MHESLA, school, guarantor, and, if the loans were purchased through the State Secondary Market, the prior lender. It is expected that the servicer will service loans within time frames identified in the contract, which will allow sufficient time for contacting all sources. The Contract Administrator will provide the contact information for Image Express upon the servicers request.

dd. Interface to State of Michigan Systems

MHESLA would like to utilize a Department of Treasury Centralized Correspondence System to produce correspondence with borrower specific information. To do so, this system must interface to the servicer's database through an approved interface method to allow Treasury's system to access the servicer's database in real-time and/or batch mode. Examples of approved interface methods include web services, API, or direct access to the servicer's database. Although not a contract requirement, this is a desirable system enhancement.

As State of Michigan-interfaced systems evolve and the need for interface methodology evolves, the servicer must provide a mechanism for change as detailed in Section III-A Task 2d.

Servicer's Response to this Task:

TASK 3 - GENERAL SYSTEM AND OPERATIONAL REQUIREMENTS

d. Borrower Benefit Initiatives
All borrower benefit initiatives must go through Nelnet's intake process and would then follow through Task 2d.

k. Telephone Contacts
Nelnet will conform to the language in the prior contract. "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."

l. Written Correspondence, Notifications and Document Processing
This section will be re-written to include the following: "Written correspondence, notifications and documents received, such as borrower letters, forbearance requests and deferment forms, must be processed/responded to within ten (10) days of receipt. A copy of the correspondence/document received and the servicer's response, if applicable, must be maintained. Enrollment data will be processed within 30 days. Borrower requests for forms must be processed within five (5) days of the request. "

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d. Borrower Benefit Initiatives
MHESLA agrees that all modifications to existing or implementation of new borrower benefit initiatives must go through Nelnet's intake process and would then follow through Task 2d.

k. Telephone Contacts
MHESLA agrees. This revises the standard in the first paragraph regarding incoming calls from a weekly average to a monthly average.

l. Written Correspondence, Notifications and Document Processing
MHESLA agrees. This revises the standard for processing enrollment data from within ten days of receipt to within 31 days.

TASK 4 - CONVERSION TO INCOMING SERVICER

For purposes of this RFP, conversion refers to the receipt and system update of MHESLA's student loan portfolio records, including all system files, electronic files, data and information in electronic or hardocpy format and hardcopy files and documents that are transferred to the incoming servicer by the incumbent servicer.

a. Current Servicer

The current servicer will hereafter be referred to as the incumbent servicers.

The incoming servicer must have the capability to accept the existing loan data base information in the incumbent servicer's media format to convert the existing system's data to the file structure required by the incoming servicer's system. The media format of the incumbent servicer will be provided to the incoming servicer within one (1) week of contract issuance.

b. Work Plan

Within 15 days of contract issuance, the incoming servicer must submit a comprehensive work plan for approval by the Contract Administrator. When approved in writing by the Contract Administrator the servicer must submit the work plan to the incumbent servicer for review. A work plan approved by the incumbent servicer and incoming servicer must be provided to the Contract Administrator within 30 days of the incumbent servicers response to the initial work plan. The Contract Administrator must approve, in writing, the agreed upon work plan before conversion begins.

A minimum of 120 calendar days will be provided for conversion purposes.

Being operational specifically means the incoming servicer's ability to process all activities included in and required by the 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 (See Section III-A Task 3aa) of MHESLA staff for the understanding and utilization of the incoming servicer's system, to be made available and performed within 30 days of the final conversion date identified in the work plan.

(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 in writing by the Contract Administrator 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 the contract. Final acceptance testing, including evidence of correctness of all systems transactions, reports and overall system balancing, must be performed to the satisfaction of the Contract Administrator prior to activation of system. The Contract Administrator must accept the testing results as complete and acceptable in writing before activation of the system can proceed.

e. Progress Reports

Biweekly progress reports must be prepared by the incoming servicer and submitted to the Contract Administrator or designee identifying the status of the conversion including any problems encountered, the next steps and other information necessary for the success of the conversion. The incoming servicer and the incumbent servicer will work together to resolve all conversion/deconversion issues.

f. MHESLA Involvement

The incoming servicer must maintain daily contact with the Contract Administrator in the development and implementation of the conversion of the data files from the incumbent servicer. This is necessary so that MHESLA agrees with and understands interpretations made for the conversion and results of the conversion are accepted in writing by the Contract Administrator.

g. Data Base Reconciliation

The incoming servicer will be required to reconcile the converted accounts to the deconverted accounts from the incumbent servicer. To verify that total deconverted account balances equal converted account balances, the incoming servicer will be required to provide a report to the Contract Administrator or designee sorted by funding source to include the total number of loans, total number of borrowers, total current principal balance, and total current interest outstanding of the converted accounts.

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 in social security number order. Borrower files will be transmitted to the incoming servicer by the incumbent servicer in batches. Each batch will include a transmittal, listing by social security number, each folder included and the total number of folders in the batch. Upon receipt of the batch, responsibility for the borrower files included is transferred from the incumbent servicer to the incoming servicer. A copy of each transmittal will be mailed or faxed to the incoming servicer by the incumbent servicer. The incoming servicer must confirm receipt of each batch, verify all files listed on the transmittal are included, note any exceptions on the transmittal and sign the transmittal. The incoming servicer must maintain a copy of each verified transmittal with exceptions noted, if necessary, forward the original transmittal to the Contract Administrator, and forward a copy of the transmittal, to the incumbent servicer. 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 on the transmittal (See Section VI-B.3).

By use of a bar code or other method approved by the Contract Administrator or designee, 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 within time frames of the contract 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 processing that does not conform to requirements of the contract are the liability of the incoming servicer. The incoming servicer must compensate the State for the amount of its loss within 60 days (See Section VI-B.3).

Within 90 calendar days of the completed conversion (as identified in the work plan) 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. 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. A written report identifying loan and document exceptions in social security number order must be provided to the Contract Administrator or designee within fifteen (15) days following the 90-day period. 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 Contract Administrator following the incoming servicer's audit (See Section VI-B.3).

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 (provided by Contract Administrator or designee upon request) 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 the Contract Administrator or designee 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 conversion has been completed and approved in writing by the Contract Administrator.

j. Costs for Conversion

The Contractor's loan servicing unit price must include up-front conversion costs. The incoming servicer cannot bill unit servicing costs until the Contract Administrator approves, in writing, the conversion is finalized (See Appendix C).

k. Checks Originated by Incumbent Servicer

The incoming servicer must indicate in the work plan (Section III-A Task 4b) the method required for the incumbent servicer to provide information on all adjustments attributed to disbursement checks.

Servicer's Response to this Task:

Nelnet agrees.

TASK 5 - LOAN SERVICING: ORIGINATION PROCESSING

a. General

The servicer must provide complete origination processing for Federal Stafford Loan (Subsidized and Unsubsidized), Federal PLUS Loan and Federal Consolidation Loan applications. This includes, but is not limited to, entry onto the system and complete system maintenance, screening for accuracy and completeness, securing all needed forms and any missing data, accessing and processing for approval or disapproval, ensuring loan guarantee from the guarantor, loan disbursement, and disbursement cancellation or reissuance, as appropriate.

b. Application Requests

Upon request, the servicer must provide applicants with all required application materials.

c. Application Methods

There are several application methods that are used in the student loan industry. The servicer must be able to accommodate various application methods, including a method that provides the applicant with the option to electronically complete and print the loan document for his/her manual signature and submission, or to electronically complete, sign (electronic signature) and submit the loan document.

d. Loan Type

The system must also identify the type of loan application that is being processed, Stafford, PLUS or consolidation.

e. PLUS Loan Applicant Prescreening

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.

f. Application Review

The servicer is responsible for reviewing 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.

g. MHESLA Specific Application Criteria

The servicer is responsible for reviewing all applications for requirements that are specific to MHESLA. Currently, MHESLA has an "Area of Service" policy that requires the applicant, or the student for whom the applicant is borrowing, to have a Michigan connection. To meet this requirement, the applicant or 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 an existing loan with the MHESLA.

Applications may not be approved by the servicer unless they meet applicable MHESLA application criteria. MHESLA reserves the right to revise or add MHESLA specific application requirements.

h. PLUS Loan Credit Assessment

MHESLA currently uses the Michigan Guaranty Agency's (MGA) credit review service for PLUS loan applications. Through this service, MGA performs the federal credit review for each PLUS loan applicant and notifies the lender/servicer of those applicants who have adverse credit. MHESLA reserves the right to request the servicer to provide this service via a change notice.

The servicer will be responsible for the denial processing of these applications, and for responding to inquiries from applicants seeking clarification or further information regarding the denial. However, applicant appeals due to extenuating circumstances regarding adverse credit will be addressed by MHESLA. All such appeals, along with the denial letter and corresponding credit bureau report, must be faxed to the Contract Administrator or designee within three (3) days of receipt.

i. Other Application Credit Assessment

Other federal loans made by MHESLA are not subject to creditworthiness standards. However, MHESLA reserves the right 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. A Contract Change Notice will be issued if creditworthiness standards are to be required.

j. Application Assessment

Applications must be assessed to determine if they meet MHESLA (See Section III-A Task 5g) and FFELP loan criteria and processed for approval or disapproval accordingly. If an application is disapproved, the reason for disapproval must be entered into the loan history and the applicant and school notified of the disapproval action.

k. Appeals

If a telephone or written communication is received from a disapproved applicant seeking to appeal the disapproval action, the servicer will review the appeal within ten (10) days to ascertain if the applicant now meets MHESLA and FFELP requirements and, if so, will process accordingly.

MHESLA reserves the right to review any denial appeal. Currently, MHESLA reviews all appeals regarding PLUS loan disapprovals for adverse credit. A copy of all written appeals must be forwarded to the Contract Administrator or designee along with a copy of the disapproved application and materials. If the appeal is verbal, the servicer must request the applicant to submit a written appeal with supporting documentation, if applicable, and upon receipt, forward a copy of the appeal and the disapproved application and materials to the Contract Administrator or designee. The Contract Administrator or designee will notify the servicer of its decision in writing.

l. Guarantee

For application processes in which a loan 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 MHESLA/servicer.

If the loan guarantee is received before the application and the application is not received in 30 calendar days, the servicer must contact the school and/or the applicant to request the application.

m. Check Stock

It is the servicer's responsibility to design and present the proposed check and check stub to the Contract Administrator or designee for approval within two (2) weeks of contract issuance. After the Contract Administrator or designee's written 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 MHESLA's name (Michigan Higher Education Student Loan Authority) as the lender of the loan, and the name and address of the servicer.

(2) Check Stub Information

The check stub must include MHESLA'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.

n. Disbursement

The servicer must be able to accommodate disbursement by individual check, master check, and electronic funds transfer (EFT). For disbursement by master check and EFT, school disbursement rosters/transmittals must be available in a paper or electronic format. The school will determine the type of disbursement and format for the disbursement roster/transmittal. The school may choose more than one format for the disbursement roster/transmittal and, upon request, the disbursement roster/transmittal will be faxed to the school. The servicer must provide EFT within three (3) business days, MHESLA prefers EFT within one (1) business day, if possible.

Federal Stafford and PLUS Loans are to be disbursed daily and, if disbursed by check, must be made co-payable to the borrower and to the school. Consolidation loans must be disbursed no less frequently than weekly.

o. Disclosures

The servicer is responsible for preparing, if appropriate, and mailing all required disclosures. For consolidation loans, the servicer is responsible for providing a disclosure statement and repayment schedule within five (5) days following disbursement or a loan increase.

p. Account Maintenance

The servicer must perform the necessary account maintenance to update the loan to disbursed status. 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.

q. Guarantee Fee

If the guaranty agency charges an insurance fee, it is the servicer's responsibility to calculate and report the fee to the Contract Administrator or designee. Disbursement data must be forwarded to the Contract Administrator or designee to be received by the fifteenth of the month. MHESLA will prepare a check, if appropriate, and forward the materials to the guaranty agency by the twentieth of the month.

r. Post Disbursement Processing

The servicer is responsible for post disbursement processing, such as returned checks, stop payments, disbursement/loan cancellation, and disbursement reissuance. If a disbursement is to be reissued, the servicer must reissue the disbursement within ten (10) days of the determination to reissue.

The servicer must process late disbursements upon request by the school or, when an exception to the late disbursement reissue time frame is requested, by the school and student. The late disbursement must be reissued within ten (10) days of receipt of the late disbursement request.

s. Servicing Fees

Origination fees may be billed for each application received and processed by the servicer (See Appendix C). Origination processing includes providing applications to applicants through approval/disapproval and loan disbursement, if appropriate.

t. Liability

If the servicer improperly disburses MHESLA's loans that result in a loss to the State, the servicer is financially liable to reimburse the State to the extent of its loss. If the guarantee is removed and no cure is available, the servicer is immediately liable for the current principal and interest due (See Section VI-B.3).

Servicer's Response to this Task:

Nelnet agrees.

TASK 6 - LOAN SERVICING: GENERAL LOAN SERVICING

a. General

The servicer is responsible for performing general servicing associated with MHESLA's portfolio in accordance with state, federal and guarantor requirements and Contract Administrator or designee directions. This would include cancellations, adjustments, reinstatements, demographic updates, etc.

b. 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 (See Section VI-B.3).

c. 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 status of the account. If the statement is returned due to a bad address, the servicer will perform skip tracing (See Section III-A Task 7g).

d. 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.

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).

f. Ineligible Loan/Disbursement

The guaranty agency notifies the servicer of separation dates that 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 Contract Administrator or designee.

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

Servicer's Response to this Task:

Nelnet agrees.

TASK 7 - LOAN SERVICING: REPAYMENT

a. General

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

b. Combined Billing

The servicer will combine and bill the borrower for all loans in one billing statement/coupon book whenever possible.

c. 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 coupon book/statement be required, the servicer will issue duplicates at no cost to the State.

The State will 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 as approved in writing by the Contract Administrator or designee.

d. Monthly Payment Amount

Federal regulations require a minimum monthly payment amount within a maximum repayment period. However, the minimum payment may be reduced if the lender approves and 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 maximum repayment period.

To avoid default, the servicer must offer monthly payments that are below the required minimum monthly payment amount as long as the loan will be fully repaid within the maximum repayment period.

e. Verification Certificates From Other Consolidation Lenders

The servicer is responsible for completing, in accordance with federal regulations, Consolidation Verification Certificates that are received from other consolidating lenders for MHESLA's borrowers. However, before the servicer may certify MHESLA'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.

f. Due Diligence

The servicer must provide its collection notices and letters (including the final demand letter) to the Contract Administrator or designee for submission to the guaranty agency for approval prior to use. When performing telephone due diligence, MHESLA requires the servicer to allow the telephone to ring a minimum of six (6) times before determining the call will not be answered.

g. 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.

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

h. 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 MHESLA 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 MHESLA.

i. Specialized Collection

MHESLA reserves the right to require the servicer to provide for specialized collection efforts. The Contract Administrator must approve in writing the subcontractor selected by the servicer, if a subcontractor is needed. A change notice will be issued if specialized collection services are to be provided.

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

j. <u>Deferment and Post-Deferment Grace Accumulators</u>

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 that 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 post-deferment grace months the borrower has received.

k. <u>Deferment Documentation</u>

For denied deferment requests, the servicer must also retain a copy of the letter to the borrower explaining the reason for denial.

l. <u>Discretionary Forbearance</u>

The servicer will promote use of discretionary forbearance to help cure delinquent loans. MHESLA '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.

During the forbearance review/approval process the servicer must determine the total number of discretionary forbearance months granted to the borrower. If the borrower has reached 60 months of forbearance the servicer must advise the borrower to contact MHESLA for approval of any additional discretionary forbearance. MHESLA reserves the right to change this policy via a contract change notice.

m. <u>Forbearance Accumulators</u>

The servicer is required to maintain a forbearance accumulator for each type of forbearance that reflects the total forbearance period granted for that type of forbearance. For those forbearance types that 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.

n. <u>Forbearance Form</u>

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

o. <u>Processing Forbearance Requests</u>

If the forbearance is approved, the servicer must determine the appropriate length of forbearance based upon the borrower's circumstances. The borrower must be notified of the approval or denial and, if appropriate the reason for denial.

The servicer must retain forbearance forms that are approved or denied for reasons of ineligibility. For denied forbearance requests, the servicer must also retain a copy of the letter to the borrower explaining the reason for denial. 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.

p. Forbearance Payment Options

The servicer will give the borrower the option to pay all or a portion of the interest that 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.

q. Reporting to Credit Bureaus

On a monthly basis, the servicer will report all borrowers to national credit bureaus in accordance with federal regulations. 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.

In the event of MHESLA'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.

r. 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 MHESLA'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.

s. Credit Verification Inquiries

Borrowers must authorize MHESLA 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 MHESLA within five (5) days of the servicer's receipt of the inquiry.

Servicer's Response to this Task:

TASK 7 - LOAN SERVICING: REPAYMENT

c. Method of Payment
The last sentence in this task will read: "The State will 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."

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c. Method of Payment
MHESLA agrees. This revises the last sentence in the second paragraph of c. Method of Payment by deleting "as approved in writing by the Contract Administrator or designee".

TASK 8 - 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. Claim Package

The servicer must prepare and submit the claim package per instructions of the appropriate guaranty agency. Do not file a claim if the loan amount is below the guarantor claim allowance minimum. Instead, contact the Contract Administrator or designee for instructions.

c. Account Adjustment

Adjustments to the account that are required for the claim filing that will affect the balance on the servicer's system requires written authorization from the Contract Administrator or designee prior to adjusting the system. This includes but is not limited to the removal of interest for uninsured periods and any reduction in the disbursed loan amount.

d. 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 Contract Administrator or designee and all outside agencies providing record retention for MHESLA, 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 re-file the claim within federally required time frames, which results in a loss to the State, the servicer will be financially liable to reimburse the State to the extent of its loss (See Section VI-B.3).

e. 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.

f. 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 Contract Administrator or designee a daily listing of those accounts. The item(s) received must be applied to all applicable loans within ten (10) days of receipt.

g. 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 (See Section III-A Task 9). The servicer may not assess a cure fee if the claim denial is the result of a servicer error.

h. Monitoring Claim Payments

The servicer must monitor accounts to insure that the full claim payment is received. If the payment is not received within 90-120 calendar days, the servicer must notify the Contract Administrator or designee.

i. Exceptional Performer Designation

The U. S. Department of Education has an "Exceptional Performer" designation for which a qualified servicer, as an agent for a lender, may apply. An Exceptional Performer designation qualifies lender claims submitted by the servicer to receive 100% reimbursement. Claims are normally reimbursed at 98%, resulting in a 2% financial loss.

To apply for and maintain Exceptional Performer designation requires additional audit and administrative expenses, including quarterly compliance audits that are in addition to other federally required audits. In recognition of the additional expense incurred by the servicer and to acknowledge the financial gain to the State, the servicer may charge an additional fee on all default claims paid that were initially submitted during periods for which they have received Exceptional Performer designation. This fee is identified in the FFELP Pricing Sheets (Appendix C).

It is the servicer's responsibility to provide the Contract Administrator with documentation to support its Exceptional Performer designation, and to notify the Contract Administrator within thirty days if such designation ends.

Servicer's Response to this Task:

TASK 8 - LOAN SERVICING: CLAIM PROCESSING

b. Claim Package
This section will revert to wording in prior contract. "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 it's 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."

c. Account Adjustment
We have confirmed with our Claims area that this process is currently followed.

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b. Claim Package
MHESLA agrees. However, due to revisions in the contract extension work statement from the prior contract work statement, the time frame specified is in Task 1 - Servicing Systems.

NELNET RESPONSE
b. Claim Package
The section will be rewording to: "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 it's 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 1 – Servicing Systems."

TASK 9 - LOAN SERVICING: CURE PROCESS FOR LOSS OF GUARANTEE

a. General

This task refers to loans which the servicer and/or MHESLA 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 Contract Administrator or designee 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 Contract Administrator or designee 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 Contract Administrator or designee (See Management Loan Servicing Report 11).

c. State 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. The servicer may bill a cure fee as identified in the pricing sheet (Appendix C) for cures successfully completed in accordance with this task (III-A Task 9).

d. 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).

e. 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.

f. History Comment

When the violation occurs or is discovered, the servicer will update the history for the effective date and type of violation. The servicer will provide updates to the history of activity related to the cure process

g. Financial Liability

If the loss of guarantee is due to the servicer’s error and the servicer is not successful in curing the violation within twelve (12) months, the servicer will be financially liable to reimburse the State at the end of the allowed cure period (See Section VI-B.3). 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 MHESLA’s specified time period (See Section III-A Task 9e), that would result in a denied claim if filed with the guaranty agency.

(2) Denied claim that is not cured within MHESLA's specified time period (See Section III-A Task 9e).

(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) (See Section VI-B.3).

h. Assignment of Note

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

i. Deletion of Accounts

In those cases where MHESLA assigns the promissory note to the servicer's lender in accordance with this task (Section III-A Task 9), the servicer must, within three (3) days of receipt of the assigned note, delete the loan from MHESLA's portfolio.

Servicer's Response to this Task:

Nelnet agrees.

TASK 10 - 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 approved in writing by the Contract Administrator or designee. The payments must be deposited on the date of their receipt.

c. Payment Review/Borrower Notification

The servicer must either (1) notify the borrower, in accordance with federal statute, where communications concerning disputed debts are to be sent or (2) 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. 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 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. 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.

g. 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, via a change notice, 90 calendar days prior to implementation.

h. 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.

i. 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.

j. 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 Contract Administrator or designee must be notified in writing of each account that is written off.

k. 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, MHESLA reserves the right to change this procedure and notice will be provided via a contract change notice. When a guarantor other than MGA is involved, the claim payments will be transmitted directly to the servicer for processing.

If, after application of the claim payment, a balance (principal and interest) of $50 or less remains, it may be written off. If the balance is more than $50, 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 Contract Administrator or designee of all requests for supplemental claim payment and amounts written off. All over/under payments must be reported to the Contract Administrator or designee.

l. Monthly Servicing Fees

Monthly servicing fees may be charged no longer than 90 days after the servicer's receipt date of full payment, full cancel, full refund, or guarantee removal notice.

Servicer's Response to this Task:

Nelnet agrees.

TASK 11 - 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 on-line by MHESLA.

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 and notify Contract Administrator or designee of preferred option:

(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.

Servicer’s Response to this Task:

Nelnet agrees.

TASK 12 - 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 participating and potential lenders. It is desirable for the servicer to provide an experienced marketing representative approved in writing by the Contract Administrator to visit existing and potential clients upon the request of the Contract Administrator or designee.

c. 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 based on criteria identified by the Contract Administrator or designee.

d. Instructions for Purchase

The Contract Administrator or designee, in conjunction with the servicer, will instruct lenders in the procedures to be followed in the loan purchase process whether the loans are currently serviced by the lender (manual conversions) or the servicer (transfer conversions). The servicer will provide to the Contract Administrator or designee any and all of the information requested by the Contract Administrator or designee to facilitate the conversion process. The information will be provided on forms approved by the Contract Administrator or designee. The forms may need to be revised periodically at the request of the Contract Administrator or designee, and the servicer must be able to accommodate these revisions.

e, Packaging for Manual Sale Conversions

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 time frame agreed to by the servicer, lender and Contract Administrator or designee. The servicer will perform the functions needed to prepare the loans for transfer. This includes, but is 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 restricted areas and/or materials that are needed for the sale. In that case, the 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 Contract Administrator or designee. Prior to any commitment to purchase loans under this condition, the Contract Administrator or designee will discuss the proposed sale with the servicer for scheduling purposes.

The State will reimburse the servicer salary, travel and lodging costs at State travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf) 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. The fee for packaging is identified on the pricing sheet (Appendix C).

f. Receipt of Loans to be Converted onto the System Manually

Upon receipt of the loans from the lender, the servicer will notify the lender and Contract Administrator or designee within 24 hours of receipt that the loans have arrived. This notification will inform the 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 lender**.**

g. Inspection of Documents for Manual and Transfer Conversions

The servicer will be responsible for inspecting documents based on criteria provided on the SSM Loan Examination Sheet (Appendix B). The criteria may be revised periodically and the servicer must be able to accommodate these revisions. The Contract Administrator or designee will provide a revised SSM Loan Examination sheet. The core documents to be reviewed are the application, promissory note, guarantee, and proof of disbursement. The servicer must notify the Contract Administrator or designee of loans that do not meet the criteria provided on the SSM Loan Examination Sheet.

If the servicer fails to correctly perform the document inspection as required in Section III-A Task 12g resulting in a financial loss to the State, the servicer will be liable to reimburse the State in the amount of its loss (See Section VI-B.3).

At MHESLA's discretion, MHESLA may recourse the loans to the lender. The servicer may be required to provide documentation as specified by the Contract Administrator or designee for the purposes of recoursing loans to the lender.

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.

h. Sale and Conversion of Loans to the System

The servicer will be responsible for processing the sales and converting the loans purchased to the servicer's loan servicing system for manual conversions or transferring the loans from the lender to MHESLA for transfer conversions. The servicer will process sales on a schedule mutually agreed upon with the Contract Administrator or designee.

i. Sale Amounts

By 9:30 a.m. EST/EDT on the day following completion of a transfer conversion, the servicer must notify MHESLA's fiscal unit by facsimile (to be identified by the Contract Administrator or designee) the number of loans purchased, the number of unduplicated borrowers included**,** the number of months the loans have been serviced 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 12/31/02 or first disbursement on or after 1/1/03).

The sale information may be revised periodically and the servicer must be able to accommodate these revisions. This breakdown is necessary to accommodate state reporting needs and must be in a format approved by the Contract Administrator or designee. The data provided will be used by MHESLA to determine the amount of funds to be wired to the selling lender.

Sale amounts for manual conversions will be determined by MHESLA when MHESLA performs the packaging or by the servicer when they perform the packaging. The servicer will provide the same sale information as a transfer conversion upon their review of the loans and conversion to their servicing system.

j. Reconciliation

The day after all conversions, the servicer must forward to the lender 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 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 the Contract Administrator or designee within five (5) days.

k. Processing of Loan Activity After Sale (manual conversions only)

The servicer will provide the lender with a supply of forms to record payment, cancellation and refund information. The 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.

l. Exception Loans

The servicer will review the exception loans with the Contract Administrator or designee. 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 the Contract Administrator or designee 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.

m. Resolution of Exception Loans

The servicer will discuss all exception loans with the Contract Administrator or designee to determine if MHESLA will be able to resolve the exception issue or if it is better to be resolved by the servicer. The servicer will reflect in the borrower's history the receipt of missing documents or other actions, which resolve the exception issue.

n. Servicing of the Loans

The servicer will be responsible for the servicing of all purchased loans regardless of the status of the loan at the time of purchase by MHESLA.

o. Notification to the Borrower (manual conversions only)

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, rules and regulations.

p. Guaranty Agency Reporting

***The servicer must notify the appropriate guaranty agency of the purchase in accordance with the guarantor's requirements*.**

q. Multiple Guarantors

MHESLA utilizes multiple guarantors: the Michigan Guaranty Agency (MGA), the Illinois Student Assistance Commission (ISAC), USA Funds (USAF), and Great Lakes Higher Education Corporation (GLHEC). 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.

MHESLA may execute agreements to participate with additional guarantors in the future. Prior to negotiating purchase of loans guaranteed by a guarantor other than the above-mentioned guarantors, MHESLA will discuss the potential purchase and servicing of the loans with the servicer.

Servicer's Response to this Task:

TASK 12 - LOAN SERVICING: SECONDARY MARKET LOAN SUPPORT

g. Inspection of Documents for Manual and Transfer Conversions
This section will be reworded to the following: The servicer will be responsible for reviewing documents based on criteria provided on the SSM Loan Examination Sheet (Appendix B). The criteria may be revised periodically and the servicer must be able to accommodate these revisions. The Contract Administrator or designee will provide a revised SSM Loan Examination sheet. The core documents to be reviewed are the application, promissory note, guarantee, and proof of disbursement. The servicer must notify the Contract Administrator or designee of loans that do not meet the criteria provided on the SSM Loan Examination Sheet.

If the servicer fails to correctly perform the document review as required in Section III-A Task 12g 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 the State in the amount of its loss (See Section VI-B.3).

If MHESLA chooses to recourse the loans to the lender, the servicer may be required to provide documentation as specified by the Contract Administrator or designee for the purposes of recoursing loans to the lender.

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.

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g. Inspection of Documents for Manual and Transfer Conversions
MHESLA agrees.

TASK 13 - LOAN SERVICING: REPURCHASES

a. General

Repurchases refer to loans which MHESLA 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 MHESLA.

b. Default Repurchases

The servicer will perform repurchases on those accounts identified by the Contract Administrator or designee. Assessment to repurchase a loan(s) paid by claim will be performed by the servicer, in accordance with MHESLA's criteria to be provided by the Contract Administrator or designee.

c. Rehabilitation Repurchases

MHESLA 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

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.

The servicer must ensure that the loan collateral is received from the guaranty agency and has been assigned to MHESLA.

f. Funding Source

The Contract Administrator or designee will assign the funding source 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 MHESLA to repurchase the loan(s) and has received the correct principal and interest amounts from the guaranty agency, the servicer will notify the Contract Administrator or designee of the borrowers name(s), loan(s), social security number(s), and the payoff amount(s) involved. Upon receipt of this information, MHESLA will reimburse the guaranty agency for the loan(s).

Servicer's Response to this Task:

Nelnet agrees.

TASK 14 - LOAN SERVICING: FINANCIAL AND MANAGEMENT REPORT REQUIREMENTS

a. General

The servicer shall provide MHESLA financial reports (See Section IV-A) which MHESLA 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 funding sources resulting in funding source code changes. The servicer is responsible for preparing any special accounting reports which the servicer and the Contract Administrator or designee mutually agree are necessary to reconcile servicer and State accounting records at no additional cost to the State.

The servicer will also provide MHESLA with management reports necessary to monitor the servicer's performance in administering MHESLA 's portfolio in accordance with this contract. The management reports required are identified in Section III-A Task 14g.

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

b. Funding Source Listing

MHESLA’s loans are funded primarily through the sale of bonds and notes. The following list identifies the funding sources in MHESLA’s current portfolio.

Fund Source	Fund Source

Operating Funds	XII-Z2-3
XII A & B	XVI
XII K & L	XVII-C
XII M & N	XVII-F,H1-2
XII O	XVII-H3-6
XII PQ	XVII-J
XII R	XVII-K
XII ST	XVII-L1
XII U	XVII-L2
XII VW	XVIII
XII X	XIX
XIIY	
XII-Z1	

As specified, report data must be broken down and identified by funding source (See Section IV-A).

Although the same code may be used for both Subsidized and Unsubsidized Federal Stafford Loans, some reports (See Section IV-A) require this loan data to be separated.

c. Reporting Method

MHESLA 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 (See Section II and Appendix H). However, if an electronic method is not possible, MHESLA 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 Contract Administrator or designee, that are compatible with MHESLA'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 MHESLA with a hard copy when requested by the Contract Administrator or designee. All hard copy reports must be printed single-sided.

d. Timeliness

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

The servicer's failure to meet processing or reporting deadlines continuously for a 60-day period can result in financial penalties to the servicer and/or termination of this contract (See Section VI-B.3).

e. Report Formats

MHESLA will specify the data elements required in each report; however, the format of the reports will be at the servicer's option.

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 by the Contract Administrator or designee: servicer's name, "MHESLA", report title, section title and funding source, 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.

All management reports must be separated by guarantor.

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

f. Ad Hoc Reports

There will be times when the Contract Administrator or designee will require a one-time report or wish to receive a new report on a regular basis. These reports may be for use by the schools MHESLA's borrowers are attending or by MHESLA. In these situations, the servicer must accommodate MHESLA's needs. The Contract Administrator or designee 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 (See Appendix C).

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

g. Reports

Six different types of reports occur. Respectively, there are four (4) Management Loan Origination Reports, seventeen (17) Management Loan Servicing Reports, three (3) Management Loan Consolidation Reports, two (2) State Secondary Market Loan Management Reports, eighteen (18) Financial Reports, and two (2) School Reports (See Section IV-A).

Servicer's Response to this Task:

TASK 14 - LOAN SERVICING: FINANCIAL AND MANAGEMENT REPORT REQUIREMENTS

d. Timeliness
The sentence will be updated to read: "The servicer's failure to meet processing or reporting deadlines **continuously** for a 60-day period can result in financial penalties to the servicer and/or termination of this contract (See Section VI-B.3)."

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d. Timeliness
MHESLA agrees. This revises the second paragraph by adding the word "continuously".

TASK 15 - LOAN SERVICING: AUDIT AND PROGRAM REVIEW REQUIREMENTS

a. General

The servicer shall make portfolio information, borrower records, and servicer compliance information available for review by MHESLA and/or the State's auditors, as well as by federal regulatory agencies' auditors.

b. Audits and Program Reviews

The servicer must cooperate fully with respect to program reviews and audits conducted on MHESLA'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.

c. Borrower Records

The servicer must provide data tapes or other media, as approved by the Contract Administrator or designee, containing data on all loans in MHESLA's portfolios through the State's fiscal year end (September 30) to the State's financial auditors (to be identified by the Contract Administrator or designee). This must be done within fifteen (15) days of the end of the State's fiscal year or other cutoff date identified by the Contract Administrator or designee at no cost to the State. In addition, a written file layout of the tape including reference name, data description, beginning and ending relative positions, length in bytes, picture and type must be provided. Specific information needs as well as timeframes and written permission to release the information will be provided by the Contract Administrator or designee.

d. Servicer Information

Copies of financial and compliance audits of the servicer shall be provided to MHESLA with permission to release that information to the State's auditors or as required by regulatory agencies. In addition, information about the servicer's operations must be provided as requested by the Contract Administrator or designee to be used by the credit enhancers and rating agencies of the State's bond issues or other capital formation activities.

e. Portfolio Analysis

Periodically, MHESLA will need to review its portfolio for various analyses. Upon request by the Contract Administrator or designee, the servicer must provide a master file record on media approved by the Contract Administrator or designee. 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 (See Appendix C).

f. Servicer Financial Statements

The servicer will provide MHESLA with their financial statements at the servicer's fiscal year end or upon request by the Contract Administrator or designee, and the servicer shall provide MHESLA permission to release the financial statements to the State's auditors, and credit enhancers and rating agencies of the State's bond issues or other capital formation activities. The financial statements must include an income statement, balance sheet, and statement of cash flow.

Servicer's Response to this Task:

Nelnet agrees.

TASK 16 - LOAN SERVICING: DECONVERSION TO ANOTHER SERVICER

For purposes of this RFP, deconversion refers to the removal and transfer of MHESLA's student loan portfolio records, including all system files, electronic data files, data and information in electronic or hardcopy format and hardcopy files and documents, by the incumbent servicer to the incoming servicer.

a. General

If the State terminates this contract or in the event the servicer does not receive the contract for a subsequent period (i.e., after 9/30/2007), the servicer (hereafter referred to as the "incumbent servicer") is responsible for converting the State's records to another servicer (hereafter referred to as the "incoming servicer") as required in the contract.

b. Work Plan

The incumbent servicer must review the work plan provided by the incoming servicer and respond to the incoming servicer (the Contract Administrator shall be sent a copy of the response) within two (2) weeks of receiving the work plan. A work plan approved by the incumbent servicer and incoming servicer must be provided to the Contract Administrator within 30 days of the incumbent servicers response to the initial work plan. The Contract Administrator must approve in writing the work plan before conversion begins.

c. Incumbent Servicer Support

The incumbent servicer must provide sufficient personnel with appropriate expertise to accomplish the conversion within the time frames identified in the approved work plan (Section III-A Task 16b). The incumbent servicer must also work closely with both the incoming servicer and MHESLA to finalize outstanding issues/adjustments during the post-conversion period (See Section VI-B.3).

d. Data Base Records

The incumbent servicer must transfer all data base records for MHESLA's loans contained on their system to the incoming servicer during deconversion. This includes, but is not limited to, the borrower's personal data, account data, loan level data, history records, name cross reference data, etc. The incoming servicer and the incumbent servicer will work together to resolve all conversion/deconversion issues.

The incoming servicer will be required to accept the records in the layout of the State's incumbent servicer. The incumbent servicer must provide the media and file format to the incoming servicer within one (1) week of notification from the Contract Administrator or designee.

e. Hard Copy Documents

The incumbent servicer must ship the borrowers' files containing the original promissory note and other documents in social security number order to the incoming servicer. With each batch, the incumbent servicer must include a transmittal, listing by social security number, each folder included and the total number of folders in the batch. A copy of each transmittal must be mailed under separate cover or faxed to the incoming servicer. The incoming servicer must confirm receipt of each batch and verify each folder listed on the transmittal is included. Exceptions must be noted on the transmittal and it must be signed by the incoming servicer confirming receipt. The incoming servicer must maintain a copy of each verified transmittal with exceptions noted, if necessary, forward the original transmittal to the Contract Administrator or designee, and forward a copy of the transmittal, to the incumbent servicer.

If any batches, borrower files, and/or loan documents are not received by the incoming servicer, the incumbent servicer will be responsible for forwarding originals or copies, acceptable to the Contract Administrator or designee, of the non-received materials to the incoming servicer within five (5) days of notification. If

the incumbent servicer cannot produce originals or copies, acceptable to the Contract Administrator or designee, of all non-received materials, the incumbent servicer will be held financially liable for the loans involved and will be required to reimburse the State for outstanding principal and interest, plus lost federal interest benefits and special allowance <u>should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information</u> (See Section VI-B.3).

f. <u>Records</u>

MHESLA must have access to history/audit trail microfilm, microfiche, imaged documentation, etc. through the federally mandated retention period of five (5) years after the loan is paid-in-full or paid by default claim. The incumbent servicer has two options relative to the availability of these records to MHESLA following the termination or expiration of the contract (See Section VI-C.1):

(1) <u>Transfer to Incoming Servicer or MHESLA</u>

The incumbent servicer can forward a copy of the film, microfiche, imaged data, etc. to the incoming servicer or MHESLA. The incumbent servicer must provide sufficient instruction to allow the incoming servicer or MHESLA's retrieval of the documentation. The incoming servicer or MHESLA would be responsible for compatible equipment to allow retrieval from the incumbent's documentation. All data and associated materials, including archived data, must be purged off the incumbent servicer's system as instructed by the Contract Administrator.

(2) <u>Provide Requested Documentation</u>

If the incumbent servicer is unable to provide the film, microfiche, imaged data, etc., the incumbent servicer must provide copies of documents as requested by the Contract Administrator or designee. The Contract Administrator or designee's request cannot exceed the mandatory federal retention period for that loan. Documents or written notification of missing documents must be provided within seven (7) days of the Contract Administrator or designee's request, and all costs associated with retrieving, duplicating and transmitting the documents must be included in the servicer's quoted price for deconversion to another servicer (See Appendix C). If the servicer chooses this option and is unable to provide documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan, plus any lost federal interest benefits or special allowance, if applicable <u>should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information</u> (See Section VI-B.3).

g. <u>Deconversion Deadline</u>

The incumbent servicer must transfer its data base records and hard copy files to the incoming servicer by the date specified in the approved work plan (See Section III-A Task 16b).

h. Unprocessed Documents

(1) Received During Deconversion Period

It is expected that the incumbent servicer will have received incoming mail (correspondence, forms, payments, etc) which were not processed prior to the date borrower records were forwarded to incoming servicer. Using a method which permits tracing, the incumbent servicer must transmit payments and either the original or a legible copy (for documents also used for other customers' loans) of the unprocessed documents, correspondence, guarantor reports, etc. to the incoming servicer within ten (10) days after receipt.

(2) Received After Contract Termination

For a six-month period after the contract terminates, the incumbent servicer must transmit all incoming mail (correspondence, forms, payments, etc) to the incoming servicer at no cost to the State. This transmittal must occur within three (3) days of receipt.

Any incoming mail received by the incumbent servicer after the six-month period must be returned to the sender with a cover letter which instructs the correspondent to contact MHESLA, providing both MHESLA's mailing address and telephone number. (See Section VI-C.1).

i. Checks Originated by Incumbent Servicer

The incumbent servicer will be disbursing educational loans for MHESLA through 9/30/2007. However, if the incumbent servicer is not awarded the subsequent contract, both the incumbent and incoming servicers will be responsible for finalizing disbursement issues for disbursements, which were originated by the incumbent servicer prior to the contract termination. For example, both servicers will be involved in processing stop payment requests--the incumbent servicer must place the stop payment and notify the incoming servicer of the action taken, the incoming servicer must adjust the borrower's account and reissue the disbursement, if appropriate.

Because the unit cost for origination processing includes the costs associated with the functions indicated above (Section III-A Task 16i), the incumbent servicer must perform those services on the disbursements which the incumbent servicer issued at no additional charge to the State.

Should the situation exist after contract termination that the incumbent servicer's disbursement check needs to be reissued (e.g., stop payment placed on check written by incumbent servicer but check needs to be reissued), the incumbent servicer will notify the Contract Administrator or designee. After review and approval, the Contract Administrator or designee will authorize the incoming servicer to issue the replacement disbursement. (See Section VI-C.1).

The Contract Administrator or designee will provide the incumbent servicer with instructions regarding transfer of any funds received/returned to the State on a case-by-case basis.

The incumbent servicer must report to the incoming servicer weekly all adjustments attributed to these disbursement transactions as required in the work plan (Section III-A Task 16b). The report to the incoming servicer must contain the necessary data for proper adjustment to the borrower's loan record. The weekly report must include all adjustments which occurred during that given week and include the supporting documentation. Copies of these reports must be provided to MHESLA at Contract Administrator or designee's option.

j. Proof of Delivered Loan Proceeds

The incumbent servicer has contained within its records the proof that the loan proceeds were delivered to the borrower. This is in the form of a copy of the paid check, master check or an EFT disbursement roster.

If, after termination of the contract, MHESLA must have access to such proof, the Contract Administrator or designee will request the documentation from the incumbent servicer. The incumbent servicer must transmit a copy of both sides of the paid check, master check or the EFT disbursement roster within fifteen (15) days of the Contract Administrator or designee's request. (See Section VI-C.1).

k. Denied Claims

(1) Claim Originally Submitted by Incumbent Servicer

If the guaranty agency denies a default claim, which was filed by the incumbent servicer prior to the termination of the contract, MHESLA will return the denied claim to the incumbent servicer for cure. The incumbent servicer will be responsible for cure processing and will be held financially liable, if appropriate, as described in Section III-A Task 9 (See Section VI-B.3).

MHESLA will return to the incumbent servicer claims filed by the incumbent servicer, which are returned by the guarantor for missing documentation. The incumbent servicer must process returned claims in accordance with Section III-A Task 8. If the incumbent servicer fails to provide the required documentation, which results in a financial loss to the State, the incumbent servicer will be financially liable to reimburse the State to the extent of its loss (See Section VI-B.3).

The incumbent servicer will provide MHESLA with a weekly status report for each denied or returned claim described above (Section III-A Task 16k).

Default claim packages recalled from the guarantor prior to the expiration of this contract by the incumbent servicer must be sent to the incoming servicer with the documentation supporting the recall within three (3) days of receipt by the incumbent servicer. The incumbent servicer will prepare a recalled claim transmittal form to accompany the claim packages forwarded to the incoming servicer and provide MHESLA with a copy of the transmittal.

The incumbent servicer will not process default claim payments received after the termination of the contract but will forward the payment and the report to incoming servicer.

(2) Servicing Error by Incumbent Servicer on Claim Submitted by Incoming Servicer

If the guaranty agency denies a default claim which was filed by the incoming servicer but the reason for denial is associated with servicing performed by the incumbent servicer, it will be the option of the incumbent servicer to attempt to cure the violation or have the incoming servicer perform the cure process. Regardless of which servicer performs the cure process, the incumbent servicer will be held financially liable, if appropriate, as described in Section III-A Task 9. If the incumbent servicer opts to perform the cure processing, the incumbent servicer will provide the Contract Administrator or designee with a weekly status report, with items identified by the Contract Administrator or designee, for each denied claim.

The guarantor will return incomplete claims filed by the incoming servicer to the incoming servicer. If the documentation, which is missing, was received/held by the incumbent servicer, the incoming servicer will request the required documentation from the incumbent servicer who must provide it within seven (7) days. If the incumbent servicer fails to provide the required documentation which results in a financial loss to the State, the incumbent servicer will be financially liable to reimburse the State to the extent of its loss (See Section VI-B.3).

l. Costs for Deconversion to Another Servicer

The pricing sheet for this RFP (Appendix C) contains a separate deconversion cost should the incumbent servicer not retain the State's contract after 9/30/2007 or should the State terminate or cancel the contract before 9/30/2007. The costs for deconversion to another servicer shall be incurred, only if the incumbent servicer does not retain the State's contract after 9/30/2007. See Appendix C.

m. Liability

The incumbent servicer is responsible for all borrower data (forms, correspondence, computer history, etc.) concerning the borrowers and their loans that the incumbent servicer had been servicing on behalf of MHESLA. If for any reason, the incumbent servicer is unable to provide borrower data and documents that are required, the incumbent servicer will be liable for any financial loss to the State as a result of the missing data (See Section VI-B.3).

Servicer's Response to this Task:

TASK 16 - LOAN SERVICING: DECONVERSION TO ANOTHER SERVICER

d. Data Base Records

The sentence will be updated to read: "The incumbent servicer must provide the media and file format to the incoming servicer within two (2) weeks of notification from the Contract Administrator or designee."

e. Hard Copy Documents

The sentence will be updated to read: "If the incumbent servicer cannot produce originals or copies, acceptable to the Contract Administrator or designee, of all non-received materials, the incumbent servicer will be held financially liable for the loans involved and will be required to reimburse the State for outstanding principal and interest, plus lost federal interest benefits and special allowance should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information (See Section VI-B.3)."

f. Records

(2) Provide Requested Documentation

The sentence will be updated to read: "If the servicer chooses this option and is unable to provide documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan, plus any lost federal interest benefits or special allowance, if applicable should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information (See Section VI-B.3)."

h. Unprocessed Documents

(2) Received After Contract Termination

The sentence will be updated to read: "This transmittal must occur within five (5) days of receipt."

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d. Data Base Records

MHESLA agrees to the revision to the last sentence of the second paragraph. This revises the time frame specified from one week to two weeks.

e. Hard Copy Documents

MHESLA agrees to the revision to the last sentence of the second paragraph. This revises the sentence by adding "should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information".

f. Records

(2) Provide Requested Documentation - MHESLA agrees to the revision to the last sentence of the paragraph. This revises the sentence by adding "should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information".

h. Unprocessed Documents

(2) Received After Contract Termination - MHESLA agrees to the revision to the last sentence of the first paragraph. This revises the time frame specified from three days to five days.

TASK 17 - LOAN SERVICING: PUBLIC AWARENESS

a. General

This task identifies the servicer's responsibility for assisting MHESLA in informing the public of the benefits of MHESLA's programs. The scope of this task will include students, their families, postsecondary educational institutions, financial institutions, high schools, etc. No services under this task will be provided without the direct request of the Contract Administrator or designee.

b. Informational/Application Materials

The servicer will create, produce/print, distribute and update informational materials such as brochures, flyers, handouts, posters, etc., when requested by the Contract Administrator or designee, to assist MHESLA in informing individuals and institutions of program benefits and administrative procedures. Additionally, the servicer will provide these services for MHESLA's application materials, fact sheets, forbearance forms, checkoff lists, etc. and any other materials required in the processing of FFELP applications. All such materials are subject to approval by the Contract Administrator or designee prior to use by the servicer.

c. Training and Informational Sessions

At the request of the Contract Administrator or designee, the servicer will prepare and conduct, with MHESLA's assistance and participation, if appropriate, training sessions regarding the servicer's computer system, internal forms, procedures, etc. as requested by the Contract Administrator or designee. It is MHESLA's option to require the training to be at MHESLA's location.

d. Borrower Mailings

At the request of the Contract Administrator or designee, the servicer will produce and mail letters to current State borrowers or select groups of State borrowers. Such mailings could be for marketing, collection activity from MHESLA, informational, etc.

e. Cost for Public Awareness

The State will reimburse the servicer for cost, plus 5%, up to $50 for services provided in relation to public awareness activities. Billings from the servicer must clearly identify the particular service provided. Travel will be reimbursed at state travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf).

Servicer's Response to this Task:

Nelnet agrees.

III-B: MI-LOAN DELIVERABLES

TASK 1 - SERVICING SYSTEMS

a. General

The servicer must service MHESLA's portfolio in accordance with applicable federal and state laws, regulations and Contract Administrator or designee's direction throughout the duration of the contract, and ensure that the procedures and servicing systems used to service MHESLA's portfolio comply with these requirements. Any systems modifications necessary to meet the requirements of the contract must be tested and implemented by the effective date of the change or as agreed to by the Contract Administrator (See Section III-B Task 2c).

b. Hardware and Software to be Used by the State

The servicer will provide an interface between MHESLA and the servicer's servicing system using the State's existing hardware (See Section II). If the servicer is unable to interface with the State's existing hardware, the servicer must provide hardware as required for appropriate access to its servicing system in accordance with Section II and Appendix H. All hardware, software and other materials needed to allow MHESLA access to the servicer's servicing system, as well as any installation and maintenance required, is the responsibility of the servicer. Costs for on-going maintenance may be identified on the remaining pricing sheet (See Appendix G).

The servicer shall provide MHESLA with a dedicated data circuit or web access for purposes of on-line inquiry and on-line update. MHESLA'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 (See Appendix G). If web-based access is used, it must allow MHESLA the same capabilities as data circuit access. Access ID's and passwords will be provided to the Contract Administrator or designee.

All hardware provided to MHESLA must be installed and in service by the date of conversion (identified in the approved work plan, Section III-B Task 4b) by the servicer. The servicer must respond within 2 business hours of Contract Administrator or designee's telephone request for assistance in identifying and resolving problems related to system hardware and/or software. This initial contact must include an estimated timeframe for resolution. Help must be available Monday through Friday, 8am to 5pm EST. The servicer must work with the Contract Administrator to coordinate installation of hardware/software with the Michigan Department of Information Technology (MDIT).

c. Servicer System Access

The servicer will provide MHESLA with real-time access to the servicing system for inquiries and updating, if the update option is available. Information access must be available by the Social Security Number, borrower name, and cosigner name. History inquiries will have filters available (payments only, forbearance periods only, etc.) to assist in viewing. Identify in this task response if update capabilities are available and specify available loan data filters.

Some of the items for which on-line update capabilities would be beneficial to both MHESLA 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).

If update capabilities are not available, the servicer must accommodate MHESLA's need to update data regarding borrowers through another method that is mutually acceptable to the Contract Administrator or designee and servicer. History updates must be processed within one (1) day of the servicer's receipt; all other updates must be processed within five (5) days of receipt.

With regard to inquiries into the system, MHESLA requires access to those data elements MHESLA considers critical. A list is provided in Appendix D. The servicer will determine the format for display purposes. MHESLA reserves the right to add data elements to this list as requested by the Contract Administrator or designee. The servicer may bill the State for development of new data elements at the system changes fee specified in the pricing sheets (See Appendix G).

d. System Up-Time and Response Time

The servicer's 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 (5) days, between the hours of 7:30 a.m. and 5:00 p.m. (EST) on weekdays (excluding State of Michigan holidays, located at http://www.michigan.gov/documents/MDCS_Reg5-08_2001_20757_7.pdf).

(2) The access and response time must be maintained 95% of the time, in a range of less than 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 must notify in writing and provide a full understanding of the change (if necessary) to the Contract Administrator or designee prior to 1. Implementation of changes that result in a modification to information/data presented on-line and/or report format and 2.System modifications that affect the processing of transactions posted to the student's accounts (i.e. account set-up, payments, etc.). Because the servicer is responsible for compliance to federal and state statute and regulations, guarantor requirements, and Contract Administrator or designee's direction, the servicer will be financially liable should such modifications fail to comply with requirements of the contract (See Section VI-B.3).

f. Backup and Recovery

The servicer must develop, document and perform daily data file backup 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. Upon the request of the Contract Administrator or designee, the servicer must be able to demonstrate the ability to restore all files. Backup copies of system documentation, user manuals, and system operations manuals must also be stored offsite. This documentation must be available upon request of the Contract Administrator or designee.

g. Security

The servicer must provide annual testing of all access controls and other security features to determine they are working properly. Annual certification must be provided in writing to the Contract Administrator or designee in the form of a SAS70 report.

Please provide the information required in Appendix H and submit with proposal.

h. Record Retention of Account Data

After an application or a loan has been cancelled, disapproved or paid-in-full, the servicer must be able to provide a complete history including detail data and documentation for record retention periods required by federal law and periods identified by the Contract Administrator.

i. Business Continuity and 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 MHESLA's portfolio in the event of a disaster. Backup processing/facilities must be operational within 48 hours of the loss of the main processing facilities. Documentation of, and the demonstrated ability to meet the disaster recovery plan must be provided with the proposal.

Servicer's Response to this Task:

TASK 1 - SERVICING SYSTEMS

a. General
The electronic application processing and incentive program offerings will be billed as value-added services, as they were not required in the prior contract.

b. Hardware and Software to be Used by the State
Nelnet will conform to the language stated in the prior contract. "The servicer must provide trouble shooting help via telephone during the servicer's normal operational hours within (8) hours and/or maintenance service to the State within 24 hours of the State's request for assistance." Our normal operational hours are 6:30 a.m. to 9:00 p.m. (MST).

d. System Up-Time and Response Time
Nelnet will conform to the language stated in the prior contract. "The access and response time must be maintained 90% of the time in a range between one (1) and (5) seconds from the time the enter key or its equivalent is depressed until the requested information appears of the screen."

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a. General
MHESLA agrees.

b. Hardware and Software to be Used by the State
MHESLA agrees. This revises the standards in the third paragraph regarding the servicer's assistance in identifying and resolving problems relating to system hardware and/or software.

d. System Up-Time and Response Time
MHESLA agrees. This revises the standard regarding access and response time identified in d. (2) from 95% to 90%.

TASK 2 - 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. Federal and State Requirements

Mandatory changes necessary to ensure MHESLA's portfolios are serviced in accordance with federal and state statute, regulations, procedures and/or reporting requirements must be implemented by the servicer at no cost to the State. The servicer should consider this in identifying unit costs.

c. State Requested Changes

If MHESLA requests the servicer to perform software maintenance and enhancements, the servicer may bill the State at the System Changes fee (See Appendix G) for such enhancements, unless those enhancements are necessary to meet contract requirements.

The procedure to be followed is described below:

(1) The Contract Administrator or designee will identify the requested changes.

(2) Within 30 days of the Contract Administrator or designee's request, the servicer will provide an estimate of the costs to the Contract Administrator or designee and the timetable for implementation. The servicer is responsible for the cost of preparing such an estimate.

(3) If acceptable, the Contract Administrator or designee will approve the requested changes and associated costs, in writing, and instruct the servicer to proceed.

(4) If not acceptable, the Contract Administrator or designee will discuss the servicer's estimate with the servicer to determine what alterations may be made that would allow approval by the Contract Administrator or designee. Upon reaching agreement, the Contract Administrator or designee will approve the requested changes and associated costs, in writing, and instruct the servicer to proceed.

If the changes are also being requested by other lenders being serviced, after reaching agreement on the changes and associated costs, the State will reimburse the servicer for a portion of the costs associated with the changes at the rate for system changes identified on the pricing sheets (Appendix G). The State's portion of the costs shall be determined based on a ratio of the volume of MHESLA's portfolio to the volume of all affected lenders' portfolios or other method accepted in writing by the Contract Administrator or designee.

d. Payment of State Requested Changes

On the pricing sheet (Appendix G), the servicer will provide a fixed hourly rate for system changes. This hourly rate must include all costs associated with the changes.

After written approval by the Contract Administrator or designee and the servicer's completion of the change, the servicer will bill the State for the entire amount of the change via its regular monthly invoice. However, the invoice must clearly relate the charge to the Contract Administrator or designee's authorization and cannot exceed the estimate as previously identified by the servicer and as approved by the Contract Administrator or designee. If the requested change will take several months to complete, the servicer may contact the Contract Administrator or designee to discuss other payment arrangements.

Servicer's Response to this Task:

TASK 2 - SOFTWARE MAINTENANCE AND ENHANCEMENT

b. Federal and State Requirements
When major changes are mandated by federal or state statute or regulations, Nelnet follows our system methodology in implementing all changes required. The cost associated with this would be prorated based on loan volume. Reporting requirement changes, specific to MHESLA, would need to go through Nelnet's intake process and follow Task 2d. This needs to be considered in pricing.

c. State Requested Changes
The electronic application processing and incentive program offerings will be billed as value-added services, as they were not required in the prior contract.

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b. Federal and State Requirements
MHESLA itself cannot approve servicing contract amendments, but must submit proposed amendments to the Department of Management and Budget for review and approval/disapproval by the State Administrative Board. Consequently, MHESLA cannot guarantee the approval of future proposed contract amendments. However, MHESLA must ensure that our student loan portfolios are serviced in accordance with applicable statute and regulations. For this reason, it is necessary that pricing be fixed for the contract extension period and that the servicer take this into consideration in identifying unit costs.

Pricing is fixed for the contract extension period per Section V (Compensation and Payment) of the extension RFP. Any pricing changes must be approved in writing by both parties per Section I-T (Revisions, Consents and Approvals) of the Contractual Services Terms and Conditions.

c. State Requested Changes
MHESLA agrees.

NELNET RESPONSE
b. Federal and State REquirements
Both parties agree.

TASK 3 - GENERAL SYSTEMS AND OPERATIONAL REQUIREMENTS

a. General

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

The servicer is expected to sign and process all student loan lender documents when acting as MHESLA's agent, unless specifically instructed otherwise by the Contract Administrator or designee. This would include, but not be limited to, loan applications, denial overrides, disbursements, and forbearances.

b. Compliance

The servicer's system and operations must comply with federal and state statute and regulations, and Contract Administrator or designee directions. The servicer must adhere to all instructions received from the Contract Administrator or designee with regard to MHESLA's portfolio. As soon as detected, the servicer must initiate corrective action for all servicing errors, regardless of the source of the error and the party responsible, and immediately advise the Contract Administrator or designee of situations that cannot be corrected. Notice of the corrective action must be provided to the borrower and all appropriate parties by the servicer.

c. Privacy Notices

The Gramm-Leach-Bliley (GLB) Act requires lenders to provide customers with periodic privacy notices, including an annual privacy notice. The servicer must provide all required notices to MHESLA's customers in compliance with GLB Act requirements. The servicer may bill the State at privacy notices fee identified on the pricing sheets (Appendix G).

d. Borrower Benefit Initiatives

MHESLA does not currently offer borrower benefit programs for the MI-LOAN Program portfolio. Should MHESLA choose to do so in the future, the servicer must provide the resources necessary to support MHESLA's borrower benefit initiatives. This includes, but is not limited to, MHESLA access to view the borrower's status for each initiative on-line and tracking/status reports for the initiatives. The servicer must also be able to discontinue any implemented initiatives within 30 days of the Contract Administrator or designee's request to do so.

e. 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, cosigner or other parties related to the loan/account, oral conversations with the borrower, cosigner, reference, school, parents, etc., application approval/disapproval, the reason(s) for the disapproval, refunds, repayment due diligence, NSF returns, receipt of forbearance requests, approved forbearance periods, rejected 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 pre-determined automated messages is acceptable; however, the servicer's system must also allow free form messages by either the servicer or MHESLA. To ensure the integrity of MHESLA's records, the servicer's system must not allow history entries for MHESLA's borrowers to be revised or deleted. All necessary changes must be done through an additional history entry that identifies and corrects the error.

f. Audit Trail

The servicer's history system must provide 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 and to facilitate efforts to analyze and audit accounts.

g. Bond Funding Source Identification

Loans are financed through multiple funding sources (See Section III-B Task 23b), which must be identified by separate codes. The servicer's system must be able to accommodate existing funding sources and new funding sources as necessary. Bond funding source 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 systems for MHESLA's use.

The Contract Administrator or designee will provide additional bond fund codes and instructions as appropriate. 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 source financing takes place or through some other manner.

h. Status Codes

The servicer's system must utilize a series of status codes, which are updated with the proper status as the activity occurs, and can be used to track application processing and identify the status of loans/accounts. These statuses must include, but are not limited to, approved, disapproved, cancelled, disbursed, repayment, forbearance, bankruptcy, death, disability, delinquency, default and collections. These codes must be viewable to MHESLA. A list of current statuses are provided in Appendix D.

i. Staff

The servicer must maintain sufficient staff that is thoroughly trained and capable of addressing issues/questions of a complex nature within the time frames required in the contract. Those issues/questions may include but are not limited to originations, repayment terms, and forbearance options available.

Staff must be knowledgeable of and adhere to the Contract Administrator or designee's direction when addressing issues/questions, such as policy advising the borrower to contact MHESLA when a loan is in default or collection status.

Staff that performs collection attempts must be knowledgeable of the repayment options available, and have access to the borrower's loan record and all other necessary data files so they may identify all repayment options (See Appendix F) available to assist the borrower in curing the delinquency.

j. Telephone Contacts

Sufficient toll-free telephone lines must be provided to ensure at least a weekly 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 written request by the Contract Administrator or designee, 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 telephone response system, the system must always allow the caller access to a servicer employee and it must be able to accommodate callers from rotary dial telephones.

Staff responding to incoming calls or placing outgoing calls must have access to information necessary to research and resolve complex issues and questions, so that a majority of the time, a second call will not be needed. Issues/questions that cannot be satisfactorily resolved during the call must be researched and a return call made 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 the initial call.

Staff must provide borrowers and cosigners with any forms necessary to apply for the repayment option for which it appears the borrowers qualify.

Actions needed in response to telephone calls, such as form requests, account maintenance and processing of verbal forbearance requests must be completed by the servicer within five (5) days.

k. Written Correspondence and Document Processing

Written correspondence, notifications and documents received, such as borrower letters and forbearance requests, must be processed/responded to 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.

l. Outgoing Payments

With the exception of loan disbursements, all payments relating to a borrower's loan that are sent to any party (State, borrower, etc.) for any reason, must include the following data:

Borrower's name
Borrower's Social Security Number
Loan/Promissory note identifier
Bond funding sources identifier
Reason for remittance, such as loan overpayment or payment received after death of student
received after death of borrower

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

m. Borrower Notifications/Mailings

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

n. MHELSA Requests

If MHESLA staff requests information from the servicer, or requests the servicer to take specific action, the servicer must comply within five (5) days. This includes, but is not limited to, verbal responses, requests for copies of account documents/materials or the borrower's file, mailing of forms, account maintenance, etc.

o. Legislative/News Media Contacts

All verbal or written inquiries received from the news media related to services under this contract must be immediately referred to the Contract Administrator for response.

All reasonable efforts must be made to notify the Contract Administrator within 24 hours after receipt of verbal or written inquiries from United States Congressmen, State Legislators, or their staff members related to services under this contract.

Prior to responding to legislative inquiries relating to services under this contract, the servicer must provide proposed responses to the Contract Administrator for review. The servicer must then respond to the inquiries within one (1) day of receiving written approval from the Contract Administrator.

p. Record Retention

The servicer must retain the original application, promissory note, addendum, if applicable, and supporting documents as required by federal or state statute and

regulations or Contract Administrator or designee directions in a secure fire resistant environment. 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 approved by the Contract Administrator or designee. The servicer must retrieve and make available the original or acceptable copies as requested by the Contract Administrator or designee. Provide format of copied documents in this task response.

r. Facsimile and E-mail Capabilities

The servicer must have facsimile and e-mail capabilities to enable MHESLA, schools, borrowers and other MI-LOAN Program participants or 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.

s. 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 documentation approved by the Contract Administrator or designee 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 Contract Administrator or designee of the change.

t. Name Changes

The servicer will update the demographic file to reflect all name changes by the borrower or cosigner, and record the documenting source and prior name in the account history file.

u. Good and Bad Address Flag

The servicer must have a method viewable on the servicer's system to identify for MHESLA if the borrower's demographic information is accurate or inaccurate. In addition, the servicer's system must trigger mailings addressed to the borrower in care of the cosigner, if applicable, if the borrower's address is flagged as a bad address.

v. Forms and Materials

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

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

Any revisions needed in the forms or brochures provided by the servicer because of State requested changes are the financial responsibility of the servicer.

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

w. Overnight Delivery of Mail

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

x. 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.

y. 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 Contract Administrator and may require the servicer's appearance in court, at hearings or at any other circumstances deemed as necessary by the Contract Administrator or designee. Only travel costs incurred by the servicer will be reimbursed by the State at State travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf). The servicer must provide supporting documentation for actual travel costs incurred on the invoice.

z. Training

The servicer is responsible, at no additional charge to the State, to train the State thoroughly in the use of its systems and an understanding of the servicer's operational procedures. Upon request, the servicer must provide the Contract Administrator or designee with copies of its operational procedures. If deemed necessary by the Contract Administrator or designee, training must be provided at MHESLA's location. The servicer is liable for any such training in the event of non-State modifications and enhancements to its existing system. Such training must be provided prior to the implementation of the modifications/enhancements. If the Contract Administrator or designee desires training for subsequent modifications/enhancements to be at MHESLA's location, the servicer will be reimbursed for travel at State travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf). The servicer must provide, with invoice, supporting documentation for travel costs incurred on the invoice.

aa. Enhancements

MHESLA is interested in enhancements that will allow MHESLA to provide more service to it's borrowers, as well as to facilitate MHESLA's ability to use and interact with the servicer's system. Such enhancements could include, but are not limited to, the ability to access and print file materials/documents through MHESLA's terminals/personal computers on site, the ability to select and display only specific data from an account history, such as forbearances, etc.

bb. State Records Held by a Third Party

Certain account materials for some of MHESLA'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 by previous servicers prior to January 1998.

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. It is the responsibility of the servicer to interact with Image Express to obtain documents as needed to service borrower's accounts properly. Additional contact should include MHESLA and the school. It is expected that the servicer will service loans within time frames identified in the contract which will allow sufficient time for

contacting all sources. The Contract Administrator will provide the contact information for Image Express upon the servicer's request.

cc. Interface to State of Michigan Systems

MHESLA would like to utilize a Department of Treasury Centralized Correspondence System to produce correspondence with borrower specific information. To do so, this system must interface to the servicer's database through an approved interface method to allow Treasury's system to access the servicer's database in real-time and/or batch mode. Examples of approved interface methods include web services, API, or direct access to the servicer's database. Although not a contract requirement, this is a desirable system enhancement.
As State of Michigan-interfaced systems evolve and the need for interface methodology evolves, the servicer must provide a mechanism for change as detailed in Section III-B Task 2c.

Servicer's Response to this Task:

TASK 3 - GENERAL SYSTEMS AND OPERATIONAL REQUIREMENTS

d. Borrower Benefit Initiatives
All borrower benefit initiative must go through Firstmark's intake process and would then follow through Task 2d.

j. Telephone Contacts
Nelnet will conform to the language in the prior contract. "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."

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d. Borrower Benefit Initiatives
MHESLA agrees that all modifications to existing or implementation of new borrower benefit initiatives must go through Firstmark's intake process and would then follow through Task 2d.

j. Telephone Contacts
MHESLA agrees. This revises the standard in the first paragraph regarding incoming calls from a weekly average to a monthly average.

TASK 4 - CONVERSION TO SERVICER

For purposes of this RFP, conversion refers to the receipt and system update of MHESLA's student loan portfolio records, including all system files, electronic files, data and information in electronic or hardocpy format and hardcopy files and documents that are transferred to the incoming servicer by the incumbent servicer.

a. Current Servicer

The current servicer will hereafter be referred to as the incumbent servicer.

The incoming servicer must have the capability to accept the existing loan data base information in the incumbent servicer's media format to convert the existing system's data to the file structure required by the incoming servicer's system. The media format of the incumbent servicer will be provided to the incoming servicer within one (1) week of contract issuance.

b. Work Plan

Within 15 days of contract issuance, the incoming servicer must submit a comprehensive work plan for approval by the Contract Administrator. When approved in writing by the Contract Administrator the servicer must submit the work plan to the incumbent servicer for review. A work plan approved by the incumbent servicer and incoming servicer must be provided to the Contract Administrator within 30 days of the incumbent servicers response to the initial work plan. The Contract Administrator must approve in writing the agreed upon work plan before conversion begins.

A minimum of 120 calendar days will be provided for conversion purposes.

Being operational specifically means the incoming servicer's ability to process all activities included in and required by the 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 (See Section III-B Task 3y) of MHESLA staff for the understanding and utilization of the incoming servicer's system, to be made available and performed within 30 days of the conversion date identified in the work plan.

(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 in writing by the Contract Administrator 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 the contract. Final acceptance testing, including evidence of correctness of all systems transactions, reports and overall system balancing, must be performed to the satisfaction of the Contract Administrator prior to activation of system. The Contract Administrator must accept the testing results as complete and acceptable in writing before activation of the system can proceed.

e. Progress Reports

Biweekly progress reports must be prepared by the incoming servicer and submitted to the Contract Administrator or designee identifying the status of the conversion including any problems encountered, the next steps and other information necessary for the success of the conversion. The incoming servicer and the incumbent servicer must work together to resolve all conversion/deconversion issues.

f. MHESLA Involvement

The incoming servicer must maintain daily contact with the Contract Administrator in the development and implementation of the conversion of the data files from the incumbent servicer. This is necessary so that MHESLA agrees with and understands interpretations made for the conversion and the results of the conversion are accepted in writing by the Contract Administrator.

g. Data Base Conversion

The incoming servicer will be required to reconcile the converted accounts to the deconverted accounts from the incumbent servicer. To verify that total deconverted account balances equal converted account balances, the incoming servicer will be required to provide a report to the Contract Administrator or designee sorted by funding source to include the total number of loans, total number of borrowers, total current principal balance, and total current interest outstanding of the converted accounts.

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 in social security number order. Borrower files will be transmitted to the incoming servicer by the incumbent servicer in batches. Each batch will include a transmittal, listing by social security number, each folder included and the total number of folders in the batch. Upon receipt of the batch, responsibility for the borrower files included is transferred from the incumbent servicer to the incoming servicer. A copy of each transmittal will be mailed or faxed to the incoming servicer by the incumbent servicer. The incoming servicer must confirm receipt of each batch, verify all files listed on the transmittal are included, note any exceptions on the transmittal and sign the transmittal. The incoming servicer must maintain a copy of each verified transmittal with exceptions noted, if necessary, forward the original transmittal to the Contract Administrator, and forward a copy of the transmittal, to the incumbent servicer. 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 on the transmittal (See Section VI-B.3).

By use of a bar code or other method approved by the Contract Administrator or designee, 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 within time frames of the contract with pending issues regarding these borrower's loans such as origination and repayment document processing, etc. All financial penalties and/or fees assessed against the State due to processing that does not conform to requirements of the contract are the liability of the incoming servicer. The incoming servicer must compensate the State for the amount of its loss within 60 days (See Section VI.B-3).

Within 90 calendar days of the completed conversion (as identified in the work plan) of the database and receipt of all borrower files, the incoming servicer must have completed an audit (1) of the promissory notes in the borrower's 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 and evidence of disbursement for each of the borrower's open loans. 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. A written report identifying loan and document exceptions in social security number order must be provided to the Contract Administrator or designee within fifteen (15) days following the 90-day 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 Contract Administrator following the incoming servicer's audit (See Section VI-B.3).

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 MI-LOAN Program 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 (provided by Contract Administrator or designee upon request) 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 the Contract Administrator or designee 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 conversion has been completed and approved in writing by the Contract Administrator.

j. Costs for Conversion

The Contractor's loan servicing unit price must include up-front conversion costs. The incoming servicer cannot bill unit servicing costs until the Contract Administrator approves, in writing, the conversion is finalized (See Appendix G).

k. Checks Originated by Incumbent Servicer

The incoming servicer must indicate in the work plan (Section III-B Task 4b) the method required for the incumbent servicer to provide information on all adjustments attributed to disbursement checks.

Servicer's Response to this Task:

Nelnet agrees.

TASK 5 - ORIGINATION PROCESSING

a. General

The servicer must provide complete origination processing for MI-LOAN Program loan applications. This includes, but is not limited to, entry onto the system and complete system maintenance, screening for accuracy and completeness, securing all needed forms and any missing data, accessing and processing for approval or disapproval, ensuring that the borrower and cosigners, if applicable, meet the program requirements (as specified in the contract), including the credit standards and requirements, loan disbursement, and disbursement cancellation or reissuance, as appropriate.

b. Processing Manual

Appendix F is a copy of the Processing Manual, which provides a thorough description of the MI-LOAN Program process and requirements.

The servicer is responsible for the information, functions, and responsibilities contained in this manual. The manual may be revised during the period of this contract as the MI-LOAN Program evolves. The servicer must adhere to all future changes to the manual as requested in writing by the Contract Administrator or designee.

c. Application Requests

Upon request, the servicer must provide applicants with all required application materials.

d. Application Methods

There are several application methods that are used in the student loan industry. The servicer must be able to accommodate various application methods, including a method that provides the applicant with the option to electronically complete and print the loan document for his/her manual signature and submission, or to electronically complete (electronic signature), sign and submit the loan document.

e. Loan Type

The system must also identify the type of loan application that is being processed, Creditworthy, Credit Ready Undergraduate or Credit Ready Graduate.

f. Loan Participants

Most MI-LOAN Creditworthy Loan Program loans have a cosigner(s). The servicer's system must be capable of cross-referencing students, cosigners and borrowers. This process must identify the loans and borrowers that the

cosigners and students are associated with. MI-LOAN Program borrowers are not required to maintain the same cosigners on additional MI-LOAN Program loans. If, on subsequent loans, the applicant can meet the creditworthy standards on their own, a cosigner(s) would not be required.

g. Application Review

The servicer is responsible for reviewing 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 Processing Manual (Appendix F) provides more information regarding application review.

h. Credit Standards

The MI-LOAN Program is a credit based student loan program. There are currently two sets of credit standards. One for each of the two MI-LOAN programs, Creditworthy and Credit Ready. Creditworthy credit standards require an applicant to have a good established credit history. Credit Ready standards are based on an applicant being "credit ready" versus already having an established credit history. Credit Ready standards are restricted to applicants attending specific postsecondary institutions identified in the Processing Manual (Appendix F). These schools may change yearly and will be identified by the Contract Administrator or designee.

The servicer is responsible for securing a credit report on the applicant or cosigner(s), as outlined in the Processing Manual (Appendix F), and reviewing it to determine whether the required credit standards have been met. The servicer must be able to support both manual and electronic retrieval and review of credit reports. The credit report must be either imaged or a hard copy housed in the loan folder. A copy of the current "Credit Standards and Requirements" is included in the Processing Manual (Appendix F).

i. Application Assessment

Applications must be assessed to determine if they meet MI-LOAN Program loan criteria, including credit standards and requirements, and processed for approval or disapproval accordingly. If an application is disapproved, the reason(s) for disapproval must be entered into the loan history and the applicant, school and cosigners, if applicable, notified of the disapproval action. The servicer will be responsible for responding to inquiries from applicants seeking clarification or further information regarding the denial. See the Processing Manual (Appendix F) for detailed information regarding application assessment, approval and disapproval.

j. School Certification

The servicer will be responsible for obtaining and assessing the school certification of the borrowers application. The servicer must be able to support both manual and electronic submission of school certification.

k. Appeals

The applicant has the right to appeal the disapproval action within 60 days of the date on the disapproval letter. The servicer will be responsible for appeal processing.

If a telephone (verbal) or written communication is received from a disapproved applicant or cosigner, if applicable, seeking to appeal the disapproval action, the servicer will review the appeal within ten (10) days to ascertain if the applicant now meets MI-LOAN Program requirements and, if so, will process accordingly. Appeal requests received after the 60-day period will not be considered.

If the appeal is verbal, the servicer must request the applicant submit supporting documentation, if applicable, and upon receipt ascertain if the applicant now meets MI-LOAN Program requirements. See the Processing Manual (Appendix F) for details on appeal processing.

MHESLA reserves the right to review any denial appeal.

l. Check Stock

It is the servicer's responsibility to design and present the proposed check and check stub to the Contract Administrator or designee for approval within two (2) weeks of contract issuance. After the Contract Administrator or designee's written 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 MHESLA's name (Michigan Higher Education Student Loan Authority or MHESLA) as the lender of the loan, MI-LOAN Program as the loan program, the Participant ID number of the borrower, and the name and address of the servicer.

(2) Check Stub Information

The check stub must include MHESLA's name (Michigan Higher Education Student Loan Authority or MHESLA) as the lender of the loan, MI-LOAN Program as the loan program, the name and Participant ID number of the borrower, the total loan amount, the reserve fee, the net check amount, the three to five-digit alpha-numeric funding source code, and the name and address of the servicer.

m. Disbursement

The servicer must be able to accommodate disbursement by check and electronic funds transfer (EFT). The school will determine the type of disbursement and format for the disbursement roster/transmittal. The school may choose more than one format for the disbursement roster/transmittal and, upon request, the disbursement roster/transmittal will be faxed to the school. The servicer must provide EFT within three (3) business days, within one business day, if possible.

If the school chooses to have disbursement done by check, the servicer must have the capability to make the check payable only to the borrower or co-payable to the borrower and the school, as approved by the Contract Administrator or designee.

The servicer will disburse the funds with the following requirements:

The reserve fee, identified by the Contract Administrator or designee, will be deducted from the loan proceeds.

There will be one or more disbursements

If disbursed by check, the check will be mailed to the borrower's billing (home) address.

The servicer must accommodate disbursement process changes as requested by the Contract Administrator or designee. See the Processing Manual (Appendix F) for more information regarding disbursement of the loan.

n. Disclosures

The MI-LOAN Program must conform to the federal Truth in Lending Act. The servicer is responsible for preparing and mailing loan disclosures that conform to

requirements of the Truth in Lending Act. The servicer must send the disclosure to the borrower at either his/her permanent or billing address, as identified by the Contract Administrator or designee, and, if appropriate, a copy to the cosigner(s). A hardcopy of the disclosure must be maintained in the borrower's loan file, or the data must be stored in the system, allowing recreation of the disclosure, if needed.

o. Prior Loan Delinquency Review

If the borrower or cosigner, if applicable, credit score falls within the credit standards parameters requiring a "negative credit review" (which includes "all active accounts must be current"), prior to approval, the servicer must check to see if the borrower and cosigner(s), if appropriate, have prior MI-LOAN Program loans that are delinquent. The servicer must deny the new loan for those borrowers who have delinquent MI-LOAN Program loans.

p. Timeliness of Disbursement

The servicer cannot disburse loans more than 30 days prior to the loan period beginning date. Once the loan has been approved, the servicer must disburse the loan on the dates recommended by the school, unless those dates are in conflict with program guidelines, or otherwise directed by the Contract Administrator or designee. If a recommended disbursement date is prior to approval of the loan, the servicer must disburse the loan in the next scheduled disbursement cycle after taking into consideration the 30-day restriction.

q. Frequency of Disbursement

MHESLA currently requires loans to be disbursed daily, Monday through Friday. However, MHESLA reserves the right to change that schedule as requested by the Contract Administrator or designee.

r. Account Maintenance

The servicer must perform the necessary account maintenance to update the loan to disbursed status. The update must include a loan status code (See Appendix D) that identifies the loan was disbursed, the disbursement date, total disbursement amount, reserve fee amount, net disbursement amount, and the check number or an indication that the loan was disbursed by EFT, whichever is appropriate.

s. Post Disbursement Processing

The servicer is responsible for post disbursement processing, such as returned checks, stop payments, disbursement/loan cancellation, and disbursement reissuance. If a disbursement is to be reissued, the servicer must reissue the disbursement within five (5) days of the determination to reissue.

t. Servicing Fees

Origination fees may be billed for each application received and processed by the servicer (See Appendix G). Origination processing includes providing applications to applicants through approval/disapproval and loan disbursement, if appropriate.

u. MI-LOAN Application Referral Program

Through the MI-LOAN Application Referral Program, Michigan financial institutions act as outlets for MI-LOAN Program applications and materials, including referrals to the web site for electronic submission of applications. When applications distributed in this manner are received, the servicer must be

able code and track these applications, and provide the Contract Administrator or designee with a report identifying the financial institutions corresponding to the applications. The financial institutions involved will be paid a nominal fee for their assistance and the report will provide the information needed for MHESLA to do this.

v. Liability

If the servicer improperly disburses the State's loans that result in a loss to the State, the servicer is financially liable to reimburse the State to the extent of its loss (See Section VI-B.3).

Servicer's Response to this Task:

TASK 5 - ORIGINATION PROCESSING

d. Application Methods
The electronic application method will follow the value-added process currently underway.

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d. Application Methods
MHESLA agrees.

TASK 6 - LOAN SERVICING: GENERAL LOAN SERVICING

a. General

The servicer is responsible for performing general servicing associated with MHESLA’s portfolio in accordance with state and federal requirements, Contract Administrator or designee directions and processing manual (Appendix F). This would include cancellations, adjustments, demographic updates, etc.

b. 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.

c. Other Changes

The servicer will make any name and/or address changes as reported by the borrowers or cosigners.

d. Notification

The servicer will notify the borrower of all adjustments made to the account that affect the loan.

e. Cancellation Note Processing

The servicer must maintain a field that identifies disbursements that have been cancelled, and a status code that identifies loans that have been cancelled.

A MI-LOAN Program loan may be cancelled if the disbursed funds are returned to the State or the servicer within 30 days of the date of the disbursement; or if within 30 days of the date of the loan disclosure, the borrower requests the school, in writing with a copy to the State or the servicer, to return the funds; or the student becomes totally and permanently disabled or dies (The state forward these copies to the servicer). The reserve fee and accrued interest will be forgiven. However, if the funds are returned more than 30 days after issuance, or the school returns the funds more than 30 days after issuance, with no letter from the borrower, they will be treated as a payment on the loan, resulting in the borrower's liability for payment of the reserve fee and accrued interest.

The servicer's system must contain a status code to identify loans that have been cancelled. See (Appendix D) for a list of currently required status codes.

The servicer must enter a history comment in the loan history identifying the reason for cancellation, update the loan to cancellation status and perform any other necessary loan maintenance. Cancellation of the loan must occur within ten (10) days of receipt of the cancellation notification.

The servicer will copy by microfilm, microfiche, imaging, or other format approved by the Contract Administrator or designee, the cancelled file contents. After the time frame identified by the Contract Administrator or designee, the servicer may destroy the original file.

The servicer must notify the borrower of the cancellation.

Servicer's Response to this Task:

Nelnet agrees.

TASK 7 - LOAN SERVICING: LOAN ADJUSTMENTS

a. General

Adjustments refer to modifications made to the loan data after approval of the loan. Adjustments include increases or decreases in the loan amount, changes to the loan period, changes to the cost or financial aid amounts, etc. The servicer is responsible for making adjustments to loans in accordance with the requirements of the contract, Loan Processing Manual (Appendix F) and Contract Administrator or designee directions.

b. Loan Amount

MHESLA allows the original amount of a MI-LOAN Program loan to be adjusted

When the maximum allowable number of disbursements has not been made and the request to adjust the loan amount is received no later than one month after the end of the loan period; or

When the maximum number of disbursements has been made and the net disbursed amount of the last disbursement is returned within 30 days of the date of that disbursement.

The adjusted loan amount must conform to program restrictions and shall not exceed the loan amount permitted as determined in accordance with the requirements identified by the Contract Administrator or designee.

The maximum loan amount per academic year shall not exceed the amount of financial need (cost minus financial aid, as certified by the school), or the borrower's requested loan amount, whichever is lower. The total Current Principal Balance of all of the borrower's loans combined may not exceed the maximum aggregate amount for the applicable MI-LOAN Program. The current MI-LOAN Program aggregate amount is $125,000. The Credit Ready MI-LOAN Program aggregate amount is $75,000. These amounts may change during the period of this contract. The Contract Administrator or designee will notify the servicer in writing of any changes. See the Processing Manual (Appendix F) for more information regarding aggregate loan amounts.

c. Processing

The servicer will update the loan record as necessary upon receipt of the adjustment request and supporting documentation, if required. An entry must be made in the loan history identifying the adjustment and the date it was effective. If the adjustment is to the loan amount, the loan history must identify the original loan amount and the adjustment.

Servicer's Response to this Task:

Nelnet agrees.

TASK 8 - LOAN SERVICING: LOAN TERMS

a. General

This task identifies the terms of the loans.

b. Interest Rate

Interest rates will be assigned by the Contract Administrator or designee, in writing, and may be fixed or variable. If variable, the servicer is responsible for notifying the borrower when the interest rate changes and making all system adjustments necessary to accommodate the revised rate. Currently, the MI-LOAN Program variable interest rate changes yearly, on July 1ST. However, MHESLA reserves the right to alter this schedule.

The servicer must record the interest rate change for each variable rate loan in the servicing history. The history comment must identify both the old and new interest rates.

c. Interest Accrual

Interest begins to accrue as of the date of the first disbursement.

d. Monthly Payments

Monthly payments are required for MI-LOAN Program loans. At this time, quarterly payments are not an option. The Contract Administrator or designee will notify the servicer, in writing, if payment options are to change.

e. First Payment Date

The first payment must be scheduled in compliance with requirements outlined in the Processing Manual (Appendix F).

f. Minimum Payment Amount

The minimum monthly payment amount is $50 per borrower, but may be higher based on the borrower's total amount of outstanding MI-LOAN Program loans or lower if the borrower has been approved for forbearance. However, when multiple loans are combined for billing, the payment amount for each individual loan may be lower than $50.

g. Repayment Length

The loan must be paid in full within the maximum repayment term authorized by the Contract Administrator or designee and identified in the promissory note. Currently, the MI-LOAN Program has 15- and 25-year maximum repayment terms, depending on the terms of the promissory note. The maximum repayment term includes any authorized periods of forbearance.

h. Graduated Payments

The servicer must be able to offer multi-level graduated payments to borrowers to facilitate repayment of the loans. A change notice will be issued if graduated payments are needed.

i. Forbearance

Currently, the MI-LOAN Program allows for a maximum of 60 months of forbearance to assist borrowers who are having difficulty making their monthly payments. Depending on the promissory note, forbearance may be of either principal or principal and interest amounts and is approved in increments of up to 12 consecutive months. All forbearance months are included in the maximum repayment term. Refer to Section III-B Task 11, and the Processing Manual (Appendix F), for further forbearance information.

Servicer's Response to this Task:

TASK 8 - LOAN SERVICING: LOAN TERMS

b. Interest Rate
The current interest rate may be viewed on the Note Display/Note Snapshot screen.

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b. Interest Rate
MHESLA agrees that the current interest rate may be viewed on the Note Display/Note Snapshot screen and, therefore, agrees to update the sentence to read: "The servicer must record all interest rate changes for each variable rate loan in a viewable field within the system, with the date that the new rate was effective".

TASK 9 - LOAN SERVICING: BILLING BORROWER

a. General

The servicer is responsible for billing the borrower for repayment of their loan(s).

b. Monthly Billing Statement

MHESLA elects to utilize a monthly billing statement to bill its borrowers. The servicer must have the ability to bill the borrower for all loans in one billing statement, and each loan individually. The servicer must bill all loans in one billing statement, unless directed to do otherwise by the Contract Administrator or designee. For convenience in remitting the payment, the servicer must provide a pre-addressed return envelope or a return address label with each statement.

The State reserves the right to elect to use other billing methods at some point in the future.

c. Method of Payment

MHESLA must be able to accommodate the methods of payment currently used. These methods are: payment by check/money order, by telephone with the funds withdrawn from the borrowers bank account by the servicer, and through an electronic debit process where their payment is automatically withdrawn from borrowers bank account (ACH). The servicer must be able to accommodate other methods of payment as approved by the Contract Administrator or designee.

d. Amount of Payment

The minimum payment amount per borrower is $50. As additional loans for a borrower are added to the system, the payment amount due on each loan may be reduced to the lowest amount possible which will still repay the loan within the maximum repayment period allowed for that loan. The reduced payment amount for each loan is based on the outstanding loan principal to the total outstanding loan principal of all loans combined.

e. Timing of Billing

The first billing statement must be sent to the borrower approximately 30 days prior to the first scheduled payment. Subsequently, the monthly billing statement must be sent no later than 14 days before the next payment is due.

Servicer's Response to this Task:

Nelnet agrees.

TASK 10 - LOAN SERVICING: APPLICATION OF PAYMENTS

a. General

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

b. Payments Received

Each business day, all payments and accompanying materials are to be microfilmed, imaged or another format approved by the Contract Administrator or designee. The payments must be deposited on the date of their receipt.

c. Payment Review/Borrower Notification

The servicer must either (1) notify the borrower, in accordance with federal statute, where communications concerning disputed debts are to be sent or (2) 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 law and regulations. 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 cover 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 the payments effective with the date of receipt. Payments must be applied to the loan record within five (5) days of the servicer's receipt of the payment.

e. Application of Borrower Payments

(1) Payment Application

Payments are to be applied first to accrued interest, then to the principal balance. If the payment equals the scheduled payment amount, the servicer will advance the next payment due date by one month. If the payment does not equal the scheduled payment amount, refer to Section III-B Task 10f & j.

If the payment is greater than the scheduled payment amount, the payment will be applied first to the accrued interest, then to the principal balance, then to late charges/fees. The due date will not be advanced more than 30 days into the future unless approved by the Contract Administrator or designee.

(2) Multiple Loans

Payments must be proportionately applied to the outstanding loans contained within the account unless specified otherwise by the payee.

(3) Funding Source

Payments must be deposited in the appropriate bond fund accounts (See Section III-B Task 23b) 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 authorized by the Contract Administrator or designee. 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. Payments Received by the State

The servicer will devise and make available a transmittal form, which the State will use, in transmitting payments received by the State. The Contract Administrator or designee must approve, in writing, the transmittal form before use. The transmittal form must allow for individual loan identification, the type of payment (regular payment, forbearance payment) and the date the payment was received by the State. All payments received by the State are to be processed with an effective date as of the date that the State received the payment. The servicer must post payments received from the State to the borrower's loan 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.

h. Late Charges

The State currently does not assess a late charge if the borrower is late in making payments. However, the State reserves the right to implement late charges through the duration of this contract. If the State should take such action the Contract Administrator and servicer will determine the process and, the State will notify, via a change notice, the servicer 90 calendar days prior to implementation.

i. Nonsufficient Funds Check (NSF)

If a check is returned as NSF, within 24 hours of receipt of the returned check, the servicer must resubmit the check for payment. The payment need not be reversed off the account 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 reverse the payment off of the account and resume due diligence as though the payment had not been received (See Section III-B Task 12). This maintenance must occur within three (3) days of the servicer's receipt of the second refusal. The servicer must return the refused check to the borrower and request replacement of the payment.

j. Paid-In-Full Overpayments

If the account is overpaid, the servicer will wait 30 days from the date that the last payment is received (to make sure that the check clears the bank), and will then return the overpayment to the borrower. The refund check must be mailed as soon as possible, but no longer than 60 days from the date that the last payment was received. The servicer must complete paid-in-full processing within five (5) days from the date that the refund is mailed. The Servicer is financially liable for any refunds that they make in error (See Section VI-B.3). In the future, the State may, at its discretion, assume processing of these refunds. This change will be communicated via a change notice.

k. Remaining Balance

The servicer must write off the balance remaining on an account thirty (30) days after the final billing statement has been sent if the balance is equal to or less than an amount as determined by the Contract Administrator or designee. Once the write off is completed, the servicer will proceed with paid-in-full processing (See Section III-B Task 19).

l. Default Payments

The servicer must apply payments that are received for defaulted loans. This includes payments received by the servicer directly from the borrower/cosigner and those transferred to the servicer from the State. However, the due date (delinquent date) must not be changed when the payments are applied. The due date on a defaulted loan is frozen as of the point of default and may not be changed. Payments received by the servicer directly from borrowers must be identified, in writing, to the Contract Administrator or designee.

Loans may be not removed from default status unless specifically authorized, in writing, by the Contract Administrator or designee.

Servicer's Response to this Task:

Nelnet agrees.

TASK 11 - LOAN SERVICING: FORBEARANCE

a. General

Forbearance is available as a temporary measure for borrowers unable to make their regularly scheduled payments. It allows all or part of the monthly payment to be forborne.

b. Forbearance Type

There are two types of forbearance; forbearance of "principal only" or of "principal and interest." Only those loans disbursed on or after July 5, 1999 qualify for forbearance of principal and interest, while all loans qualify for forbearance of principal only. A "principal only" forbearance allows the borrower to pay only the amount of accrued interest each month. However, a principal and interest forbearance does not require the borrower to make payments during the forbearance period. The interest that accrues will be added to the principal balance (capitalized) at the end of the forbearance.

c. Repayment Tool

It is the right of either the borrower or cosigner to request forbearance. Justification for the request is not required. The servicer will promote use of forbearance to help cure a delinquent account.

d. Status Code

The servicer must have separate status codes to identify loans in each type of forbearance. It will be necessary for certain accounting reports to separate report data by type of forbearance. (See Appendix D) for a list of currently required status codes.)

e. Forbearance Length

The servicer cannot approve forbearance for more than 12-month segments. Periods of less than 12 months can be approved if requested by the borrower or cosigner.

f. Requests for Forbearance

To receive forbearance, the borrower or cosigner may provide a written request or request by telephone. They must identify which type of forbearance they are requesting (principal only or principal and interest). The forbearance request does not need to be specific as to the period covered or the amount of interest affected. If the request does not identify which type of forbearance is being requested, the servicer must obtain confirmation from the borrower/cosigner of the type of forbearance, unless the loan only qualifies for one type of forbearance. This confirmation may be in writing, over the telephone, by email or by fax. The confirmation information must be recorded in the loan history file at the time it is received.

g. Processing

Upon receipt of a forbearance request, the servicer must process the request and, if approved, notify the borrower and update the borrower's loan record. The servicer should construe each forbearance request as a request for a 12-month period, unless specified otherwise by the requesting party. If the loan is delinquent, the forbearance must begin with the first day of delinquency. The forbearance type and the beginning and ending dates of the forbearance period must be entered in the loan history on the date that the maintenance occurs.

For a principal only forbearance on a delinquent loan, the servicer may reapply the prior payment which had been applied to principal and interest to the new forbearance period, thus, assisting the borrower in meeting the interest payment requirement for the newly processed forbearance.

See the Processing Manual (Appendix F) for further information regarding forbearance.

h. Forbearance Accumulator

Each loan is allowed a maximum of 60 months of forbearance (both types combined). The servicer's system must include a forbearance accumulator field, viewable by MHESLA,that identifies the total number of forbearance months approved for each loan. It is the servicer's responsibility to ensure that no loan receives more than 60 months of forbearance.

i. Approval

When a forbearance request is approved, the servicer must notify the borrower and cosigner(s), if applicable, of the approval, listing the type of forbearance and the beginning and ending dates. The wording of the approval letter must be approved, in writing, by the Contract Administrator.

j. Denial

The servicer cannot honor a forbearance request if the loan is 120 days delinquent, without prior approval from the Contract Administrator or designee, or if the loan has already received 60 months of forbearance. If a forbearance request is denied, the servicer must notify the requesting party of the reason for denial. An entry must be made in the loan history of the denied forbearance request and the servicer's denial notification.

k. Documentation

The servicer must document any forbearance request received (written or verbal/by telephone) in the loan history, and maintain a copy of any written forbearance request, and if appropriate, written confirmation of forbearance type, in hardcopy, microfilm, microfiche, imaging, or other format approved, in writing, by the Contract Administrator or designee.

Servicer's Response to this Task:

Nelnet agrees.

TASK 12 - LOAN SERVICING: DUE DILIGENCE

a. General

Due diligence must be performed on all loans which become delinquent in repayment. It is the servicer's responsibility to perform the required due diligence as directed. Adjustments to the due diligence schedule may be made with MHESLA's authorization via a change notice.

b. Due Diligence Requirements

The servicer must perform due diligence according to the following schedule.

Days Delinquent	Contact Type	Recipient
15	Written Notice	Borrower and Cosigner(s)
25	Telephone Call	Borrower
30	Written Notice	Borrower and Cosigner(s)
45	Telephone Call	Borrower
45	"Urgent" Notice	Cosigner(s)
60	"Urgent" Notice	Borrower
60	Telephone Call	Cosigner(s)
75	Telephone Call	Borrower and Cosigner(s)
90	Default "Warning"	Borrower and Cosigner(s)
110	Telephone Call	Borrower and Cosigner(s)

In regard to telephone calls, the following applies to each required contact.

(1) The servicer must allow the telephone to ring a minimum of six (6) times before determining that the call is a "No Answer".

(2) If the servicer is unable to reach the borrower or cosigner(s), if applicable, on the first attempt, the servicer must make two additional attempts at different times of the day on different days to satisfy that telephone call contact requirement.

If the servicer reaches an answering machine, the servicer must leave its organization name and call-back number.

The servicer will have complied with the above due diligence if the required telephone calls are made, and the required delinquent notices are sent, within seven (7) days of the noted days delinquent.

MHESLA will develop all written notices for use by the servicer and the Contract Administrator will provide copies within 30 days of contract issuance.

c. Due Diligence During Bankruptcy

The servicer is responsible for continuing due diligence to the extent possible in compliance with applicable bankruptcy laws. Currently, bankruptcy statute requires that contact with all parties to a loan be discontinued for a Chapter 13 bankruptcy. However, for other bankruptcies, if the bankruptcy does not include all of the parties to the MI-LOAN Program loan, limited due diligence is still possible. For example, if the borrower files bankruptcy but the cosigner(s) is not included in the bankruptcy, the servicer must discontinue all due diligence on the borrower but must continue due diligence on the cosigner(s). Correspondingly, if the cosigner(s) files bankruptcy but the borrower is not included, due diligence must continue on the borrower but not on the cosigner(s).

d. Service History Comments

The account history must reflect all due diligence contacts, both notices and calls. In addition, the history comments must be in words and result in a message that is clear, complete and easily understood by MHESLA. Codes that must be converted to be understood are not acceptable.

Servicer's Response to this Task:

Nelnet agrees.

TASK 13 - LOAN SERVICING: SKIP TRACING

a. General

The servicer is responsible for skip tracing in the event the borrower's/cosigner's mail is returned as undeliverable or they are aware the telephone number is not accurate.

b. Requirements

Within five (5) days of the servicer's receipt of information indicating the borrower's and/or cosigner(s)' address or telephone number is not accurate, the servicer shall diligently attempt to locate the borrower and/or cosigner(s) or an accurate telephone number.

c. Skip Tracing Techniques

The servicer is to use normal, commercial skip tracing techniques including checking available FFELP databases. These techniques include, but are not limited to, contacting every reference listed on each of the borrower's loan applications (including applications for loans that are not delinquent), relatives, the school, and any other individuals and entities identified in the borrower's loan file.

In addition, the servicer must make inquiry into credit bureau records to determine the most current address or telephone number on record.

d. Skip Tracing is Unsuccessful

If the servicer is unable to locate the borrower and/or cosigner(s) or secure an accurate telephone number, the servicer must request skip-tracing assistance, in writing, from the Contract Administrator or designee within ten (10) days of servicer's commencement of skip tracing activities. .

e. Skip Tracing is Successful

When the servicer locates the borrower and/or cosigner(s) or secures an accurate telephone number, the servicer must appropriately update, within three (3) days, the borrower's account with the correct address and telephone number(s).

Servicer's Response to this Task:

Nelnet agrees.

TASK 14 - LOAN SERVICING: DEFAULT

a. General

Default will occur if the loan becomes 120 days delinquent. It is the servicer's responsibility to monitor loan delinquency and process the loan as a default if it becomes 120 days delinquent.

b. Status Code

The servicer's system must contain status codes (Appendix D) viewable by MHESLA that identify loans in default. The servicer must be able to identify the type of default (delinquency or bankruptcy) and whether the loan has been transferred to the Michigan Department of Treasury Collections. The bankruptcy status codes must identify the type of bankruptcy that was filed (Chapter 7, Chapter 13, etc.).

c. Default Processing

If a loan reaches 120 days delinquent, the servicer's system must automatically update the status of the loan to default status and update the loan history that the default occurred and the date of the default.

The servicer must retain the defaulted loan on the system for statistical and reporting purposes, and to apply payments and accrue interest. Refer to Section III-B Task 10 for payment application. Section III-B Task 23 identifies the default reporting requirements.

d. File Processing

The Contract Administrator or designee may instruct the servicer to transmit the loan folder to MHESLA. The servicer is responsible for maintaining a copy of the file in its entirety.

e. State Review

MHESLA will review loans at default to confirm the servicer complied with the due diligence requirements contained in Section III-B Task 12.

If there is loss to the State and this loss arises out of the servicer's failure to comply with the MI-LOAN Program servicing requirements, the servicer must reimburse the State to the extent of the State's loss (See Section VI-B.3). The servicer must provide such reimbursement within 60 days of the State's request.

Servicer's Response to this Task:

Nelnet agrees.

TASK 15 - LOAN SERVICING: CREDIT BUREAU REPORTS

a. Membership Costs

The servicer is responsible for the acquisition and cost for membership in one or more of the national credit bureaus, which is required to meet the servicing requirements of MHESLA's portfolio. The Contract Administrator or designee must approve the selection of the credit bureau(s) that the servicer plans to utilize in reporting MHESLA's portfolio.

b. Monthly Reporting to Credit Bureau(s)

On a monthly basis, the servicer will report loan information for all borrowers and cosigners to at least one (1) national credit bureau in the manner designated by the credit bureau.

The initial report must be made in the next reporting cycle after disbursement of the loan. Monthly updates on the loan will be required until the loan is no longer outstanding. The final report to the credit bureau will reflect the reason for the zero balance due (death, disability, paid in full, paid in full default, etc.).

Negative, past due reporting will be reflected once the loan reaches 60 days delinquent. Prior to 60 days delinquent, the loan will be reported as current. In the case of bankruptcy, credit bureau reports must reflect the type of bankruptcy, if required, and the appropriate status of both the borrower and the cosigner(s).

The servicer must include costs associated with the monthly credit bureau reports in the unit price (See Appendix G).

c. Disputes

The servicer will be responsible for handling credit bureau disputes filed by borrowers as a result of the servicer's reporting of MHESLA'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.

d. Corrections

If, as a result of either a dispute investigation or direct contact by the borrower or cosigner, it is determined that an incorrect report was submitted to the credit bureau(s), the servicer must submit a correction within three (3) days of the servicer's confirmation that a correction is in order.

e. Due Diligence

MHESLA performs additional due diligence as a supplement to that performed by the servicer in Section III-B Task 12. To do this, there are times when updated demographic information is needed. To assist MHESLA, the servicer will obtain a credit bureau report on borrowers and/or cosigner(s) when requested by the Contract Administrator or designee.

Once obtained, the credit bureau report must be mailed overnight express to the Contract Administrator or designee.

f. Credit Verification Inquiries

Borrowers seeking additional credit may authorize MHESLA to release verification of credit status to the potential creditor. Most credit inquiries request the borrower's beginning balance and date that the account was opened, current balance, monthly payment amount, next payment amount, terms, any past due amount and a rating. It is the servicer's responsibility to respond to authorized credit inquiries and provide the data requested on behalf of MHESLA to the credit bureau(s).

Servicer's Response to this Task:

TASK 15 - LOAN SERVICING: CREDIT BUREAU REPORTS

e. Due Diligence
Firstmark will provide credit bureau reports requested by MHESLA via facsimile or overnight express to ensure all data needed can be viewed.

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e. Due Diligence
MHESLA does not agree to the servicer providing credit bureau reports via facsimile. Therefore, the wording must remain "Once obtained, the credit bureau report must be mailed overnight express to the Contract Administrator or designee".

NELNET RESPONSE
e. Due Diligence
Both parties agree.

TASK 16 - LOAN SERVICING: BANKRUPTCY

a. General

The servicer is responsible for notifying MHESLA within one (1) day, upon receipt of bankruptcy notification.

b. Status Code

The servicer's system must contain status codes (Appendix D) viewable to MHESLA that identify loans in bankruptcy, and which also identify the type of bankruptcy that was filed (Chapter 7, Chapter 13, etc.).

c. Account Maintenance

The servicer must update the loan record to the appropriate bankruptcy status, and record in the loan history the date that the bankruptcy papers were received, the date the bankruptcy was filed, and the date the papers were faxed or overnight expressed to MHESLA.

The servicer must retain loans that are in a bankruptcy status on the system.

d. Processing of Bankruptcy Documents

Upon receipt of a notification that a borrower and/or cosigner(s) have filed bankruptcy, and receipt of further bankruptcy documents, the servicer must notify MHESLA within one (1) day and overnight express the original bankruptcy notice to the Contract Administrator or designee. Prior to doing this, a copy of the bankruptcy notice must be placed in the borrower's folder.

e. Due Diligence

The servicer must immediately cease collection activity on the party to the loan that is named in the bankruptcy documents. As cited in Section III-B Task 12, the servicer is responsible for performing due diligence, if appropriate, on parties to the MI-LOAN Program loan that were not included in the bankruptcy.

f. State Involvement

MHESLA will handle the bankruptcy notice and follow through with the courts on any loan for which it is necessary.

Servicer's Response to this Task:

Nelnet agrees.

TASK 17 - LOAN SERVICING: PERMINANTLY AND TOTALLY DISABLED

a. General

For students who become permanently and totally disabled, the MI-LOAN Program will cancel the outstanding loan balance. The servicer is responsible for processing requests for loan cancellation for this reason.

Cancellation is not available due to the permanent and total disability of the cosigner(s), or parent borrower.

b. Loan Status

The servicer must have a status code viewable to MHESLA that identifies loans cancelled due to permanent and total disability (See Appendix D for a list of currently required status codes.).

c. Notification

Upon receipt of information that a student is permanently and totally disabled, the servicer will refer the correspondence/caller to MHESLA. If documentation was received, the servicer will copy the materials by microfilm, imaging or other method approved, in writing, by the Contract Administrator or designee prior to forwarding the materials to the Contract Administrator or designee.

d. State Review

MHESLA will review the disability documentation and the Contract Administrator or designee will notify the servicer in writing if the borrower's loan(s) are to be cancelled due to permanent and total disability.

e. Processing

Upon instructions from the Contract Administrator or designee, the servicer will update the borrower's loan(s) to disability cancellation status, enter a history comment that the loan(s) was cancelled due to permanent and total disability and the date of the cancellation.

Payments received after the date MHESLA determines the student to be permanently and totally disabled must be returned to the sender. Those payments may have been received from someone other than the borrower. In order for the servicer to determine the party to which the funds must be returned, the original payment document must be pulled and provided to the Contract Administrator or designee.

The servicer must retain loans cancelled due to a permanent and total disabled status on the system for future reporting purposes.

f. File Processing

The servicer will copy by microfilm, microfiche, imaging, or other format approved by the Contract Administrator or designee, the borrower's loan file contents. After a mutually agreed upon time frame by the servicer and Contract Administrator or designee, the servicer may then confidentially destroy the original file.

Servicer's Response to this Task:

Nelnet agrees.

TASK 18 - LOAN SERVICING: DEATH OF STUDENT

a. General

The MI-LOAN Program allows for loan cancellation in the event of the student's death. The servicer is responsible for processing requests for loan cancellation for this reason.

Cancellation is not available due to the death of the cosigner(s), or parent borrower.

b. Account Status

The servicer must have a loan status code viewable to MHESLA that identifies loans cancelled due to death. (See Appendix D for a list of currently required status codes.)

c. Notification

The determination of death may be made on the basis of a death certificate or other proof approved by the Contract Administrator or designee.

d. Processing

Upon receipt of the student's death certificate, or confirmation from the Contract Administrator or designee regarding the acceptability of other documentation, the servicer must immediately cease collection on the borrower's loan(s). The servicer will update the borrower's loan(s) to death cancellation status, enter a history comment that the loan(s) was cancelled due to the student's death and the date of the cancellation.

Payments received from the estate or paid on the borrower's behalf after the date of the student's death must be returned to the sender. Those payments may have been received from someone other than the borrower. In order for the servicer to determine the party to which the funds must be returned, the original payment document must be pulled and provided to MHESLA.

The servicer must retain any loans cancelled due to death of the student on the system for future reporting purposes.

e. File Processing

The servicer will copy by microfilm, microfiche, imaging, or other format approved by the Contract Administrator or designee, the borrower's loan file contents. After a mutually agreed upon time frame by the servicer and Contract Administrator or designee, the servicer may then confidentially destroy the original file.

f. Note Processing

The servicer will notify the cosigner(s) and the parent borrower, if applicable, of the loan cancellation.

Servicer's Response to this Task:

Nelnet agrees.

TASK 19 - LOAN SERVICING: PAID-IN-FULL PROCESSING

a. General

The servicer will perform paid-in-full processing when the borrower's payment, or payment made on behalf of the borrower, results in the loan being paid in full.

b. Status Code

The servicer's system must have a status code to identify loans that are paid-in-full (See Appendix D for a list of currently required status codes). The data fields pertaining to the paid in full loan(s) are not to be changed, except to update the current principal balance field when processing a refund, write-off or write-up, or if the final payment must be reversed due to non-sufficient funds. The interest rate field must reflect the interest rate at the time that the loan status changed to paid in full.

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-day period has expired, the servicer must process the account as a paid-in-full within 15 days.

d. Note Processing

Two options exist for paid-in-full processing. The servicer may choose either option below and notify Contract Administrator or designee of preferred option:

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.

OR

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

The Contract Administrator or designee must approve, in writing, the written notices used by the servicer. Paid in full promissory notes may not be returned to anyone other than the borrower, unless approved by the Contract Administrator or designee.

e. File Processing

The servicer will copy by microfilm, microfiche, imaging, or other format approved by the Contract Administrator or designee, the paid-in-full file contents. After a mutually agreed upon time frame between the servicer and Contract Administrator or designee, the servicer may then confidentially destroy the original file.

f. Liability

If the servicer returns the promissory note(s) to the borrower in error 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 on which the error occurred, (See Section VI-B.3).

Servicer's Response to this Task:

TASK 19 - LOAN SERVICING: PAID-IN-FULL PROCESSING

b. Status Code
The interest rate on the loan at the time the status is paid-in-full can be viewed on the Note Display/Note Snapshot screen.

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b. Status Code
MHESLA agrees that the interest rate on the loan at the time the status is paid in full can be viewed on the Note Display/Note Snapshot screen and, therefore, agrees to update the sentence to read: "The interest rate at the time that the loan status is changed to paid in full must be available in a viewable field within the system".

TASK 20 - LOAN SERVICING: AUDIT REQUIREMENTS

a. General

The servicer shall make portfolio information, borrower records, and servicer compliance information available for review by MHESLA and/or the State's auditors.

b. Audits and Program Reviews

The servicer must cooperate fully with respect to program reviews and audits conducted on MHESLA's portfolio. The review/audit may be performed at the servicer's site or off-site. The servicer must provide data 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 service 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.

c. Borrower Records

The servicer must provide data tapes or other media, as approved by the Contract Administrator or designee, containing data on all loans in MHESLA's portfolio through the State's fiscal year end (September 30) to the State's financial auditors (to be identified by the Contract Administrator or designee). This must be done within fifteen (15) days of the end of the State's fiscal year or other cutoff date identified by the Contract Administrator or designee at no cost to the State. In addition, a written file layout of the tape including reference name, data description, beginning and ending relative positions, length in bytes, picture and type must be provided. Specific information needs as well as timeframes and written permission to release the information will be provided by the Contract Administrator or designee.

d. Servicer Information

Copies of financial and compliance audits of the servicer shall be provided to MHESLA with permission to release that information to the State's auditors. In addition, information about the servicer's operations must be provided as requested by the Contract Administrator or designee to be used by the credit enhancers and rating agencies of the State's bond issues or other capital formation activities.

e. Portfolio Analysis

Periodically, MHESLA will need to review its portfolio for various analyses. Upon request, the servicer must provide a master file record on media approved by the Contract Administrator or designee. 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 (See Appendix G).

f. Servicer Financial Statements

The servicer will provide MHESLA with their financial statements at the servicer's fiscal year end or upon request by the Contract Administrator or designee, and the servicer shall provide MHESLA permission to release the financial statements to the State's auditors, and credit enhancers and rating agencies of the State's bond issues or other capital formation activities. The financial statements must include an income statement, balance sheet, and statement of cash flow.

Servicer's Response to this Task:

Nelnet agrees.

TASK 21 - LOAN SERVICING: PUBLIC AWARENESS

a. General

This task identifies the servicer's responsibility for assisting MHESLA in informing the public of the benefits of MHESLA's programs. The scope of this task will include students, their families, postsecondary educational institutions, financial institutions, high schools, etc. No services under this task will be provided without the direct request of the Contract Administrator or designee.

b. Informational/Application Materials

The servicer will create, produce/print, distribute, and update informational materials such as brochures, flyers, handouts, posters, etc., when requested by the Contract Administrator or designee, to assist MHESLA in informing individuals and institutions of program benefits and administrative procedures. Additionally, the servicer will provide these services for MHESLA's application materials, fact sheets, forbearance forms, check-off lists, etc. and any other materials required in the processing of MI-LOAN Program loans. All such materials are subject to approval by the Contract Administrator or designee prior to use by the servicer.

c. Training and Informational Sessions

At the request of the Contract Administrator or designee, the servicer will prepare and conduct, with MHESLA's assistance and participation, if appropriate, training sessions regarding the servicer's computer system, internal forms, procedures, etc. as requested by the Contract Administrator or designee. It is MHESLA's option to require the training to be at MHESLA's location.

d. Borrower Mailings

At the request of the Contract Administrator or designee, the servicer will produce and mail letters to State borrowers or select groups of State borrowers. Such mailings could be for informational purposes, marketing, collection activity from MHESLA, information, etc.

e. Cost for Public Awareness

The State will reimburse the servicer for cost, plus 5%, up to $50 for services provided in relation to public awareness activities. Billings from the servicer must clearly identify the particular service provided and the charge for that service. Travel will be reimbursed at state travel rates (http://www.michigan.gov/documents/travelrates_16386_7.pdf).

Servicer's Response to this Task:

Nelnet agrees.

TASK 22 - LOAN SERVICING: FRAUD AND ABUSE

a. General

This task covers the servicer's responsibilities regarding possible fraud and abuse cases.

b. Signature/Endorsement Issues

If a borrower or cosigner claims that he/she did not sign the application or endorse the check(s), the servicer must refer them to MHESLA. Upon request by the Contract Administrator or designee, the servicer must provide MHESLA with the borrower's file folder. If the borrower also has federal student loans with MHESLA that are serviced by the servicer, MHESLA may request materials from those loans as well. Originals of all materials are required if available. If originals are not available, clear copies are needed. MHESLA currently uses the services of the Michigan State Police to analyze the fraud claim and they have requested we provide original materials. The servicer must copy all materials forwarded as the servicer is responsible for maintaining the borrower files for all loans serviced for MHESLA.

MHESLA will be responsible for mailing affidavits to the borrower or cosigner, and referrals to the Michigan State Police.

c. Other Issues

The servicer will make contact with MHESLA regarding any other claims of potential fraud and abuse. The Contract Administrator or designee will instruct the servicer based on the individual circumstances.

Servicer's Response to this Task:

Nelnet agrees.

TASK 23 - LOAN SERVICING: FINANCIAL AND REPORT REQUIREMENTS

a. General

The servicer must provide MHESLA with reports that will be used to account for its loan portfolio and to publish an annual report, which is required by the Michigan legislature, at the close of each fiscal year (10/01 through 09/30). Statistical information required for inclusion in the annual report must be made available to MHESLA no later than 30 calendar days following the expiration of the State's fiscal year (September 30). The servicer must prepare reports (See Section IV-B) and reconciliations of all transactions affecting the student loan accounts.

Transaction categories that the servicer's system must contain include, but are not limited to, cash payments, non-cash payments, loan disbursements, loan increases, loan reductions, loan cancellations, write-offs, write-ups, and assignment of loans to a different bond funding source (bond fund) resulting in a bond fund code change. The servicer is responsible for preparing any other accounting reports which MHESLA deems are necessary to reconcile servicer and State accounting records, at no additional cost to the State.

The servicer must maintain appropriate records to support the reporting needs of MHESLA, as defined in each report of Section IV-B, and other funding transaction participants to whom MHESLA must provide portfolio data.

b. Funding Source Listing

Most MI-LOAN Program loans are funded through the sale of bonds. The list below identifies the various funding sources in MHESLA 's current portfolio. Following the funding source number is the corresponding funding source code utilized in the computer system record. The funding source code for each loan must be viewable to MHESLA in the servicer's system.

--Bond Series XIII A (13A)
--Bond Series XIV A (14A)
--Bond Series XVII A (17A)
--Bond Series XVII B (17B&C)
--Bond Series XVII D (17D&E)
--Bond Series XVII G (17G)
--Bond Series XVII I (17I)
--Authority Funds (00V)

c. Servicer Financial Statements

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

d. Reporting Method

MHESLA would like to receive reports through an electronic method, such as e-mail, the Internet, or computer disk, that would allow for electronic storage (See Section II and Appendix H). However, if an electronic method is not possible, MHESLA 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 Contract Administrator or designee and servicer, that are compatible with MHESLA's microfiche reader-printer equipment which is currently a Minolta RP 600Z. The microfiche header label must identify the data as being MI-LOAN Program reports. All reports within each funding source 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 MHESLA with a hard copy when requested by the Contract Administrator or designee. All hard copy reports must be printed single-sided.

e. Timeliness

The servicer must submit required reports to MHESLA within seven (7) calendar days of the report period close date (daily, weekly, monthly, quarterly, etc.) unless otherwise agreed to by the Contract Administrator or designee and servicer.

The servicer's failure to meet processing or reporting deadlines continuously for a 60-day period can result in financial penalties to the servicer and/or termination of this contract (See Section VI-B.3).

f. Report Formats

MHESLA will specify the data elements required in each report; however, the format of the reports will be at the servicer's option. A list of the currently required data elements and loan statuses is included in Appendix D.

All reports must be sectioned as specified in the individual report descriptions. Each page of each report must contain the header data below unless otherwise agreed to by the Contract Administrator or designee. All dates must be shown in month, day, century/year format (mm/dd/ccyy).

1) Servicer's name
2) Report number, if the servicer utilizes report numbers
3) "MHESLA"
4) "MI-LOAN Program"
5) Report title as stated in the report description
6) Report period covered as stated in the report description
7) Report section as stated in the report description
8) Report subsection as stated in the report description
9) Report print date
10) Page number

For each report, the servicer must submit a summary page stating "No Activity" when there is no activity during the report period, so MHESLA may be assured that all reports are received. The header of the summary page, for reports for which no activity occurred, must include all header information required above. The dollar amounts for all statistical reports are rounded to the nearest dollar.

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

g. Ad Hoc Reports

There will be times when MHESLA requires a one-time report or wishes to receive a new report on a regular basis. In these situations, the servicer must accommodate MHESLA's needs. The Contract Administrator or designee will provide the servicer with a sample report format and the report parameters, such as data elements, sort, reporting period, frequency, etc. The servicer may bill the State for these reports at the price identified on the pricing sheet (Appendix G)

The servicer is required to provide MHESLA with the ability to create and print out customized reports at MHESLA's site using the loan data from the servicer's system. Materials, including software (in accordance with Section II and Appendix H), necessary to accomplish this along with required training must be provided by the servicer at no additional cost to the State. This will allow MHESLA to create one-time reports at will, without servicer involvement, when specific information or statistical data is needed. If training is requested by the Contract Administrator or designee, the Servicer must provide training at no additional cost to the state.

h. Reports

There are five types of reports required: 1) origination management reports, 2) origination statistical reports, 3) servicing operational reports, 4) servicing statistical report, and 5) financial reports. See Section IV-B.

The servicer may condense the requirements of two (2) reports into one (1) report if approved, in writing, by the Contract Administrator or designee.

Servicer's Response to this Task:

TASK 23 - LOAN SERVICING: FINANCIAL AND REPORT REQUIREMENTS

e. Timeliness

The servicer's failure to meet processing or reporting deadlines continuously for a 60-day period can result in financial penalties to the servicer and/or termination of this contract (See Section VI-B.3).

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e. Timeliness

MHESLA agrees. This revises the second paragraph by adding the word "continuously".

TASK 24 - LOAN SERVICING: DECONVERSION TO ANOTHER SERVICER

For purposes of this RFP, deconversion refers to the removal and transfer of MHESLA's student loan portfolio records, including all system files, electronic data files, data and information in electronic or hardcopy format and hardcopy files and documents, by the incumbent servicer to the incoming servicer.

a. General

If the State terminates this contract, or in the event the servicer does not receive the contract for a subsequent period (i.e., after 09/30/2007), the servicer (hereafter referred to as the "incumbent servicer") is responsible for converting the State's records to another servicer (hereafter referred to as the "incoming servicer") as required in the contract.

b. Work Plan

The incumbent servicer must review the work plan provided by the incoming servicer and respond to the incoming servicer (the Contract Administrator shall be sent a copy of the response.) within two (2) weeks of receiving the work plan. A work plan approved by the incumbent servicer and incoming servicer must be provided to the Contract Administrator within 30 days of the incumbent servicers response to the initial work plan. The Contract Administrator must approve in writing the work plan before conversion begins.

c. Incumbent Servicer Support

The incumbent servicer must provide sufficient personnel with appropriate expertise to accomplish the conversion within the time frames identified in the work plan (Section III-B Task 24b). The incumbent servicer must work closely with both the incoming servicer and MHESLA to finalize outstanding issues/adjustments during the post-conversion period (See Section VI-B.3).

d. Data Base Records

The incumbent servicer must transfer all data base records for MHESLA's loans contained on their system to the incoming servicer during deconversion. This includes, but is not limited to, the borrowers' personal data, account data, loan level data, history records, name cross reference data, etc. The incoming servicer and the incumbent servicer will work together to resolve all conversion/deconversion issues.

The incoming servicer will be required to accept the records in the layout of the State's incumbent servicer. The incumbent servicer must provide the media and file format to the incoming servicer within one (1) week of notification from the Contract Administrator or designee..

e. Hard Copy Documents

The incumbent servicer must ship the borrowers' files containing the original promissory note and other documents in social security number order to the incoming servicer. With each batch, the incumbent servicer must include a transmittal, listing by social security number, each folder included and the total number of folders in the batch. A copy of each transmittal must be mailed under separate cover or faxed to the incoming servicer. The incoming servicer must confirm receipt of each batch and verify each folder listed on the transmittal is included. Exceptions must be noted on the transmittal and it must be signed by the incoming servicer confirming receipt. The incoming servicer must maintain a copy of each verified transmittal with exceptions noted, if necessary, forward the original transmittal to the Contract Administrator or designee, and forward a copy of the transmittal, to the incumbent servicer.

If any batches, borrower files, and/or loan documents are not received by the incoming servicer, the incumbent servicer will be responsible for forwarding originals or copies, acceptable to the Contract Administrator or designee, of the non-received materials to the incoming servicer within five (5) days of notification. If the incumbent servicer cannot produce originals or copies, acceptable to the Contract Administrator or designee, of all non-received materials, the incumbent servicer will be held financially liable for the loans involved and will be required to reimburse the State for outstanding principal and interest should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information (See Section VI-B.3).

f. Records

MHESLA must have access to history/audit trail microfilmed, microfiche, imaged documentation, etc. through the retention period of five (5) years after the loan is paid in full. The incumbent servicer has two options relative to the availability of these records to MHESLA following the termination or expiration of the contract (See Section VI-C.1):

(1) Transfer to Incoming Servicer or MHESLA

The incumbent servicer can forward a copy of the film, microfiche, imaged data, etc. to the incoming servicer or MHESLA. The incumbent servicer must provide sufficient instruction to allow the incoming servicer or MHESLA's retrieval of the documentation. The incoming servicer or MHESLA would be responsible for compatible equipment to allow retrieval of the incumbent's documentation. All data and associated materials, including archived data, must be purged off the incumbent servicer's system as instructed by the Contract Administrator.

(2) Provide Requested Documentation

If the incumbent servicer is unable to provide the film, microfiche, imaged data, etc., the incumbent servicer must provide copies of documents as requested by the Contract Administrator or designee. The Contract Administrator or designee's request cannot exceed the retention period cited in Section III-B Task 24f. Documents, or written notification of missing documents must be provided within seven (7) days of the Contract Administrator or designee's request, and all costs associated with retrieving, duplicating and transmitting the documents must be included in the servicer's quoted price for deconversion to another servicer (See Appendix G). If the servicer chooses this option and is unable to provide the documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan <u>should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information</u> (See Section VI-B.3).

g. <u>Deconversion Deadline</u>

The incumbent servicer must transfer its database records and hard copy files to the incoming servicer by the date specified in the approved work plan (Section III-B Task 24b).

h. <u>Unprocessed Documents</u>

(1) Received During Deconversion Period

It is expected that the incumbent servicer will have received all incoming mail (correspondence, forms, payments, etc) which were not processed prior to the date borrower records were forwarded to incoming servicer. Using a method which permits tracing, the incumbent servicer must transmit payments and either the original or a legible copy (for documents also used for other customers' loans) of the unprocessed documents, correspondence, etc. to the incoming servicer within ten (10) days after receipt.

(2) Received After Contract Termination

For a six-month period after the contract terminates, the incumbent servicer must transmit all incoming mail (correspondence, forms, payments, etc) to the incoming servicer at no cost to the State. This transmittal must occur within three (3) days of receipt.

Any incoming mail received by the incumbent servicer after the six-month period must be returned to the sender with a cover letter which instructs the correspondent to contact MHESLA, providing both MHESLA's mailing address and telephone number. (See Section VI-C.1).

i. <u>Checks Originated by Incumbent Servicer</u>

The incumbent servicer will be disbursing educational loans for MHESLA through 9/30/2007. However, if the incumbent servicer is not awarded the subsequent contract, both the incumbent and incoming servicers will be responsible for finalizing disbursement issues for disbursements, which were originated by the incumbent servicer prior to the contract termination. For example, both servicers will be involved in processing stop payment requests--the incumbent servicer must place the stop payment and notify the incoming servicer of the action taken, the incoming servicer must adjust the borrower's account and reissue the disbursement, if appropriate.

Because the unit cost for origination processing includes the costs associated with the functions indicated above (Section III-B Task 24i), the incumbent servicer must perform those services on the disbursements which the incumbent servicer issued at no additional charge to the State.

Should the situation exist after contract termination that the incumbent servicer's disbursement check needs to be reissued (e.g., stop payment placed on check written by incumbent servicer but check needs to be reissued), the incumbent servicer will notify the Contract Administrator or designee. After review and approval, the Contract

Administrator or designee will authorize the incoming servicer to issue the replacement disbursement. (See Section VI-C.1).

The Contract Administrator or designee will provide the incumbent servicer with instructions regarding transfer of any funds received/returned to the State on a case-by-case basis.

The incumbent servicer must report to the incoming servicer weekly all adjustments attributed to these disbursement transactions as required in the work plan (Section III-B Task 24b). The report to the incoming servicer must contain the necessary data for proper adjustment to the borrower's loan record. The weekly report must include all adjustments which occurred during that given week and include the supporting documentation. Copies of this information must be provided to MHESLA at Contract Administrator or designee's option.

j. Proof of Delivered Loan Proceeds

The incumbent servicer has contained within its records the proof that the loan proceeds were delivered to the borrower. This is in the form of a copy of the paid check, master check or an EFT disbursement roster.

If, after termination of the contract, MHESLA must have access to such proof, the Contract Administrator or designee will request the documentation from the incumbent servicer. The incumbent servicer must transmit a copy of both sides of the paid check, master check or the EFT disbursement roster within fifteen (15) days of the Contract Administrator or designee's request. (See Section VI-C.1).

k. Costs for Deconversion to Another Servicer

The pricing sheet for this RFP (Appendix G) contains a separate deconversion cost should the incumbent servicer not retain the State's contract after 09/30/2007 or should the State terminate or cancel the contract before 09/30/2007. The costs for deconversion to another servicer shall be incurred, only if the incumbent servicer does not retain the State's contract after 9/30/2007. See Appendix G.

l. Liability

The incumbent servicer is responsible for all borrower data (forms, correspondence, computer history, etc.) concerning the borrowers and their loans that the incumbent servicer had been servicing on behalf of MHESLA. If, for any reason, the incumbent servicer is unable to provide borrower data and documents that are required, the incumbent servicer will be liable for any financial loss to the State as a result of the missing data (See Section VI-B.3).

Servicer's Response to this Task:

TASK 24 - LOAN SERVICING: DECONVERSION TO ANOTHER SERVICER

d. Data Base Records

The sentence will be updated to read: "The incumbent servicer must provide the media and file format to the incoming servicer within two (2) weeks of notification from the Contract Administrator or designee."

e. Hard Copy Documents

If the incumbent servicer cannot produce originals or copies, acceptable to the Contract Administrator or designee, of all non-received materials, the incumbent servicer will be held financially liable for the loans involved and will be required to reimburse the State for outstanding principal and interest, plus lost federal interest benefits and special allowance should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information (See Section VI-B.3)

f. Records

(2) Provide Requested Documentation

If the servicer chooses this option and is unable to provide documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan, plus any lost federal interest benefits or special allowance, if applicable should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information (See Section VI-B.3).

h. Unprocessed Documents

(2) Received After Contract Termination

The sentence will be updated to read: "This transmittal must occur within five (5) days of receipt."

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d. Data Base Records

MHESLA agrees to the revision to the last sentence of the second paragraph. This revises the time frame specified from one week to two weeks.

e. Hard Copy Documents

MHESLA agrees to the revision to the last sentence of the second paragraph. This revises the sentence by adding "should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information". (The MI-LOAN Program does not have federal interest benefits and special allowance.)

f. Records

(2) Provide Requested Documentation - MHESLA agrees to the revision to the last sentence of the paragraph. This revises the sentence by adding "should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information". (The MI-LOAN Program does not have federal interest benefits and special allowance.)

h. Unprocessed Documents

(2) Received After Contract Termination - MHESLA agrees to the revision to the last sentence of the first paragraph. This revises the time frame specified from three days to five days.

SECTION IV:REPORTS

IV-A: FFELP REPORTS

MANAGEMENT LOAN ORIGINATION REPORT 1

APPLICATIONS ENTERED BY SCHOOL TYPE

(a) The purpose of this report is to provide MHESLA with the volume of applications entered for proprietary/vocational and nonproprietary/nonvocational schools. 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 funding sources/loan programs. 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%.

The servicer will submit this report to MHESLA on a monthly basis.

MANAGEMENT LOAN ORIGINATION REPORT 2

APPLICATIONS IN PROCESS

(a) The purpose of this report is to provide MHESLA 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 funding sources/loan programs. 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 MHESLA on a weekly basis.

MANAGEMENT LOAN ORIGINATION REPORT 3

DISBURSEMENT REGISTER

(a) The purpose of this report is to provide MHESLA a daily listing of each loan disbursement issued for each disbursement date so that MHESLA 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 funding sources/loan programs 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 funding source.

The servicer will provide the Disbursement Detail - Social Security Number Order section of the report to MHESLA on a daily basis.

MANAGEMENT LOAN ORIGINATION REPORT 4

MISSING FUND CODE NUMBER

(a) The purpose of this report is to provide MHESLA 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 Funding Source 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.

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

The servicer will submit this report to MHESLA on the same cycle as the Michigan Direct Monitoring of Commitments by Funding Source financial report.

MANAGEMENT LOAN SERVICING REPORT 1

DEFAULT CLAIMS FILED

(a) The purpose of this report is to provide MHESLA a listing of loans for which a default claim has been filed with the guarantor so that MHESLA may monitor payment by the guarantor.

Loans must be listed each report period beginning with the period in which a claim is filed through and including the report period in which the claim is returned by the guarantor either due to lack of required data or recall by the lender/servicer, the loan(s) is paid-in-full due to the posting of the claim payment, State authorized write-off of any remaining loan balance has occurred, the servicer has reimbursed the State for any loss incurred due to penalties assessed by the guarantor, or a claim overpayment has been returned to the guarantor or written off per the guarantor's policy.

If multiple loans are filed in one claim, the report detail must list each loan filed but the report summary will be by claims filed.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, loan program, date the claim was filed, outstanding principal balance, borrower accrued interest, date paid-in-full.

(c) Report Sections:

Detail - Each default claim type will be a separate report section and will include all funding source/loan programs for total portfolio by loan number within Social Security Number within date claim filed for that default claim type and double spaced between claim filed dates.

Summary - Number of loans, number of claims, total outstanding principal balance and total borrower accrued interest for each default claim type and for total portfolio. Cumulative number of claims pending payment.

The servicer will submit this report to MHESLA on a monthly basis.

MANAGEMENT LOAN SERVICING REPORT 2

DEFAULT CLAIMS TO BE FILED

(a) The purpose of this report is to provide MHESLA a listing of loans that are default for which a default claim must be submitted to the guarantor per federal regulations. Loans must be listed on the report beginning with the date of default, as defined in the federal regulations, through and including the report period in which the claim is sent to the guarantor.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, loan program, first disbursement date, total disbursement amount, current principal balance, default date, number of days delinquent, date the claim is submitted to the guarantor.

(c) Report Sections:

Detail - Each type of default claim to be filed will be a separate report section and will include all funding sources/loan programs for total portfolio by loan number within Social Security Number within default date for that default claim type and double spaced between default dates.

Summary - Total number of borrowers, number of loans and current principal balance for each default type and for total portfolio.

The servicer will provide this report to MHESLA on a weekly basis.

MANAGEMENT LOAN SERVICING REPORT 3

DEFAULT CLAIMS RECALLED

(a) The purpose of this report is to provide MHESLA a daily listing of loans for which the default claim has been recalled from the guarantor because either documentation or payment has been received by either the State or the servicer which brings the loan out of default status and current to within the level of delinquency which will be determined by MHESLA. MHESLA will inform the servicer of documentation or payments received by the State which allow recall of a default claim.

If multiple loans are filed in one claim, the report detail must list each loan recalled but the report summary will be by claims recalled.

(b) Detail data elements: Social Security Number, loan number, borrower's name, fund code, loan program, first disbursement date, date the claim was sent to the guarantor, recall reason.

(c) Report Sections:

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number order.

Summary - Number and outstanding principal balance of claims recalled for total portfolio.

The servicer will fax or provide electronically this report to MHESLA on a daily basis at the close of business. The daily reports for each month may be grouped together on the microfiche report and submitted to MHESLA on a monthly basis at the servicer's option.

MANAGEMENT LOAN SERVICING REPORT 4

DEFAULT CLAIMS RETURNED

(a) The purpose of this report is to provide MHESLA a listing of loans for which the guarantor has returned the claim for missing documentation, assignment or clarification.

Loans must be reported each report period beginning with the date the claim package is received back through and including the report period in which the claim is resubmitted to the guarantor. The servicer may discontinue reporting loans that are no longer in default status, due to receipt of payments or documentation, as they will not be resubmitted to the guarantor.

If multiple loans are filed in one claim, the report detail must list each loan returned but the report summary will be by claims returned.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, loan program, claim filed date, claim return date, return reason.

(c) Report Sections:

Detail - Each default claim type will be a separate report section and will include all funding sources/loan programs for total portfolio by loan number within Social Security Number within claim return date for that default claim type and double spaced between claim return dates.

Summary - Number of claims returned during the report period, cumulative number of claims returned pending resolution and number of claims returned which are no longer in default that will not be re-filed for each default claim type and for total portfolio.

The servicer will submit this report to MHESLA on a weekly basis.

MANAGEMENT LOAN SERVICING REPORT 5

DELINQUENT LOAN REPORT

(a) The purpose of this report is to provide MHESLA a listing of each delinquent loan at any level of delinquency so that MHESLA may monitor the due diligence servicing of the servicer.

(b) Detail data elements: Social Security Number, loan number(s), borrower's name, funding source, loan program, loan status, number of days delinquent.

(c) Report Sections:

Detail - All funding sources/loan programs for total portfolio by loan number in descending number of days delinquent order.

Summary - Number of delinquent loans for each loan program and for total portfolio.

The servicer will submit this report to MHESLA on a semi-annual basis if MHESLA can access a monthly report electronically.

MANAGEMENT LOAN SERVICING REPORT 6

INELIGIBLE DISBURSEMENT/LOAN REPORT

(a) The purpose of this report is to provide MHESLA a listing of borrowers who have an ineligible disbursement or an ineligible loan as defined by federal regulations so that MHESLA may monitor the servicer's compliance with federal due diligence regulations in the servicing of the loan.

Disbursements/loans must be reported each report period beginning with the date of notification or determination that the borrower was not eligible for the disbursement/loan through and including the report period in which the loan is submitted to the guarantor for default claim payment or the disbursement/loan has regained eligibility status.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, loan program, loan status, date the notification was received or the date the determination was made, number of the ineligible disbursement(s) per loan (first, second, etc.), disbursement date of the ineligible disbursement(s), amount of the ineligible disbursement(s), ineligibility reason, date a default claim is filed, or the date that the disbursement/loan regains eligibility.

(c) Report Sections:

Detail - All funding sources/loan programs for total portfolio by disbursement number within loan number within Social Security Number within notification/ determination date.

Summary - Number of ineligible disbursements and ineligible loans for this report period and cumulative.

The servicer will submit this report to MHESLA on a weekly basis.

MANAGEMENT LOAN SERVICING REPORT 7

LENDER'S REQUEST FOR ASSISTANCE

(a) The purpose of this report is to provide MHESLA a listing of each loan submitted to the guarantor for preclaims assistance in order that MHESLA may provide proof of notification in the case of an audit.

(b) Detail data elements: a minimum of the Social Security Number, loan number, borrower's name, loan program, first disbursement date, guaranteed loan amount.

(c) Report Sections:

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number.

Summary - Number of borrowers, number of loans for total portfolio.

The servicer will submit this report to MHESLA on the same schedule as reported to the guarantor.

MANAGEMENT LOAN SERVICING REPORT 8

LOAN STATUS CHANGE TO GUARANTOR

(a) The purpose of this report is to provide MHESLA documentation of electronic notifications submitted to the guarantor of status changes made during the report cycle on each loan as supporting documentation in the case of audit. The status changes reported will be those required by the guarantor. The report to the guarantor will be in a format acceptable to the guarantor. The report to MHESLA will be in the order specified below.

(b) Detail data elements: data elements must include but are not limited to Social Security Number, loan number ,borrower's name, loan program, first disbursement date and/or subsequent disbursement date if applicable, type of status change, old status and new status, start date and end date, demographic data changed, amounts changed.

(c) Report Sections:

Detail - Each type of status change will be a separate report section listing the data elements required by the guarantor and will include all funding sources/loan programs for total portfolio by loan number within Social Security Number order for that status change type.

Summary - Total number of loans updated for each type of status change at the end of that section.

The servicer will submit this report to MHESLA on the same schedule as required by the guarantor.

MANAGEMENT LOAN SERVICING REPORT 9

LOAN STATUS JOURNAL

(a) The purpose of this report is to provide MHESLA with a picture of the status of each loan in MHESLA 's portfolio at the end of the report period during the loan's life cycle while on the servicer's system.

(b) Detail data elements: If the servicer currently has a report with data elements similar to the sample report, MHESLA will review the servicer's report to determine if the detail is acceptable to MHESLA.

(c) Report Sections:

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number order.

Summary - Number of borrowers, number of loans and outstanding principal balance for total portfolio.

The servicer will submit this report to MHESLA on a month end basis.

MANAGEMENT LOAN SERVICING REPORT 10

LOAN SUMMARY AND HISTORY

(a) The purpose of this report is to provide MHESLA a snapshot picture of the loan status and an itemized record of all actions taken on a loan from the date of disbursement or conversion to the servicing system through the date of report generation, paid-in-full or removal from the servicer's system.

The report must have a section that gives a snapshot of the loan's demographic information, status dates and monetary amounts as of the date of the report separate from the historical actions taken on the account.

The history must include all monetary transactions/adjustments, non-monetary changes/status changes made to the loan, correspondence received or generated, and a detailed account of every verbal contact made with anyone regarding the loan and identify the person who processed each transaction.

(b) Detail data elements: data elements must include but are not limited to the items below.

Loan Summary - The loan summary must include the current:

- Demographic data - Borrower: name, address, telephone number, prior lender's federal identification number for loans purchased by MHESLA, Social Security Number, account number if applicable, loan number, loan program, funding source, good/bad address indicator, good/bad telephone number indicator, date of the last update; Co-maker/Cosigner: Social Security Number, name, address, telephone number; Federal PLUS Loan Student: Social Security Number, name, address, telephone number.

- Loan status - federal school identification number/branch number, separation date, grace end or repayment start date, date of last repayment disclosure sent to the borrower, repayment schedule, daily interest accrual amount, interest rate, new borrower date or indicator, first payment due date, number of payments made, total number of months of forbearance/deferment, next payment due date, deferment/forbearance start date, deferment/forbearance end date, capitalization indicator, interest accrual start date, date of last interest billing, current status, days delinquent, amount delinquent, amount of principal paid, amount of interest paid, current principal amount, late charges due, collection costs due, interest accrual amount, amount of last interest billing, payoff amount, number of months for each forbearance or deferment type, disbursement dates, disbursement amounts, origination fees, guarantee fees, guaranteed amount, refund or cancellation indicator, refund date, cancellation date, refund amount, cancelled amount.

History Report - The history section of the report must be in chronological order and show the effective date (receipt date), the posting date and the entire detailed description of all transactions on the servicer's system of every action taken for the life of the loan. The history must include both the old and new data for all demographic and status changes. All monetary postings or adjustments must show the total transaction amount and the breakdown to principal, interest, late charges and collection costs.

(c) Report Sections

Detail - For each loan regardless whether the servicer's system is loan or account based.

Summary - For each loan and/or by account if the servicer 's system in account based.

The servicer will submit this report to MHESLA upon request and when filing default claims to the guarantor.

MANAGEMENT LOAN SERVICING REPORT 11

LOSS OF GUARANTEE REPORT

(a) The purpose of this report is to provide MHESLA a listing of loans which lost guarantee as a result of either a default claim denial by the guarantor or the servicer discovering a servicing violation which per federal regulations results in the termination of the lender's right to receive interest and special allowance payments on the loan.

Loans must be reported each report period beginning with the receipt date of the claim denial notification from the guarantor or the date on which the servicer discovered the servicing violation through and including the report period in which the servicer receives the loan guarantee reinstatement notification from the guarantor (loan is no longer delinquent), a subsequent default claim (filed after the cure) has been paid, the servicer has reimbursed the State for the loss on the loan, or a State authorized write-off has occurred.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, loan program, outstanding principal balance, guaranty agency claim denial notification date, the date that the servicer received the guarantor's notification or discovered the violation, claim denial reason or violation discovered, cure resolution status, resolution date.

The cure resolution status will include: cure in process, loan current/ reinstatement requested, reinstatement received, claim re-filed, claim paid, claim denied again, write-off authorization requested from MHESLA, write-off processed and State reimbursed.

(c) Report Sections

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number within servicer receipt date/discovery date and double spaced between receipt/discovery dates.

Summary - Number and total outstanding principal balance of loans for which the claim has been denied or which were discovered and submitted for cure resolution during the report period and cumulative for total portfolio.

The servicer will submit this report to MHESLA on a monthly basis.

MANAGEMENT LOAN SERVICING REPORT 12

OVERPAYMENT/REFUND REPORT

(a) The purpose of this report is to provide MHESLA a listing of each loan overpaid by an amount as set by MHESLA for which a refund must be made.

Overpayments must be reported each report period beginning with the posting date of the final payment through and including the report period in which the refund is issued. The servicer may allow sufficient time to determine that the final payment on the loan is not returned for insufficient funds before issuing the overpayment refund.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, loan program, date of overpayment, amount of overpayment, source of overpayment (borrower, consolidation lender, default claim, etc.), number of days pending refund, date of refund, amount of refund.

(c) Report Sections

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number order.

Summary - Number and amount of refunds pending to all sources for total portfolio.

The servicer will submit this report to MHESLA on a monthly basis.

MANAGEMENT LOAN SERVICING REPORT 13

PORTFOLIO ANALYSIS BY INTEREST RATE

(a) The purpose of this report is to provide MHESLA an analysis of the volume and outstanding principal balance for the total portfolio by the current interest rate and loan program for each funding source.

(b) Detail data elements: total number of loans, total outstanding principal balance.

(c) Report Sections

Detail - A separate report page for each funding source within each lender grouping section providing a breakdown of the loans within that series by interest rates and loan programs.

Summary - A totals page for all funding sources in each lender grouping within total portfolio and for total portfolio.

The servicer will submit this report to MHESLA on a semi-annual basis, currently 3/31 and 9/30.

MANAGEMENT LOAN SERVICING REPORT 14

PORTFOLIO BREAKDOWN - LOAN STATUS BY SCHOOL TYPE

(a) The purpose of this report is to provide MHESLA an analysis of its outstanding portfolio by loan status and type of school. Only totals are required for Federal Consolidation Loans.

(b) Detail data elements: school types - four-year public, four-year private, two-year public, two-year private and proprietary/vocational (as determined by federal regulations), funding source, loan statuses in-school, grace, deferment/forbearance, repayment current, repayment delinquent, total number and percentage of borrowers, total outstanding principal amount and percentage of outstanding principal balance.

Percentage figures must be shown to the tenth place and all totals must equal 100%. Dollar amounts must not include cents.

(c) Report Sections:

Detail - There will be two report sections; Number and Percentage of Borrowers and Amount and Percentage of Outstanding Principal Balance. Each funding source must be reported within each lender grouping and for total portfolio for each report section. Each report section must show the breakdown of the number or amount by loan status and for all loan statuses. The percentage of borrowers and percentage of outstanding principal amount will be for all loan statuses within school type within loan program for the categories below and include subtotals following the four-year public/private and two-year public/private school types.

- For each school type and all school types within each loan program.
- For each school type and all school types for all loan programs.

Summary - A total page of all funding sources in each lender grouping within total portfolio and for total portfolio.

The servicer will submit this report to MHESLA on a quarterly basis.

MANAGEMENT LOAN SERVICING REPORT 15

WRITE-OFF REPORT

(a) The purpose of this report is to provide MHESLA a listing of each loan which has had an amount written off.

(b) Detail data elements: Social Security Number, loan number(s), borrower's name, funding source, loan program, write-off date, amount written off.

(c) Report Sections

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number order.

Summary - Number and amount of loans written off for each loan program and for total portfolio.

The servicer will submit this report to MHESLA on a weekly basis.

MANAGEMENT LOAN SERVICING REPORT 16

TRANSFER IN/OUT DAILY ACTIVITY

(a) The purpose of this report is to provide MHESLA information on accounts which have been automatically scheduled for repayment (disclosure statement) by the system during the week. This report must list accounts in social security number order.

The servicer will submit this report to MHESLA on a weekly basis.

MANAGEMENT LOAN SERVICING REPORT 17

BORROWER BENEFITS REPORT

Note: MHESLA can use Nsight to write this particular report. Nelnet will build the report to MHESLA's specifications. Nelnet will either send it to MHESLA to run on a monthly basis or will set it up to automatically run once a month and appear in MHESLA's Nsight inbox.

(a) The purpose of this report is to provide MHESLA with detail based on the borrower benefit qualification status of each loan.

Detail data elements: Social Security Number, loan number(s), borrower's name, qualification status, qualification status date, number of on-time payments, current interest rate, incentive program type, principal balance, funding source.

Report Sections

There will be a separate report section for each incentive program type.

Detail –Within each program type segregate accounts by qualification status. Sorted by loan number within Social Security Number order.

Summary - Number and dollar amount of loans by qualification status for each incentive program type.

The servicer will provide this report to MHESLA on a monthly basis.

MANAGEMENT LOAN CONSOLIDATION REPORT 1

CONSOLIDATION LOAN - CONVERSION TO SERVICING

(a) The purpose of this report is to provide MHESLA a listing of each new consolidation loan and each loan increase, due to a subsequent disbursement to include an additional loan to the consolidation, so that MHESLA may monitor loans converted to the servicer's servicing system for compliance to federal regulations.

(b) Detail data elements: Social Security Number, loan number, borrower's name, funding source, interest rate, indicator to identify whether a new loan is converting or a loan is being increased, disbursement date, disbursement amount converting, new total loan amount after conversion but prior to principal payments already made, conversion date.

(c) Report Sections

Detail - All funding source for total portfolio by disbursement date within Social Security Number order with page breaks between disbursement dates.

Summary - Number and amount of new loans converted, number and amount of increase adjustments and number and amount of conversions for total portfolio.

The servicer will submit this report to MHESLA on a monthly basis.

MANAGEMENT LOAN CONSOLIDATION REPORT 2

CONSOLIDATION LOAN - FUNDS TRANSFER REQUEST

(a) The purpose of this report is to provide MHESLA a listing of the amount and name of each creditor to be paid for loans being consolidated into one loan for which the servicer requests a funds transfer.

(b) Detail data elements: scheduled disbursement date, Social Security Number, borrower's name, original disbursement date for consolidation loans previously made for which an increase to the loan is required, loan program of the loan being consolidated, name of each creditor who will receive a disbursement, payment amount to each creditor, total number of creditors to be paid for each borrower, total scheduled disbursement amount for each borrower.

(c) Report Sections

Detail - Each creditor in alpha order within borrower Social Security Number order for total portfolio.

Summary - Number and amount of disbursements issued for new loans to be disbursed, number and amount of disbursements for existing consolidation loans being increased, and number and amount of all disbursements for total portfolio.

The servicer will submit this report to MHESLA for each funds transfer so that it is received by MHESLA prior to the scheduled disbursement date.

MANAGEMENT LOAN CONSOLIDATION REPORT 3

LOANS CONSOLIDATED BY ANOTHER LENDER

Nelnet has two reports related to Loans Consolidated by Another Lender; Consolidation Loss Summary and the Consolidation Loss Detail reports. These reports contain the below fields, except for loan number and borrower name. Any additional data fields required can be obtained through Nsight.

(a) The purpose of this report is to provide MHESLA statistics regarding loans paid-in-full due to consolidation by another lender.

(b) Detail data elements: Social Security Number, loan number, borrower name, program type, payoff amount, consolidating lender.

(c) Report Sections:

Detail - All funding sources for total portfolio by consolidating lender within Social Security Number order. Each report section must show number of borrowers, number of loans, payoff amount.

Summary - Total of all funding sources within consolidating lender and for total portfolio.
The servicer will submit this report to MHESLA on a monthly basis.

STATE SECONDARY MARKET LOAN MANAGEMENT REPORT 1

LOAN TRANSFER REPORT

(a) The purpose of this report is to provide MHESLA and the seller/purchaser (if a loan is sold back to the original lender) a listing of each borrower's loan(s) purchased/sold by MHESLA in each sale in order to reconcile the balances of loans sold/purchased and for the seller/purchaser to close their loan accounts. The report submitted to MHESLA must be in Social Security Number order, however the report submitted to the seller/purchaser may be in either Social Security Number order or alphabetical order per their request.

The servicer must be able to identify on the report whether the loan reported is the first loan MHESLA has purchased for that borrower or it is a subsequent loan purchased for that borrower from the same seller or another seller.

In order for MHESLA to monitor the type, volume and amount of loans being purchased, the servicer must be able to identify loans purchased by the following loan status categories: enrolled, grace, deferred/forbearance, repayment.

(b) Detail data elements: seller's/purchaser's name, seller's/purchaser's federal identification number, Social Security Number, loan number, borrower's name, serial sale flag, loan program, guarantor, guaranteed amount, interest rate, special allowance eligibility code, government interest accrued, funding source, first disbursement date, total disbursement amount, separation date, loan status, beginning interest accrual date, current principal balance, borrower interest accrual amount, late charges due, collection charges due, number of months serviced per borrower, total paid to seller/received from purchaser for the loan.

(c) Report Sections

Detail - All loans purchased/sold for each borrower by loan status within loan program within Social Security Number within funding source. (Detail header titles may be shown once on the top of each page and need not be included in each loan detail line.)

Detail Subtotals -Current principal balance, borrower interest accrual, late charges due, collection charges due and total paid to seller/received from purchaser for each loan status within each loan program and for each borrower.

Purchase Summary - Number of unduplicated borrowers, number of loans, current principal balance, borrower interest accrual, late charges due, collection charges due, total number of months service by loan type, and total paid to seller/received from purchaser for each loan program and all loan programs within each funding source and for total portfolio.

Loan Status Summary - Number of borrowers, number of loans and amount of loans purchased/sold for each loan status within each loan program, for each loan status within all loan programs, for all loan status' within each loan program within each funding source and for total portfolio.

(d) The servicer will submit this report to MHESLA for each purchase or sale.

STATE SECONDARY MARKET LOAN MANAGEMENT REPORT 2

LOAN TRANSFER - NOTIFICATION TO GUARANTOR

(a) The purpose of this report is to provide MHESLA a listing of each loan included in the loan transfer notification to the guarantor in order that MHESLA may provide proof of notification in the case of an audit.

(b) Detail data elements: seller's name, seller's federal identification number, purchaser's name, purchaser's federal identification number, Social Security Number, loan number, borrower's name, loan program, first disbursement date, guaranteed loan amount.

(c) Report Sections:

Detail - All funding sources/loan programs for total portfolio by loan number within Social Security Number.

Summary - Number of borrowers, number of loans for total portfolio.

The servicer will submit this report to MHESLA on the same schedule as reported to the guarantor.

FINANCIAL REPORT 1

PORTFOLIO RECONCILIATION: SUMMARY

(a) This report is used to reconcile the servicer's records with MHESLA 's records and includes a summary of the transaction activity that occurs within an accounting period. This report should provide the following types of transaction activity:

-Loan activity: new loans, loan sales, loan purchases, and transfers
-Cash payment activity: borrower payments, claim payments or repurchases, and refunds or cancellations
-Advice payment activity: borrower payment advice, refunds and cancellations, loan purchase corrections, claim repurchase advice, lender write off or write up
-Servicer generated activity: servicer write off or write up, capitalized interest, guarantee fee refund advice, origination fee refund advice, account adjustment or correction, current accrual, and government interest billed

The report should show the total numbers and balances of the reports, of the system, and any variances, within each of the following reporting areas and be sorted by funding sources and guarantor:

-Principal and Capitalized Interest
-Borrower Interest
-Government Interest
-Late Charges
-Number of Borrowers
-Number of Loans

The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 2

PORTFOLIO RECONCILIATION: DETAIL

This report is used to reconcile the servicer's records with MHESLA 's records and includes detailed listings of transactions posted to the individual loan records during the posting period. The reported is organized by transaction types and sorted by funding source, and includes:

(a) Account Adjustment/Correction - Repayment redistributions and non-cash adjustments by social security number (SSN), and noting the effective date, the amount, principal, borrower interest, government interest, late charge, and collection charge.

(b) Capitalized Interest - Capitalized interest by SSN and listing borrower name, effective date, principal, and borrower interest capitalized.

(c) Refund/Cancellations Advice - Cancellations by SSN and including borrower name, check number, effective date, principal, borrower interest, number of borrowers, number of loans, and totals for the latter four items.

(d) Cash Refunds/Cancellation - Cash refunds and cancellations by SSN and listing borrower name, effective date, posting date, principal, borrower interest, number of borrowers, number of loans, and totals for the latter four items.

(e) Loans Eligible/Ineligible for Special Allowance - Loans eligible and loans ineligible for special allowance listed by special allowance category, 799 code, interest rate, number of loans, ending principal balance, and average daily balance. The data elements of each special allowance category should be totaled.

(f) Cash Claim Payments - Default claims paid by SSN and including borrower name, effective date, posting date, amount, principal, borrower interest, late charge, collection charge, number of borrowers, and number of loans. Totals of the last seven data elements should be included.

Cash Borrower Payments - Cash borrower payments by SSN and to include borrower name, effective date, posting date, amount, principal, borrower interest, late charge, collection charge, number of borrowers, and number of loans. Totals of the last seven data elements should be included.

FINANCIAL REPORT 3

NET CASH COLLECTION BY FUNDING SERIES

(a) The servicer will immediately deposit all payments collected in a separate, segregated servicing account. The separate, segregated servicing account shall contain only the payments received by the servicer, and shall not be commingled with any monies owned by the servicer or any person or entity other than MHESLA. All payments are and shall at all times remain the property of MHESLA and shall be held in trust by the servicer solely for the benefit of MHESLA. The servicer will make daily wire transfers of all funds from the servicing accounts to MHESLA's corresponding account with the Trustee. The servicer shall not use any portion of such payments for any purpose other than to make the daily wire transfers. MHESLA shall have the right of access at any time during normal business hours and to review any and all records, statements and other documents pertaining to the servicing account, with or without prior notice to the servicer. The servicer will also provide a breakdown of the transfer amounts showing payments of principal, interest, and late charges by deposit total to each funding source. The servicer is responsible for reconciling the servicing bank accounts used in the payment process and forwarding this information to MHESLA.

(b) The servicer will provide this information to MHESLA on a daily basis.

FINANCIAL REPORT 4

PORTFOLIO RECAP SUMMARY

(a) The purpose of this report is to provide MHESLA an itemization of MHESLA's entire portfolio within each assigned funding source by the number of loans, number of borrowers, and the principal outstanding of those loans per loan program and by loan statuses including interim statuses of in school and grace, and a subtotal of interim statuses; Repayment statuses of current, deferred, forborne, and a subtotal of those, delinquencies of 11-30 days, 31-60 days, 61-90 days, 91-120 days, 121-150 days, 151-180 days, 181-270 days, over 270 days and a subtotal of delinquencies; claims in process 0-30 days, 31-60 days, 61-90 days, 91-180 days, 181-360 days, over 360 days, and a subtotal of claims in process, a total of the loans in repayment status and a grand total of the portfolio.

(b) The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 5

CHECK /EFT DISBURSEMENT REGISTER

(a) The purpose of this report is to provide MHESLA with a detail listing of all checks and EFT's that have been generated in a disbursement cycle by the servicer. The report is sorted chronologically by check/EFT number and loan type.

(b) The servicer will submit this report to MHESLA on a weekly basis.

FINANCIAL REPORT 6

DAILY ACCOUNTING DETAIL REPORT SUMMARY

(a) The purpose of this report is to provide MHESLA detailed and summarized accounting information from the loan origination services so MHESLA may calculate the funds to be wired to the servicer for disbursements. The report should provide a breakdown of cancellations, void checks, guarantee fees reissued checks and disbursements by funding source. The data elements include transaction type, guarantor, loan program, interest rate, total loan amount approved, total guarantee fees, total origination fees, and the total amount financed. Totals should be provided for all reductions (cancellations, voids) and additions (disbursements, reissued checks) to the amount owed to the servicer.

(b) This report should include a summary or recap of disbursements by number of disbursements by loan program, number of checks or EFT transfers, loan amounts disbursed, and net amount disbursed by funding source.

(c) The servicer will submit this report to MHESLA daily by facsimile or electronic media approved by the Contract Administrator or designee.

FINANCIAL REPORT 7

DAILY ACCOUNTING REPORT DETAIL

(a) This report is the detail behind the Daily Accounting Detail Report Summary. It provides the disbursement, reissued checks, cancellations, voided checks, and check or EFT disbursement information including loan program, SSN, borrower's name, scheduled disbursement date, loan amount, guarantee fee, origination fee, other deductions, net amount and the funding source. Totals of the loan amount, guarantee fee, origination fee, other deduction and net amount data elements should be included.

(b) The servicer will submit this report to MHESLA on a weekly basis.

FINANCIAL REPORT 8

QUARTERLY LENDER'S INTEREST AND SPECIAL ALLOWANCE REQUEST AND REPORT (LaRS 799)

(a) The LaRS 799 is a quarterly federal report of loan origination fees, lender fees, interest benefits, special allowance, changes in guaranteed loan principal for the quarter, and guaranteed loan portfolio analysis for end of quarter, and electronically submitted to the Department of Education. The report is a summary of MHESLA's portfolio of loans eligible for federal interest benefits, special allowance, origination fees and lender fees applicable for each quarter. This information must be electronically reported as prescribed by the U.S. Department of Education, and must meet federal guidelines.

(b) Information summarizing the loan origination fees, lender fees, interest benefits, and special allowance reported must be provided by funding source.

(c) The servicer must meet the conditions required by the U.S. Department of Education.

The servicer will submit this report to the Department of Education on a quarterly basis within fifteen (15) calendar days after the end of the quarter.

FINANCIAL REPORT 9

STATISTICAL INFORMATION

(a) The purpose of this report is to provide MHESLA with statistical information by loan program (1) on loans originated and (2) on Consolidation loans, including loan activity (applications keyed, approved loans), commitment activity (loans approved by guarantor, loans cancelled), and disbursement activity (first disbursements cancelled, first disbursements made).

(b) The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 10

MONITORING OF COMMITMENTS BY FUNDING SOURCE

(a) The purpose of this report is to provide MHESLA with total loans committed to a funding source but not yet completely disbursed to determine cash flow needs. The report is by funding sources and should include the total principal amount of loans for which applications were entered, lender approved, guarantor approved disbursed/partially disbursed, loans disbursed for which check has cleared, and loans cancelled/partially cancelled.

(b) The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 11

SUBSEQUENT DISBURSEMENTS REPORT

(a) The purpose of this report is to provide MHESLA with scheduled disbursement dates by funding source for determining cash flow needs. The report should include the disbursement date and the disbursement dollar amount.

(b) The servicer will submit this report to MHESLA monthly unless requested by MHESLA on a more frequent basis (weekly).

FINANCIAL REPORT 12

CURRENT LOAN SERVICING REPORT

(a) The purpose of this report is to provide MHESLA with total number of loans, number of borrowers, and principal balance amounts by loan program, by funding source for use in statistical reporting.

(b) The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 13

STAFFORD OUTSTANDING LOAN STATISTICS

(a) A report that provides statistics regarding MHESLA's Unsubsidized Federal Stafford Loan portfolio and MHESLA 's Subsidized Federal Stafford Loan portfolio. It should include the number of borrowers, number of loans and the principal amount of loans separately for both Unsubsidized and Subsidized Federal Stafford Loans.

(b) The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 14

LENDER NOTIFICATION OF FUND TRANSFER

(a) A report that confirms funds transferred to the State. The report should identify the ACH transit routing number, account number, federal identification number, posting date, and should include principal amount applied, borrower interest amount applied, collection costs or late charges, and total amount transferred to the State summarized by funding source.

The servicer will submit this report upon each transfer.

FINANCIAL REPORT 15

DEFAULT STATISTICAL INFORMATION

(a) A report that provides summary information about loan defaults. This report should include number and dollar value of claims filed, claim proceeds received, and number and total dollar value of claims rejected and should be sorted by funding source.

(b) The servicer will submit this report to MHESLA on a semi-annual basis.

FINANCIAL REPORT 16

PROJECTED LIFE CYCLE MATURITY REPORT

(a) The purpose of this report is to summarize the expected life cycle maturity of loans through the next statuses. The report should include the average number of months for the loans to mature through the next statuses (i.e. in-school, grace, and repayment), the number of borrowers, and the principal they owe for loans that will mature from a given status during a specified time frame. The report must be sorted by funding source.

The report must be submitted quarterly.

FINANCIAL REPORT 17

PORTFOLIO PROJECTIONS BY SCHOOL TYPE

(a) The purpose of this report is to provide MHESLA statistics of loan movement within MHESLA 's portfolio by type of school for long range financial projections.

(b) Detail data elements: school types - four-year public, four-year private, two-year public, two-year private and proprietary/vocational (as determined by federal regulations), number of loans and the principal and interest amount of loans by status - originated, purchased, repayment (borrower/consolidation payments applied where the loan continues to have an outstanding balance), paid-in-full (final payments applied which include refunds, cancellations, low balance write-offs, etc.), default (payments applied and default balance write-offs).

(c) Report Sections:

Detail - There will be three report sections; Number of Loans, Loan Amounts and a Net Change Summary. Each report section must show the breakdown of the number or amount for each status within school type within loan program.

Summary - Each status must include subtotals following the four-year public/private and two-year public/private school types, the total for all school types within each loan program and the total of all school types for all loan programs. The Net Change Summary section will show the prior months ending balances plus new originations and purchases minus the repayment, paid-in-full and default activity and the end of month net figures.

The servicer will submit this report to MHESLA on a monthly basis.

FINANCIAL REPORT 18

PORTFOLIO BREAKDOWN - LOAN STATUS BY LOAN TYPE

(a) The purpose of this report is to provide MHESLA an analysis of its outstanding portfolio by loan status, type of loan program and billing unit to enable reconciliation of monthly servicing costs.

(b) Detail data elements: loan program types, Subsidized Stafford, Unsubsidized Stafford, PLUS, SLS and Consolidation, loan statuses, in-school, grace, deferment/forbearance, repayment current, repayment delinquent, total number of borrowers, total number of accounts, total number of loans and total outstanding principal balance.

(c) Report Sections:

Detail - Each loan status must be reported within each loan program and for total portfolio. Report to include subtotals following each loan program.

Summary - A total of all loan programs within each status for total portfolio.

The servicer will submit this report to MHESLA on a monthly basis.

SCHOOL REPORT 1

FORECAST REPORT

The purpose of this report is to provide a monthly report to schools reflecting future disbursement information. This report will allow schools to meet the compliance criteria with the Cash Management regulations. Further, schools will be able to cancel disbursements when the student is not eligible to receive loan funds thus reducing funds being returned and reissued.

This report should meet the data criteria outlined in CommonLine Release 5 that specifically details the Forecast Report process and be CommonLine compliant.

The servicer will submit this report on a request basis to schools.

If the reporting method is microfiche, hard copy is required.

SCHOOL REPORT 2

REPAYMENT REPORT

The purpose of this report is to provide the schools with a monthly report that reflects students that will enter repayment in the future (i.e., request report in January, and receive in January a list of students entering repayment in March). This report will reflect name, social security number, and repayment entry date.

Corresponding mailing labels with the student's name and address must accompany the report so that schools can send communication, if they so choose, outlining repayment options available to the borrower.

This report will reflect borrower name, social security number, and future repayment history.

The servicer will submit this report on a request basis to schools.

If the reporting method is microfiche, hard copy is required.

IV-B: MI-LOAN REPORTS

ORIGINATION MANAGEMENT REPORT 1

MI-LOAN APPLICATIONS RECEIVED

(a) PURPOSE: The purpose of this report is to provide a listing and the current status of applications received.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) applicant's requested interest type ("Fixed", "Variable" or "no interest rate selected"), 3) application received date, 4) social security number, 5) loan identifier, 6) borrower name, 7) application/loan status, 8) grade level, 9) school ID number, 10) school name.

(c) REPORT SECTIONS:

Spacing:
Line break between each interest type within program type,
Page break between program types, and a
Page break between the detail/program types and summary.

Detail:
Social security number/loan identifier order within interest type,
Within program type.

Summary:
Totals by program type for the:
Number of fixed interest rate applications received,
Number of variable interest rate applications received,
Number of "no interest rate selected" applications received, and the
Total number of all applications received.
Grand totals, all program types combined, for the:

Number of “fixed interest rate” applications received,
Number of “variable interest rate” applications received,
Number of “no interest rate selected” applications received, and the
Total number of all applications received.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a week-end basis.

ORIGINATION MANAGEMENT REPORT 2

MI-LOAN APPLICATIONS PENDING

(a) PURPOSE: The purpose of this report is to identify applications that have been received, but have not been approved or denied as of the report date. This is a cumulative report.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) number of days pending (number of days from received date to date of report), 3) application received date, 4) social security number, 5) loan identifier, 6) borrower name, 7) edit reason(s).

(c) REPORT SECTIONS:

Spacing:
Line break between application received dates within program type,
Page break between program types, and a
Line break before the summary section.

Detail:
Social security number/loan identifier order
Within application received date
Within program type.

Summary:
Total by program type for the number of applications pending and
Grand total, all program types combined, for the number of applications pending.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a month end basis.

ORIGINATION MANAGEMENT REPORT 3

MI-LOAN APPROVAL ROSTER

PURPOSE: The purpose of this report is to identify applications that are approved for disbursement, or the loan increase amount approved for an application previously approved (new total loan amount approved minus loan amount previously approved).

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) bond funding source number, 3) borrower social security number, 4) loan identifier, 5) borrower name, 6) loan amount approved, 7) loan increase amount approved, 8) loan reduction reason, 9) school id number, 10) school name.

(c) REPORT SECTIONS:

Spacing:
Line break between each bond fund, within program type,
Page break between program types, and a
Page break before summary.

Detail:
Borrower Social security number/loan identifier order
Within bond fund
Within program type.

Summary:
Totals by bond fund, within program type, for:
  Number of loans approved,
  Loan amount~~s~~ approved,
  Loan increase amount approved.
Totals by program type for:
  Number of loans approved,
  Loan amount~~s~~ approved,
  Loan increase amount.
Totals by bond fund, all program types combined, for:
  Number of loans approved,
  Loan amount approved, and
  Loan increase amount approved.
Grand totals, all program types/all bond funds combined, for:
  Number of loans approved,
  Loan amount approved, and
  Loan increase amount approved.

(d) FREQUENCY: Report is to be on an approval date basis, but the servicer may hold the reports generated for each approval date and mail them to MHESLA at the end of the week.

ORIGINATION MANAGEMENT REPORT 4

MI-LOAN DENIAL ROSTER

(a) PURPOSE: The purpose of this report is to identify applications that are denied during the report period, and the reason for the denial.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) bond funding source number*, 3) social security number, 4) loan identifier, 5) borrower name, 6) denial date, 7) applicant's requested loan amount denied, 8) denial reason (if denied for multiple reasons, all reasons must be listed on report), 9) school ID number, 10) school name.

*Note: If the denied application does not include the information necessary to assign a bond fund, group these applications together and label them as having "No Bond Fund."

(c) REPORT SECTIONS:

Spacing:
Line break between each bond fund, within program type,
Page break between program types, and a
Page break before summary.

Detail:
Social security number/loan identifier order,
Within bond fund,
Within program type.

Summary:
Totals by bond fund, within program type, for:
  Requested amount denied, and
  Number of loan applications denied.
Totals by program type for:
  Requested amount denied, and

Number of loan applications denied.
Totals by bond fund, all program types combined, for:
Requested amount denied, and
Number of loan applications denied.
Grand totals, all program types/all bond funds combined, for:
Requested amount denied, and
Number of loan applications denied.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a week end basis.

ORIGINATION MANAGEMENT REPORT 5

MI-LOAN DISBURSEMENT ROSTER

(a) PURPOSE: The purpose of this report is to provide data on disbursed loans.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) bond funding source number, 3) social security number, 4) loan identifier, 5) borrower name, 6) actual gross disbursed amount, 7) reserve fee amount, 8) net disbursement amount (actual gross disbursed amount minus reserve fee amount), 9) disbursement method indicator (EFT/check), 10) check number or equivalent, 11) applicant's requested interest type ("Fixed" or "Variable"), 12) interest rate.

(c) REPORT SECTIONS:

Spacing:
Line break between each bond fund, within program type,
Page break between program types, and a
Page break before summary.

Detail:
Social security number/loan identifier order,
Within bond fund,
Within program type.

Summary:
Totals by bond fund, within program type, for:
Actual gross disbursed amount,
Reserve fee amount,
Net disbursed amount, and
Number of disbursements.
Totals by program type for:
Actual gross disbursed amount,
Reserve fee amount,
Net disbursed amount, and
Number of disbursements.
Totals by bond fund, all program types combined, for:
Actual gross disbursed amount,
Reserve fee amount,
Net disbursed amount, and
Number of disbursements.
Grand totals, all program types/all bond funds combined, for:
Actual gross disbursed amount,
Reserve fee amount,
Net disbursed amount, and
Number of disbursements.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a disbursement run basis.

ORIGINATION MANAGEMENT REPORT 6

MI-LOAN DISBURSEMENT CREDIT REGISTER

PURPOSE: The purpose of this report is to identify loans that were "Cancelled" because the funds were returned to the State or the servicer within 30 days of disbursement, the disbursement check was voided, or a stop payment was placed on the disbursement check.

(b) DETAIL DATA ELEMENTS: 1) Check number, 2) social security number, 3) loan identifier, 4) borrower name, 5) "Cancelled" status effective date (date funds are received, check is voided, or stop payment date), 6) actual gross disbursed amount, 7) reserve fee amount, 8) net disbursed amount (actual gross disbursed amount minus reserve fee amount), 9) bond funding source number.

(c) REPORT SECTIONS:

Spacing:
Line break between detail and summary.

Detail:
Check number order.

Summary:
Totals for actual gross disbursed amount, reserve fee amount, net disbursement amount, and number of checks for each bond fund, and for all bond funds combined.

(d) FREQUENCY: The servicer must submit this report to MHESLA for each date of occurrence.

ORIGINATION MANAGEMENT REPORT 7

MI-LOAN SCHOOL FEE ROSTER

(a) PURPOSE: The purpose of this report is to identify the fees due to the schools that have certified an application so that payment may be made. The school receives a set fee amount for each loan that is disbursed. The current fee amount per loan disbursed is $10.

(b) DETAIL DATA ELEMENTS: 1) School name, 2) school contact person's name, 3) school address, 4) school code, 5) program type, 6) social security number, 7) loan identifier, 8) borrower name, 9) actual gross disbursed amount, 10) actual disbursement date, 11) school certified loan period start date (mm/dd/ccyy), 12) school certified loan period end date (mm/dd/ccyy), 13) bond funding source number, 14) school fees to be paid ($10 times number of loans).

(c) REPORT SECTIONS:

Spacing:
Line break between program types within each school code,
Line break between the detail section and the summary totals for each school code,
Page break following each school code's summary totals, and
Page break between the school detail pages and the summary roster.

Detail:
Social security number/loan identifier order,
Within program type,
Within school code.

Summary:
Summary for each school code, all program types combined, following the school detail, for the:
Total number of loans disbursed, and
Total amount of fees to be paid ($10 x number of loans disbursed).

Summary roster for all school codes (in alphabetical order by school name):
Totals by school code for the:
Number of loans and
Total amount of fees, and
Totals by bond fund, all school codes combined, for the:
Number of loans and
Total amount of fees, and
Totals for all school codes/all bond funds combined for the:
Number of loans and
Total amount of fees.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION MANAGEMENT REPORT 8

MI-LOAN DENIED/CANCELLED/DELETED ROSTER

(a) PURPOSE: The purpose of this report is to identify for schools those applications, certified by that school, that have been denied, have been cancelled prior to disbursement, or have had the disbursement check voided.

(b) DETAIL DATA ELEMENTS: 1) School name, 2) school contact person's name, 3) school address, 4) school code, 5) program type, 6) student social security number, 7) student name, 8) borrower social security number, 9) loan identifier, 10) borrower name, 11) applicant's requested loan amount, 12) application/loan status ("Denied", "Cancelled" or "Deleted"), 13) loan status effective date, 14) school certified loan period start date (mm/dd/ccyy), 15) school certified loan period end date (mm/dd/ccyy).

(c) REPORT SECTIONS:

Spacing:
Page break between each school code, and a
Page break between the detail and summary.

Detail:
Chronological order by received date,
Within program type,
Within each school code.

Summary:
Totals by program type, for all borrower types/all schools combined, for the:
- Number of applications denied ("Denied" status),
- Number of applications cancelled prior to disbursement ("Deleted" status),
- Number of checks voided ("Cancelled" status), and
- Number of denied, cancelled and deleted applications combined.

Grand Totals, for all program types all borrower types/all schools combined for:
- Number of applications denied ("Denied" status),
- Number of applications cancelled prior to disbursement ("Deleted" status), and
- Number of checks voided ("cancelled" status).

Grand total number of applications (denied/cancelled/ deleted) for all program types/all borrower types/all schools combined.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a week end basis. Also, the servicer must forward each school's detail page(s) to them by whatever method the school requests; i.e. electronically, by fax, by email or by regular mail.

ORIGINATION MANAGEMENT REPORT 9

MI-LOAN APPLICATION REFERRAL FEE ROSTER

(a) PURPOSE: The purpose of this report is to identify the fees due to financial institutions, that have referred an application to a borrower, so that payment may be made. Each financial institution that participates in the MI-LOAN Application Referral Program will be assigned a lender-specific identification code (ID Code) number. The financial institution receives a set fee (not to exceed $10.00 per loan) for each loan that is disbursed. The current amount per loan is $10.00.

(b) DETAIL DATA ELEMENTS: 1) Lender ID code , 2) borrower social security number, 3) loan identifier, 4) borrower name, 5) actual gross disbursed amount, 6) actual disbursement date, 7) school certified loan period start date, 8) school certified loan period end date, 9) bond funding source number.

(d) REPORT SECTIONS:

Spacing:
Page break between each lender ID Code in the Detail section,
Page break before the Summary section of the report, and
Double spacing between each lender ID code's data in the Summary section.

Detail:
Borrower social security number/loan identifier order,
Within each lender ID Code.

Summary:
Summary for each lender ID code following lender detail, for the total:
- Number of loans disbursed, and
- Amount of fees to be paid ($10 times the number of loans disbursed).

Summary page for all lender ID codes (in numerical order):
- Totals by lender id code, for the:
  - Number of loans disbursed and
  - Amount of fees to be paid,
- Totals by bond fund, all lender id codes combined, for the:
  - Number of loans disbursed and
  - Amount of fees to be paid, and
- Grand totals for all lender id codes/all bond funds combined for, the:
  - Number of loans disbursed and
  - Amount of fees to be paid.

(e) FREQUENCY: The servicer will submit this report to MHESLA on a quarter end basis.

ORIGINATION MANAGEMENT REPORT 10

MI-LOAN SCHOOL APPROVAL ROSTER

This report will be made available on the school report section of www.firstmark.com

(a) PURPOSE: The purpose of this report is to identify for the school all applications that have been approved, or pre-approved, for disbursement during the report period.

(b) DETAIL DATA ELEMENTS: 1) School code, 2) school name, 3) school contact person's name, 4) school address (street address, city state, zip code), 5) application approval date, 6) student social security number, 7) student name, 8) loan approved amount, 9) scheduled disbursement date(s), 10) loan period begin date, 11) loan period end date, 12) borrower social security number, 13) loan identifier, 14) borrower name, 15) program type, 16) approval status ("approved" or "pre-approved").

(c) REPORT SECTIONS:

Spacing:

Page break between schools, and
Page break before the summary section.

Detail:
In alpha order by school name, and
In student social security number order,
Within each school section.

Summary:
Summary section for each school, all program types combined, following each school's detail, for the total number of:
  Applications approved and pre-approved, and
  Loan amount approved.
Summary section for all schools/all program types combined for the total number of :
  Applications approved and pre-approved, and
  Loan amount approved.

(d) FREQUENCY: On a daily basis.

(e) REPORTING METHOD: The servicer will transmit each page of the detail sections of the report to the school(s) that it covers, along with a copy of the entire report to MHESLA, either electronically or by email (as identified in writing by the Contract Administrator or designee).

ORIGINATION MANAGEMENT REPORT 11

MI-LOAN DISPURSMENTS PENDING ROSTER

(a) PURPOSE: The purpose of this report is to provide data on loans pending future disbursement.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) bond funding source number, 3) social security number, 4) loan identifier, 5) borrower name, 6) loan amount approved, 7) scheduled disbursement date, 8) actual gross disbursement amount, 9) reserve fee amount, 10) net disbursement amount (actual gross disbursement amount minus reserve fee amount), 11) disbursement method indicator (EFT/check), 12) school name, 13) school code.

(c) REPORT SECTIONS:

Spacing:
Line break between each bond fund, within program type,
Page break between program types, and a
Page break before summary.

Detail:
Social security number,
Within pending disbursement date,
Within bond fund,
Within program type.

Summary:
Totals by bond fund, within program type, for:
  Total actual gross disbursement amount,
  Reserve fee amount,
  Net disbursement amount, and
  Number of disbursements.
Totals by program type for:
  Total actual gross disbursement amount,
  Reserve fee amount,
  Net disbursement amount, and
  Number of disbursements.
Totals by bond fund, all program types combined, for:
  Total actual gross disbursement amount,
  Reserve fee amount,

Net disbursement amount, and
Number of disbursements.
Grand totals, all program types/all bond funds combined, for:
Total actual gross disbursement amount,
Reserve fee amount,
Net disbursement amount, and
Number of disbursements.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a weekly.

ORIGINATION STATISTICAL REPORT 1

STATISTICS: APPLICATION PROCESSING TIME TO APPROVAL

(a) PURPOSE: The purpose of this report is to provide statistical information on the time it takes to process MI-LOAN Program applications from the date the application is received until the date the loan is approved. This report includes applications which were approved within the report period that may be in the following statuses as of the report period end date: approved (but not yet disbursed), cancelled (cancelled after disbursement), deleted (cancelled prior to disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA/repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7, 11, 12, 13), death cancellation, disability cancellation, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The report is separated into two application approval groups so that the overall processing time average does not appear inflated. The application approval group subsections are:
Immediate Approval - Applications that are thoroughly and accurately completed and that need no further information or materials to be approved. These applications are received and approved without pending action.
Delayed Approval - Applications that are incomplete or inaccurately completed and require a return to the borrower or other actions in order to approve the loan.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) social security number, 3) loan identifier, 4) borrower name, 5) loan amount approved, 6) application received date, 7) application approval date, 8) number of days from the application received date to the application approval date.

(c) REPORT SECTIONS:

Spacing:
Page break between program types within subsections,
Page break between subsections, and a
Page break before summary section.

Detail:
Number of days to process (detail data element #8) order,
Within program type,
Within subsection.

Summary:
Average number of days to process by program type within subsection,
Average number of days to process by subsection, all program types combined.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a week end basis.

ORIGINATION STATISTICAL REPORT 2

STATISTICS: AGE OF BORROWER

(a) PURPOSE: The purpose of this report is to provide statistical information on the ages of borrowers, cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (cancelled after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The age groups are:

No date of birth
Under 24 years old
24 to 29 years old
30 to 39 years old
40 to 49 years old
50 years old or older

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) borrower type, 3) Age groups, 4) number of loans, 5) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between sections: “totals by borrower type within program type”, “totals by program type, all borrower types combined”, “totals for each borrower type, all program types combined”.
Page break before the summary section.

Detail:
Totals by borrower type within program type for each age group, cumulative from program inception in ascending order by age, for the:
Number of loans and
Total loan amounts approved.
Totals by program type, all borrower types combined, for each age group, cumulative from program inception in ascending order by age, for the:
Number of loans and
Total loan amounts approved.
Totals for each borrower type, all program types combined, for each age group, cumulative from program inception in ascending order by age, for the:
Number of loans and
Total loan amounts approved.

Summary:
Totals for all program types/all borrower types combined for each age group, cumulative from program inception in ascending order by age, for the:
Number of loans and
Total loan amounts approved.
Grand Totals for all age groups/all program types combined, cumulative from program inception, for the:
Number of loans and
Total loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 3

STATISTICS: BORROWER ACCOUNTS - DISBURSED AMOUNT

(a) PURPOSE: The purpose of this report is to provide statistical information on actual gross disbursed amounts for the loans in the MI-LOAN Program portfolio cumulative from program inception (10/1990). This report includes loans in the following statuses: disbursed, cancelled (cancelled after disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7, 11, 12, 13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status, in an approved but not yet disbursed status, canceled prior to disbursement status (“deleted”), and in denied status are not included in the report. The actual gross disbursement amount groups are:

Up to $2,500	$30,001 to $35,000
$2,501 to $5,000	$35,001 to $40,000
$5,001 to $10,000	$40,001 to $45,000
$10,001 to $15,000	$45,001 to $50,000
$15,001 to $20,000	$50,001 to $75,000
$20,001 to $25,000	$75,001 to $100,000
$25,001 to $30,000	$100,001 to $125,000

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) borrower type, 3) Actual gross disbursed amount groups, 4) number of loans, 5) total actual gross disbursed amounts.

(c) REPORT SECTIONS:

Spacing:
Line break between the following sections:
- “Totals by borrower type within program type”,
- “Totals by program type, all borrower types combined”, and
- “Totals for each borrower type, all program types combined”.

Page break before the summary section.

Detail:
Totals by borrower type within program type for each group, cumulative from program inception in ascending order by group, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

Totals by borrower type within program type for all groups combined, cumulative from program inception, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

Totals by program type, all borrower types combined, for each group, cumulative from program inception in ascending order by group, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

Totals by program type, all borrower types/all groups combined, cumulative from program inception, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

Totals for each borrower type, all program types combined, for each group, cumulative from program inception in ascending order by group, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

Totals for each borrower type, all program types/all groups combined, cumulative from program inception, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

Summary:
Totals for all program types/all borrower types combined for each group, cumulative from program inception in ascending order by group, for the:
- Number of loans, and
- Total actual gross disbursed amounts.

grand totals for all groups/all program types/all borrower types combined, cumulative from program inception, for the:
- number of loans, and
- total actual gross disbursed amounts.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

<u>ORIGINATION STATISTICAL REPORT 4</u>

STATISTICS: CREDITWORTHY PROGRAM - COSIGNER STATUS

(a) PURPOSE: The purpose of this report is to provide statistical information on the cosigner statuses for loans in the Creditworthy MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (cancelled after disbursement), deleted (cancelled prior to disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7, 11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The cosigner status groups are:

No Cosigner
Cosigner

(b) DETAIL DATA ELEMENTS: 1) Borrower type, 2) cosigner status groups, 3) number of loans, 4) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between borrower types.
Page break before the summary section.

Detail:
Totals by borrower type for each cosigner status group, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the:
  - Number of loans, and
  - Total loan amounts approved.

Summary:
Totals for all borrower types combined for each cosigner status group, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Total loan amounts approved.

Grand totals for all borrower types/all status groups combined for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the:
  - Number of loans, and
  - Total loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 5

STATISTICS: DENIED STATUS

(a) PURPOSE: The purpose of this report is to provide statistical information on the reasons for denial for the loans in the MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report only includes loans that are in denied status. The denial reasons are:

Already borrowed maximum yearly amount
Below minimum loan amount
Borrower ineligible per school
Charge-off(s)
Collection account
Cosigner unacceptable
Cosigners must have same address
Debt-to-income ratio
Delinquent credit obligations
Delinquent more than twice
Insufficient credit references
Insufficient income
Irregular employment
Judgement
Length of employment insufficient
Loan period cited more that 12 months
Missing information
Not 18 years old
Previous loan in default
Prior delinquent MI-LOAN
Prior MI-LOAN 60 days past due
Repossession
School not eligible for MI-LOAN
Unable to verify employment
Unable to verify income
Other

(b) DETAIL DATA ELEMENTS: 1) Denial reasons, 2) number of applications, 3) applicant's requested loan amount.

(c) REPORT SECTIONS:

Spacing:
Line break between the detail and summary.

Detail:
Total number of applications denied, and total of applicants' requested loan amounts for each denial reason in alpha order by denial reason for the current fiscal quarter, fiscal year-to-date, and from program inception.

Summary:
Total number of applications denied, and total of applicants' requested loan amounts for all denial reasons combined for the current fiscal quarter, fiscal year-to-date, and from program inception.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 6

STATISTICS: ENROLLMENT STATUS

(a) PURPOSE: The purpose of this report is to provide statistical information on the student's enrollment level for loans in the MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The enrollment level groups are:

Full time
Half time
Less than half time

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) borrower type, 3) Enrollment level groups, 4) number of loans, 5) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between sections: “totals by borrower type within program type”, “totals by program type, all borrower types combined”, “totals for each borrower type, all program types combined”.
Page break before the summary section.

Detail:
Totals by borrower type within program type for each enrollment level group, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Totals by program type, all borrower types combined, for each enrollment level group, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Totals for each borrower type, all program types combined, for each enrollment level group, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Summary:
Totals for all program types/all borrower types combined for each enrollment level group, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and

From program inception, for the
Number of loans, and
Loan amounts approved.
Grand totals for all enrollment level groups/all program types/all borrower types combined, for the:
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 7

STATISTICS: GRADE LEVEL

(a) PURPOSE: The purpose of this report is to provide statistical information on the student's grade level for loans in the MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The grade level groups are:

No grade level
1
2
3
4
5
6
7
8
9

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) borrower type, 3) Grade level groups, 4) number of loans, 5) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between sections: "totals by borrower type within program type", totals by program type, all borrower types combined", "totals for each borrower type, all program types combined".
Page bread before the summary section.

Detail:
Totals by borrower type within program type for each grade level group in ascending order by grade level, for the:
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and

From program inception, for the
Number of loans, and
Loan amounts approved.
Totals by program type, all borrower types combined, for each grade level group in ascending order by grade level, for the:
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.
Totals for each borrower type, all program types combined, for each grade level group in ascending order by grade level, for the:
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.

Summary:
Totals for all program types/all borrower types combined for each grade level group in ascending order by grade level, for the:
Current fiscal quarter, for the
Number of loans, and
Total loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.
Grand totals for all grade level groups/all program types/all borrower types combined, for the :
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 8

STATISTICS: CREDITWORTHY PROGRAM - INCOME LEVEL

(a) PURPOSE: The purpose of this report is to provide statistical information on the income level of creditworthy applicants for loans in the Creditworthy MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The income level groups are:

$0 to $25,000
$25,001 to $35,000
$35,001 to $45,000
$45,001 to $55,000
$55,001 to $65,000
More than $65,000

(b) DETAIL DATA ELEMENTS: 1) Borrower type, 2) Income level groups, 3) number of loans, 4) loan amounts approved, 5) total income amounts, 6) average borrower income level (#5 – total income amounts divided by #3 – number of loans).

(c) REPORT SECTIONS:

Spacing:
Line break between the borrower types,
Page break before the summary section, and
Line break between the summary section Grand totals for number of loans and loan amounts approved and grand totals for total income amounts and the average borrower income level.

Detail:
Totals by borrower type for each income level group, in ascending order by income level, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Summary:
Totals for all borrower types combined for each income level group, in ascending order by income level, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Grand totals for all borrower types/all income level groups combined, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans,
  - Loan amounts approved,
  - Total income amounts, and
  - Average borrower income level.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

<u>ORIGINATION STATISTICAL REPORT 9</u>

STATISTICS: LOAN AMOUNT

(a) PURPOSE: The purpose of this report is to provide statistical information on the loan amounts approved for loans in the MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (cancelled after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The loan amount groups are:

Less than $500
$ 500 to $ 1,500
$ 1,501 to $ 2,500
$ 2,501 to $ 3,500
$ 3,501 to $ 4,500
$ 4,501 to $ 5,500
$ 5,501 to $ 7,000
$ 7,001 to $10,000
$10,001 to $15,000
$15,001 to $20,000
$20,001 to $25,000
$25,001 to $30,000
$30,001 to $40,000
$40,001 to $50,000
More than $50,000

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) borrower type, 3) Loan amount groups, 4) number of loans, 5) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between sections: “totals by borrower type within program type”, “totals by program type, all borrower types combined”, “totals for each borrower type, all program types combined”.
Page break before the summary section.

Detail:
Totals by borrower type within program type for each loan amount group in ascending order by loan amount, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Totals by program type, all borrower types combined, for each loan amount group in ascending order by loan amount, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Loan amounts approved.

Totals for each borrower type, all program types combined, for each loan amount group in ascending order by loan amount, for the:
- Current fiscal quarter, for the
  - Number of loans, and

Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.

Summary:
Totals for all program types/all borrower types combined for each loan amount group in ascending order by loan amount, for the:
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.
Grand totals for all loan amount groups all program types/all borrower types combined, for the:
Current fiscal quarter, for the
Number of loans, and
Loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Loan amounts approved, and
From program inception, for the
Number of loans, and
Loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 10

STATISTICS: LOAN VOLUME BY DEBT-TO-INCOME RATIO

(a) PURPOSE: The purpose of this report is to provide statistical information on the debt-to-income ratios of the creditworthy borrowers for loans in the Creditworthy MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (cancelled after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The debt-to-income ratio groups are:

Up to 15.0%
15.1% to 20.0%
20.1% to 25.0%
25.1% to 30.0% 30.1% to 35.0%
35.1% to 40.0%
40.1% to 45.0%
More than 45.0%

(b) DETAIL DATA ELEMENTS: 1) Borrower type, 2) Debt-to-income ratio groups, 3) number of loans, 4) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between borrower types, and
Page break before the summary section.

Detail:
Totals by borrower type for each debt-to-income ratio group, in ascending order by ratio, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception
  - Number of loans, and
  - Total loan amounts approved.

Summary:
Totals for all borrower types combined for each debt-to-income ratio group, in ascending order by ratio, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Total loan amounts approved.

Grand totals for all borrower types/all debt-to-income ratio groups combined, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Total loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 11

STATISTICS: LOAN VOLUME BY SCHOOL

(a) PURPOSE: The purpose of this report is to provide statistical information on the loan volume, by school, for loans in the MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy (Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) School code, 3) school name, 4) number of loans, 5) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:

Line break between the detail sections, and
Page break before the summary section.

Detail:
Totals by program type for each school in ascending order by school code for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Total loan amounts approved.

Totals by program type, all schools combined, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception for the,
  - Number of loans, and
  - Total loan amounts approved.

Summary:
Totals for all program types combined for each school in ascending order by school code for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception, for the
  - Number of loans, and
  - Total loan amounts approved,

Grand totals for all schools codes/all program types combined for the:
- Current fiscal quarter, for the
  - number of loans, and
  - total loan amounts approved,
- fiscal year-to-date, for the
  - number of loans, and
  - total loan amounts approved, and
- from program inception, for the
  - number of loans, and
  - total loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

ORIGINATION STATISTICAL REPORT 12

STATISTICS: SCHOOL TYPE

(a) PURPOSE: The purpose of this report is to provide statistical information on the school types for loans in the MI-LOAN Program portfolio for the current fiscal quarter, the current fiscal year-to-date, and cumulative from program inception (10/1990). This report includes applications/loans in the following statuses: approved (but not yet disbursed), cancelled (after disbursement), deleted (cancelled before disbursement), repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, bankruptcy

(Chapter 7,11,12,13), death cancellation, disability cancellation, default, collection, prepaid-in-full, and paid-in-full. Applications in a pending approval/denial status and in denied status are not included in the report. The school type groups are:

Unknown school type
2-year
4-year

(b) DETAIL DATA ELEMENTS: 1) program type, 2) borrower type, 3) School type, 4) number of loans, 5) loan amounts approved.

(c) REPORT SECTIONS:

Spacing:
Line break between sections: “totals by borrower type within program type”, “totals by program type, all borrower types combined”, “totals for each borrower type, all program types combined”.
Page break before the summary section.

Detail:
Totals by borrower type within program types for each school type, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception for the
  - Number of loans, and
  - Total loan amounts approved.

Totals by program type, all borrower types combined, for each school type, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception for the
  - Number of loans, and
  - Total loan amounts approved.

Totals for each borrower type, all program types combined, for each school type, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception for the
  - Number of loans, and
  - Total loan amounts approved.

Summary:
Totals for all program types/all borrower types combined for each school type, for the:
- Current fiscal quarter, for the
  - Number of loans, and
  - Total loan amounts approved,
- Fiscal year-to-date, for the
  - Number of loans, and
  - Total loan amounts approved, and
- From program inception for the
  - Number of loans, and

Total loan amounts approved.
Grand totals for all school types/all program types/all borrower types combined, for the:
Current fiscal quarter, for the
Number of loans, and
Total loan amounts approved,
Fiscal year-to-date, for the
Number of loans, and
Total loan amounts approved, and
From program inception, for the
Number of loans, and
Total loan amounts approved.

(d) FREQUENCY: The servicer must submit this report to MHESLA on a quarter end basis.

SERVICING OPERATIONAL REPORT 1

NEW DEFAULTED LOANS

(a) PURPOSE: The purpose of this report is to identify loans entering default status. Default occurs when the borrower/cosigner fail to make a payment for 120 days after the payment due date.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) Bond funding source number, 3) social security number, 4) loan identifier, 5) borrower's name, 6) borrower type indicator (parent/student), 7) cosigner's name, 8) "default" status effective date (day 120), 9) actual gross disbursed amount, 10) actual disbursement date, 11) principal balance, 12) accrued unpaid interest, 13) total amount due (total current principal balance plus accrued unpaid interest, 14) accrued unpaid interest effective date, 15) daily interest accrual amount (extended to four decimal places).

(c) REPORT SECTIONS:

Spacing:
Line break between default dates, within each bond fund,
Line break before the summary by bond fund,
Line break between bond funds, within program type,
Page break between program types
Page break before summary by bond fund, all program types combined,
Line break before grand totals.

Detail:
All loans by Social Security Number/loan identifier order
Within default date,
Within bond fund,
Within program type.

Summary:
Totals by bond fund, within program type, for the:
Number of parent borrowers,
Number of student borrowers,
Number of borrowers, both borrower types combined,
Number of parent borrower loans,
Number of student borrower loans,
Number of loans, both borrower types combined,
Actual gross disbursed amount,
Principal balance,
Accrued unpaid interest, and
Total amount due (total current principal balance plus accrued unpaid interest).
Totals by program type, all bond funds combined, for the:
Number of parent borrowers,
Number of student borrowers,

Number of borrowers, both borrower types combined,
Number of parent borrower loans,
Number of student borrower loans,
Number of loans, both borrower types combined,
Actual gross disbursed amount,
Principal balance,
Accrued unpaid interest, and
Total amount due (total current principal balance plus accrued unpaid interest).

Totals by bond fund, all program types combined, for the:

Number of parent borrowers,
Number of student borrowers,
Number of borrowers, both borrower types combined,
Number of parent borrower loans,
Number of student borrower loans,
Number of loans, both borrower types combined,
Actual gross disbursed amount,
Principal balance,
Accrued unpaid interest, and
Total amount due (total current principal balance plus accrued unpaid interest.

Grand totals, all bond funds/all program types combined, for the:

Number of parent borrowers,
Number of student borrowers,
Number of borrowers, both borrower types combined,
Number of parent borrower loans,
Number of student borrower loans,
Number of loans, both borrower types combined,
Actual gross disbursed amount,
Principal balance,
Accrued unpaid interest, and
Total amount due (total current principal balance plus accrued unpaid interest).

(d) FREQUENCY: The servicer will provide this report to MHESLA on a week end basis.

SERVICING OPERATIONAL REPORT 2

LOAN DELINQUENCY STATUS REPORT

(a) PURPOSE: The purpose of this report is to track the number of loans that are delinquent on payments (regular repayment or interest only), and to provide the data necessary for MHESLA collection activities. This report should include, but is not limited to, all loans in the following statuses: repayment, principal only forbearance, principal and interest forbearance, SSRA repayment, SSRA principal only forbearance, SSRA principal and interest forbearance, default, collection, and bankruptcy (Chapter 7,11,12,13). Loans in the following statuses would not be included in this report: received, approved, disbursed, cancelled, deleted, death cancellation, disability cancellation, denied, pre-paid in full, and paid in full.

(b) DETAIL DATA ELEMENTS: 1) Program type, 2) borrower type, 3) Bond funding source number, 4) borrower social security number, 5) loan identifier, 6) borrower name, 7) application/loan status, 8) actual gross disbursed amount, 9) interest rate, 10) current principal balance, 11) amount of unpaid accrued interest, 12) interest accrued through date, 13) monthly payment amount, 14) payment due date (due date of oldest outstanding payment), 15) number of days loan is delinquent, 16) amount delinquent, 17) last payment amount received, 18) last payment received date, 19) first time in a delinquent category indicator.

(c) REPORT SECTIONS:

Spacing:
Page break between program types,
Line break between borrower types,
Line breaks between application/loan statuses,

Line break between bond fund,
Line breaks between the delinquent categories,
Line/page break between summary section groups, and a
Page break before the summary section.

Detail:
By borrower social security number/loan identifier order,
Within bond fund,
Within the following delinquent categories:
- 0 Days,
- 1-14 days,
- 15-29 days,
- 30-59 days,
- 60-89 days,
- 90-119 days, and
- 120 + days, Within application/loan status,
- Within borrower type,
- Within program type.

Summary:
Total number of loans by program type for:
- Each application/loan status for
- Each delinquent category for each bond fund,
- All delinquent categories for each bond fund,
- Each delinquent category for all bond funds combined, and
- All delinquent categories/all bond funds combined.
- Each delinquent category, all statuses/all bond funds combined,
- All delinquent categories/all statuses/all bond funds combined,

Total number of loans by borrower type for:
- Each delinquent category, all bond funds/all program types combined,
- All delinquent categories/all bond funds/all program types combined,
- Each delinquent category, all borrower types/all bond funds/all program types combined, and
- All delinquent categories/all borrower types/all bond funds/all program types combined.

Total number of loans by bond fund for:
- Each delinquent category, all borrower types/all program types combined,
- All delinquent categories/all borrower types/all program types combined,
- Each delinquent category, all bond funds/all borrower types/all program types combined,
- All delinquent categories/all bond funds/all borrower types/all program types combined.

Total number of loans by application/loan status for:
- Each delinquent category, all bond funds/all borrower types/all program types combined,
- All delinquent categories/all bond funds/all borrower types/all program types combined,
- Each delinquent category, all application/loan statuses/all bond funds/all borrower types/all program types combined, and
- All delinquent categories/all application/loan statuses/all bond funds/all borrower types/all program types combined.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a week end basis.

SERVICING OPERATIONAL REPORT 3

COLLECTION AGENCY INVENTORY

(a) PURPOSE: The purpose of this report is to track loans that default (payment becomes 120-days delinquent), to track defaulted loans that are placed with Treasury collections, to monitor loans which must be removed from default, and to monitor loan balances. Loans are placed on this report if they are in either "Default" or "Collection" status as of the effective ending date of the period that the report covers.

(b) ***DETAIL DATA ELEMENTS: 1) Program type, 2) Bond funding source number, 3) borrower social security number, 4) loan identifier, 5) borrower name, 6) actual gross disbursed amount, 7) current principal balance, 8) amount of unpaid accrued interest, 9) interest accrued through date, 10) monthly payment amount, 11) next payment due date (due date of oldest outstanding payment at time of default), 12) number of days loan is delinquent, 13) amount delinquent (current principal balance plus amount of unpaid accrued interest), 14) last payment amount received, 15) last payment received date, 16) total amount of payments received after default (after day 121).***

(c) ***REPORT SECTIONS:***

Spacing:
Page break between program types,
Line break between bond funds, and a
Page break before the summary section.

Detail:
Social security number/loan identifier order
Within bond fund,
Within program type.

Summary:
Totals by bond fund within program type for:
- Number of loans,
- Number of borrowers,
- Actual gross disbursed amount,
- Current principal balance, and
- Total amount of payments received after default (after day 121).

Totals by bond fund, all program types combined for:
- Number of loans,
- Number of borrowers,
- Actual gross disbursed amount,
- Current principal balance, and
- Total amount of payments received after default (after day 121).

Totals by program type, all bond funds combined, for:
- Number of loans,
- Number of borrowers,
- Actual gross disbursed amount,
- Current principal balance, and
- Total amount of payments received after default (after day 121).

Grand totals for all bond funds/all program types combined for:
- Number of loans,
- Number of borrowers,
- Actual gross disbursed amount,
- Current principal balance, and
- Total amount of payments received after default (after day 121).

(d) ***FREQUENCY: The servicer will submit this report to MHESLA on a week end basis.***

SERVICING OPERATIONAL REPORT 4

CREDIT BALANCE LOANS

(a) PURPOSE: The purpose of this report is to provide a listing of each loan that has an amount that needs to be refunded to the borrower, and to provide the data necessary to monitor that refund.

(b) DETAIL DATA ELEMENTS: 1) Program type (creditworthy/credit ready), 2) borrower type (parent/student), 3) bond funding source number, 4) borrower social security number, 5) loan identifier, 6) borrower name, 7) actual gross disbursed amount, 8) credit balance amount (current principal balance), 9) last payment amount received, 10) last payment received date, 11) last payment process date, 12) loan status.

(c) REPORT SECTIONS:

Spacing:
Line break between bond funds within program type,
Page break between program types, and a
Page break before the summary section.

Detail:
Borrower social security number/loan identifier order
Within bond fund
Within program type.

Summary:
Totals by bond fund within program type for:
- Number of loans,
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Actual gross disbursed amount, and the
- Credit balance amount (current principal balance).

Totals by bond fund, all program types combined, for:
- Number of loans,
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Actual gross disbursed amount, and
- Credit balance amount (current principal balance).

Grand totals for all bond funds/all program types combined for:
- Number of loans,
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Actual gross disbursed amount, and
- Credit balance amount (current principal balance).

(d) FREQUENCY: The servicer will submit this report to MHESLA on a week end basis.

SERVICING OPERATIONAL REPORT 5

PAID-IN-FULL LOANS

(a) PURPOSE: The purpose of this report is to provide a listing of all loans that have been paid-in-full during the report period. The report must include, but not necessarily be limited to those loans paid in full by payment; cancellation due to bankruptcy, death or disability; overpayment refund; overpayment write-up; and underpayment write-off. The servicer must allow sufficient time to ensure that the final payment has not been returned for insufficient funds before reporting to MHESLA.

(b) DETAIL DATA ELEMENTS: 1) Program type (creditworthy/ credit ready), 2) borrower type (parent/student), 3) borrower Social security number, 4) loan identifier, 5) borrower name, 6) bond funding source number, 7) applicant's requested interest type ("Fixed" or "Variable"), 8) actual gross disbursed amount, 9) credit balance amount (current principal balance), 10) last payment amount received, 11) last payment received date, 12) last payment process date.

(c) REPORT SECTIONS:

Spacing:
Page break between program types, and
Page break before the summary section.

Detail:
Borrower social security number/loan identifier order,
Within program type.

Summary:
Totals by program type of all fixed rate loans for:
Number of parent borrowers,
Number of student borrowers,
Total number of borrowers,
Number of loans, and
Actual gross disbursed amount,
Totals by program type of all variable rate loans for:
Number of parent borrowers,
Number of student borrowers,
Total number of borrowers,
Number of loans, and
Actual gross disbursed amount,
Totals by program type, all fixed and variable rate loans combined, for:
Number of parent borrowers,
Number of student borrowers,
Total number of borrowers,
Number of loans, and
Actual gross disbursed amount,
Totals, all program types combined, of all fixed rate loans for:
Number of parent borrowers,
Number of student borrowers,
Total number of borrowers,
Number of loans, and
Actual gross disbursed amount,
Totals, all program types combined, of all variable rate loans for:
Number of parent borrowers,
Number of student borrowers,
Total number of borrowers,
Number of loans, and
Actual gross disbursed amount,
Totals, all program types combined, for all fixed and variable rate loans combined for:
Number of parent borrowers,
Number of student borrowers,
Total number of borrowers,
Number of loans, and
Actual gross disbursed amount.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a month end basis.

SERVICING OPERATIONAL REPORT 6

WRITE-OFFS

(a) PURPOSE: The purpose of this report is to provide a listing of each loan that has had an amount written-off.

(b) DETAIL DATA ELEMENTS: 1) Program type (creditworthy/credit ready, 2) borrower type, 3) Bond funding source number, 4) borrower social security number, 5) loan identifier, 6) borrower name, 7) actual gross disbursed amount, 8) last payment received date (effective date), 9) last payment process date, 10) last payment amount received, 11) write-off amount.

(c) REPORT SECTIONS:

Spacing:

Line breaks between bond funds,
Page break between program types, and a
Page break before the summary section.

Detail:

Borrower social security number/loan identifier order,
Within bond fund,
Within program type.

Summary:

Totals for each bond fund within program type for:
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Number of loans,
- Actual gross disbursed amount, and
- Write-off amount,

Totals for each bond fund, all program types combined, for:
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers
- Number of loans,
- Actual gross disbursed amount, and
- Write-off amount,

Totals for all fixed rate loans, all bond funds/all program types combined, for:
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Number of loans,
- Actual gross disbursed amount, and
- Write-off amount.

Totals for all variable rate loans, all bond funds/all program types combined, for:
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Number of loans,
- Actual gross disbursed amount, and
- Write-off amount,

Totals for all fixed and variable rate loans combined, all bond funds/all program types combined, for:
- Number of parent borrowers,
- Number of student borrowers,
- Total number of borrowers,
- Number of loans,
- Actual gross disbursed amount, and
- Write-off amount.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a month end basis.

<u>SERVICING STATISTICAL REPORT 1</u>

STATUS SUMMARY

(a) PURPOSE: The purpose of this report is to provide portfolio data for each loan status by number of borrowers and by number of loans for each bond fund.

(b) DETAIL DATA ELEMENTS: 1) Bond funding source number, 2) Loan status (description and, if applicable, code), 3) number of borrowers, 4) number of loans, 5) actual gross disbursed amount, 6) current principal balance, 7) amount of unpaid accrued interest, 8) total payoff balance (total of 6 and 7), 9) current amount due, 10) delinquent amount due,

11) late fees due, 12) total amount due (total of 9, 10 and 11), 13) number of unduplicated borrowers (necessary because a borrower may have multiple loans in multiple statuses and, therefore, the actual borrower count will be an inflated figure).

(c) REPORT SECTIONS:

Spacing:
Line break between loan status lines and before the summary.
Page breaks between bond funds.

Detail:
Loan status order (numerically or chronologically) based on the life cycle of the loan, within bond fund.

Summary:
Totals by bond fund for number of borrowers, number of loans, actual gross disbursed amount, current principal balance, amount of unpaid accrued interest, total payoff balance, current amount due, delinquent amount due, late fees due, total amount due, and number of unduplicated borrowers.
Totals for all bond funds combined for number of borrowers, number of loans, actual gross disbursed amount, current principal balance, amount of unpaid accrued interest, total payoff balance, current amount due, delinquent amount due, late fees due, total amount due, and number of unduplicated borrowers.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a month end basis.

FINANCIAL REPORT 1

ACCOUNTING REPORT: TRANSACTION SUMMARY

(a) PURPOSE: The purpose of this report is to provide MHESLA summarized information regarding accounting entries resulting from activity processed by the servicer during the reporting period, in order to reconcile the State's general ledger with the servicer's portfolio totals.

(b) DETAIL DATA ELEMENTS: Summaries of the following transaction types: new loans; receipts; loan adds; regular payments; payments reapplied; refunds; adjustments; write-offs; and capitalized interest, identified as to cash or non-cash transactions. Totals should include 1) Bond funding source number, 2) transaction date, 3) transaction type, 4) total transaction amount, 5) transaction amount applied to principal, 6) transaction amount applied to interest.

(c) REPORT SECTIONS:

Spacing:
Page break between each bond fund.

Detail:
Transaction type within transaction date, within bond fund.

Summary:
Totals by bond fund for:
Total transaction amount,
Transaction amount applied to principal,
Transaction amount applied to interest,
Prior month's ending balance,
And current month's ending balance after the adjustments.
Totals for all bond funds combined for:
Total transaction amount,
Transaction amount applied to principal,
Transaction amount applied to interest,
Prior month's ending balance,
And current month's ending balance after the adjustments.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a daily and month end basis.

FINANCIAL REPORT 2

ACCOUNTING REPORT: TRANSACTION DETAIL

(a) PURPOSE: The purpose of this report is to provide MHESLA detailed information regarding accounting entries resulting from activity processed by the servicer during the reporting period, in order to reconcile the State's general ledger with the servicer's portfolio totals.

(d) DETAIL DATA ELEMENTS: Details of the following transaction types: new loans; receipts; loan adds; regular payments; payments reapplied; refunds; adjustments; write-offs; and capitalized interest, identified as to cash or non-cash transactions. Details should include 1) Bond funding source number, 2) social security number, 3) loan identifier, 4) borrower name, 5) transaction date, 6) transaction type, 7) total transaction amount, 8) transaction amount applied to principal, 9) transaction amount applied to interest.

(c) REPORT SECTIONS:

Spacing:
Page break between each bond fund.

Detail:
Social security/loan identifier order within bond fund.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a daily basis.

FINANCIAL REPORT 3

CASH ACTIVITY

(a) PURPOSE: The purpose of this report is to list all cash activities that affect the lender's cash account.

(b) DETAIL DATA ELEMENTS: A listing of all cash activities, including cancellations. Details should include 1) Bond funding source number, 2) social security number, 3) loan identifier, 4) borrower name, 5) total payment amount received/adjusted/cancelled, 6) payment amount applied to principal, and 7) payment amount applied to interest.

(c) REPORT SECTIONS:

Spacing:
Page break between detail and summary.

Detail:
Social security number/loan identifier order.

Summary:
Totals by bond fund for the total payment amount received/adjusted/cancelled, the payment amount applied to principal, and the payment amount applied to interest.

(d) FREQUENCY: The servicer will submit this report to MHESLA on a daily basis.

Section V: Compensation and Payment

All prices/rates quoted in the servicer's response to this RFP will be firm for the duration of the Contract. No price changes will be permitted.

The servicer may bill the State monthly and provide invoices to the Contract Administrator by the 15th day of each month for the services rendered the previous month.

Complete Appendices C & G and submit with proposal.

Section VI: Additional Terms and Conditions Specific to this SOW

A. TERM OF CONTRACT

The contract extension period will be 11/22/05-9/30/07.

B. LIQUIDATED DAMAGES

The State and the Contractor hereby agree to the specific standards set forth in this Contract. It is agreed between the Contractor and the State that sometimes/there are times when actual damages to the State as a result of Contractor's failure to provide promised services would be difficult or impossible to determine with accuracy. The State and the Contractor therefore agree that liquidated damages as set out herein shall be a reasonable approximation of the damages that shall be suffered by the State as a result thereof. Accordingly, in the event of such damages, at the written direction of the State, the Contractor shall pay the State the indicated amount as liquidated damages, and not as a penalty. Amounts due the State as liquidated damages, if not paid by the Contractor within fifteen (15) days of notification of assessment, may be deducted by the State from any money payable to the Contractor pursuant to this Contract. The State will notify the Contractor in writing of any claim for liquidated damages pursuant to this paragraph on or before the date the State deducts such sums from money payable to the Contractor. No delay by the State in assessing or collecting liquidated damages shall be construed as a waiver of such rights.

The Contractor shall not be liable for liquidated damages when, in the reasonable opinion of the State, incidents or delays result from causes beyond the control and without the fault or negligence of the Contractor. Such causes may include, but are not restricted to, acts of God, fires, floods, epidemics, and labor unrest; but in every case the delays must be beyond the control and without the fault or negligence of the Contractor.

Liquidated damages will be assessed as follows:

FFELP

Conversion/Deconversion

Changing service providers is a high-risk enterprise for the State. If the incumbent or incoming servicer, as applicable, does not comply with requirements of Section III-A Task 4 or 16, the State is at significant risk of providing poor service to students, parents and schools. Therefore, business and data conversion activities must be performed with a high degree of quality and with timely results. The transition must be seamless to MHESLA's customers and the conversion must be managed by the servicer to ensure no interruption of service. Risks to the State include: delayed system implementation; the quality of data conversion negatively affecting the accuracy of borrower records; customer dissatisfaction resulting in use of a different FFELP lender for future loans and loss of funds due to borrower nonpayment on existing loans; and the inability to secure further bond financing to fund loans. If requirements in Section III-A Task 4 or 16 are not met, liquidated damages will be measured based on the comparison of FFELP volume for the first twelve months of operation under the servicing contract compared to the lowest volume for any of the three most recently completed fiscal years for both originations in the MDSLP and acquisitions in the SSM. If the State experiences a reduction in loan volume for this period that is not attributable to a change in federal or state statute or regulations, guarantor policy, the Contract Administrator or designee directions, compliance with requirements of Section III-A Tasks 4 &16 or an overall decline in the national FFELP market at a percentage consistent with the FFELP decline in volume, the servicer, which is responsible for the failure to comply with the aforementioned task(s), will be charged liquidated damages for the loss of business in accordance with the tiered structure below. The State agrees to include this provision in all agreements with incoming servicers in order to ensure all servicers are treated equally with respect to potential liquidated damages:

Tier for Lost Volume Damages - Liquidated Damages Formula

3-10% Volume decline	5% Multiplied by total first year servicing fees
11-20% Volume decline	10% Multiplied by total first year servicing fees
>20% Volume decline	20% Multiplied by total first year servicing fees

Operational Requirements

Liquidated Damages may be assessed due to the servicer's failure to meet the stated requirements in the contract at the discretion of the State. In addition, the servicer will be held liable for any penalties, forfeiture of loan guarantees, loss of loan principal and interest, loss of federal special allowance or interest benefits or any other monetary damages assessed against the State due to the servicer's non-compliance with requirements of the contract.

Any non-compliance with requirements of the contract may result in a ten percent (10%) holdback of monthly billings until the specified requirement is resumed and resolved. Repeated failure to comply with the requirements of the contract may result in the servicer's forfeiture of the holdback amounts, at the discretion of the State.

The State reserves the right to conduct, on-site inspection of the servicer's operations, at the discretion of the State, to investigate reported problems or otherwise verify servicer compliance with requirements of the contract. The burden of proof is on the servicer for any violation claimed by the State.

If the servicers' failure to meet processing and reporting deadlines as established within the contract results in a financial loss to the State, it will be the financial responsibility of the servicers to reimburse the State for any such loss. (An example of this financial liability would be the servicers' reimbursement of investment earnings lost on funds in a case where the U. S. Department of Education LaRS report figures are 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 the contract, federal and state statute and/or regulations, 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 or other party errors within reasonable time of discovery.

MI-Loan

Conversion/Deconversion

Changing service providers is a high-risk enterprise for the State. If the servicer does comply with requirements of Section III-B Tasks 4 & 24, the State is at significant risk of providing poor service to students, parents and schools. Therefore, business and data conversion activities must be performed with a high degree of quality and with timely results. The transition must be seamless to MHESLA's customers and the conversion must be managed by the servicer to ensure no interruption of service. Risks to the State include: delayed system implementation; the quality of data conversion negatively affecting the accuracy of borrower records; customer dissatisfaction resulting in use of a different alternative student loan lender for future loans and loss of funds due to borrower nonpayment on existing loans; and the inability to secure further bond financing to fund loans. If requirements of Section III-B Tasks 4 & 24 are not met, liquidated damages will be measured based on the comparison of MI-LOAN volume for the first 12 months of operation under the servicing contract compared to the prior year. If the State experiences a reduction in loan volume for this period that is not attributable to federal or state statute, a change in MI-LOAN policy, compliance with the Contract Administrator or designee directions, or an overall decline in the national alternative student loan market at a percentage consistent with the MI-LOAN decline in volume, the servicer will be charged liquidated damages for the loss of business in accordance with the following tiered structure:

Tier for Lost Volume Damages - Liquidated Damages Formula

3-10% Volume decline	5% Multiplied by total first year servicing fees
11-20% Volume decline	10% Multiplied by total first year servicing fees
>20% Volume decline	20% Multiplied by total first year servicing fees

Operational Requirements

Liquidated Damages may be assessed due to the contractor's failure to meet the stated requirements of the contract at the discretion of the State.

Any non-compliance with requirements of the contract may result in a ten percent (10%) holdback of monthly billings until the requirements are met. Repeated failure to comply with requirements of the contract may result in the contractor's forfeiture of the holdback amounts, at the discretion of the State.

The State reserves the right to conduct, on-site inspection of the contractor's operations, at the discretion of the State, to investigate reported problems or otherwise verify contractor compliance with requirements of the contract. The burden of proof is on the contractor for violation claimed by the State.

If the servicer's failure to meet processing and reporting deadlines as established within the 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.

Any loss to the State due to the current servicer's failure to perform any requirement under this contract, federal and state statute, or MI-LOAN Program Administrative Rules (Appendix E) will be the liability of the current servicer. This includes, but is not limited to, correction of prior servicer or other party errors within a reasonable time following discovery.

C. OTHER TERMS AND CONDITIONS

Services After Contract Termination

Section III-A.16f (FFELP): (2) Provide Requested Documentation

If the incumbent servicer is unable to provide the film, microfiche, imaged data, etc., the incumbent servicer must provide copies of documents as requested by the Contract Administrator or designee. The Contract Administrator or designee's request cannot exceed the mandatory federal retention period for that loan. Any such requests must be responded to within seven (7) days of the Contract Administrator or designee's request, and all costs associated with retrieving, duplicating and transmitting the documents must be included in the servicer's quoted price for deconversion to another servicer (See Appendix C). If the servicer chooses this option and is unable to provide documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan, plus any lost federal interest benefits or special allowance, if applicable should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information.

Section III-B-24f (MI-LOAN): Records: (2) Provide Requested Documentation

If the incumbent servicer is unable to provide the film, microfiche, imaged data, etc., the incumbent servicer must provide copies of documents as requested by the Contract Administrator or designee. The Contract Administrator or designee's request cannot exceed the retention period cited in Section III-B Task 24f. Documents, or written notification of missing documents must be provided within seven (7) days of the Contract Administrator or designee's request, and all costs associated with retrieving, duplicating and transmitting the documents must be included in the servicer's quoted price for deconversion to another servicer (See Appendix G). If the servicer chooses this option and is unable to provide the documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information.
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Section III-A.16h & III-B.24h: (2) Received After Contract Termination

For a six-month period after the contract terminates, the incumbent servicer must transmit all incoming mail (correspondence, forms, payments, etc) to the incoming servicer at no cost to the State. This transmittal must occur within three (3) days of receipt.

Any incoming mail received by the incumbent servicer after the six-month period must be returned to the sender with a cover letter which instructs the correspondent to contact MHESLA, providing both MHESLA's mailing address and telephone number.

Section III-A.16i & III-B.24i: Checks Originated by Incumbent Servicer

Should the situation exist after contract termination that the incumbent servicer's disbursement check needs to be reissued (e.g., stop payment placed on check written by incumbent servicer but check needs to be reissued), the incumbent servicer will notify the Contract Administrator or designee. After review and approval, the Contract Administrator or designee will authorize the incoming servicer to issue the replacement disbursement.

Section III-A.16j & III-B.24j: Proof of Delivered Loan Proceeds

If, after termination of the contract, MHESLA must have access to such proof, the Contract Administrator or designee will request the documentation from the incumbent servicer. The incumbent servicer must transmit a copy of both sides of the paid check, master check or the EFT disbursement roster within fifteen (15) days of the Contract Administrator or designee's request.

Servicer's Response to this Task:

OTHER TERMS AND CONDITIONS

Section III-A.16f (FFELP): (2) Provide Requested Documentation

If the servicer chooses this option and is unable to provide documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan, plus any lost federal interest benefits or special allowance, if applicable should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information.

Section III-B-24f (MI-LOAN): Records: (2) Provide Requested Documentation

If the servicer chooses this option and is unable to provide the documentation upon the Contract Administrator or designee's request, the servicer will be financially liable to the State for any loss and must reimburse the State the outstanding principal and interest on the loan should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information.

11/18/05 - MICHIGAN DEPARTMENT OF TREASURY, OFFICE OF PURCHASING

Section III-A.16f (FFELP): (2) Provide Requested Documentation - MHESLA agrees to the revision to the last sentence of the paragraph. This revises the sentence by adding "should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information".

Section III-B-24f (MI-LOAN): Records: (2) Provide Requested Documentation - MHESLA agrees to the revision to the last sentence of the paragraph. This revises the sentence by adding "should the State be unable to collect such amounts as a direct result of the servicer's inability to provide such information".

All other terms and conditions as specificed in Section I-Contractual Service Terms and Conditions of the current contract (071B1001010) remain in effect throughout the extension period.

Servicer's Response to this Task:

Nelnet Response

Section III-A.16f (FFELP): (2) Provide Requested Documentation – Both parties agree.

Section III-B-24f (MI-LOAN): Records: (2) Provide Requested Documentation – Both parties agree.

Nelnet agrees that all other terms and conditions as specified in Section I-Contractrual Service Terms and Conditions of the current contract (071B1001010) will remain in effect throughout the extension period.

APPENDIX C

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY
FFELP PRICING SHEETS
February 1, 2006 through September 30, 2006

Service to be Provided	Quotation	Unit	Estimated Monthly Volume1	Annual Cost
Conversion Fee	$7.50	per borrower	20	$1,800.00
Hardware/Software/Maintenance	$	per year	yearly	$
Dedicated Data Circuit				
Service Fee	$750.00	per month	1	$9,000.00
System Changes	$90.00	per hour	100	$108,000.00
Portfolio Tapes	$2,000.00	per tape	3 per year	$6,000.00
Origination	$6.00	per application	1,903	$137,016.00
Stafford and PLUS Applications				
Consolidation Applications	$55.00	per application	253	$166,980.00
Credit Evaluation				
Regular	$2.50	per application	5	$150.00
Pre-Approval	$5.00	per application	30	$1,800.00
In-School Status				
Subsidized	$1.3680	per account	35,559	$583,736.54
Unsubsidized	$1.6123	per account	26,629	$515,207.24
Grace Period/Repayment:				
Subsidized	$2.6921	per account	99,543	$3,215,756.52
Unsubsidized	$2.7348	per account	60,744	$1,993,472.29
Consolidation Loans	$2.8185	per account	25,976	$878,560.27
Repayment: Delinquent Surcharge				
Subsidized and Unsubsidized	$1.9827	per account	23,938	$569,542.47
Consolidation	$1.9827	per account	3,978	$94,646.17
Exceptional Performer Fee	$12,500.00	per month	1	$150,000.00
Cure Fee	$600.00	per account	5	$36,000.00
Secondary Market				
Packaging	$ 1%	loans acquired	as needed	$60,000.00
Inspection/Conversion				
Manual Conversions				
(a) In-School Status	$5.00	per account	155	$9,300.00
(b) All Other Statuses	$10.00	per account	390	$46,800.00
Internal Transfers	$1.50	per account	5,083	$91,494.00
Repurchases	$16.2193	per borrower	100	$19,463.16
Ad Hoc Reports	$50.00	per report	5	$3,000.00
Public Awareness	$200,000.00	per year	yearly	$200,000.00
Privacy Notices	$0.51	per notice	25,107	$153,654.84
Deconversion to Another Servicer	$0.00	per account	330,686 one time	$-

Annual Total				$9,051,379.51

1 Estimated volume is per month unless otherwise noted. Volume may differ based on the actual number of units processed or needed.

APPENDIX C

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

FFELP PRICING SHEETS

October 1, 2006 through September 30, 2007

Service to be Provided	Quotation	Unit	Estimated Monthly Volume1	Annual Cost
Conversion Fee	$7.50	per borrower	20	$1,800.00
Hardware/Software/Maintenance	$	per year	yearly	$
Dedicated Data Circuit				
Service Fee	$750.00	per month	1	$9,000.00
System Changes	$90.00	per hour	100	$108,000.00
Portfolio Tapes	$2,000.00	per tape	3 per year	$6,000.00
Origination	$6.00	per application	1,998	$143,856.00
Stafford and PLUS Applications				
Consolidation Applications	$55.00	per application	278	$183,480.00
Credit Evaluation				
Regular	$2.50	per application	5	$150.00
Pre-Approval	$5.00	per application	30	$1,800.00
In-School Status				
Subsidized	$1.3680	per account	42,671	$700,487.14
Unsubsidized	$1.6123	per account	31,955	$618,252.56
Grace Period/Repayment:				
Subsidized	$2.6921	per account	119,451	$3,858,888.45
Unsubsidized	$2.7348	per account	72,893	$2,392,173.32
Consolidation Loans	$2.8185	per account	31,191	$1,054,942.00
Repayment: Delinquent Surcharge				
Subsidized and Unsubsidized	$1.9827	per account	28,465	$677,250.67
Consolidation	$1.9827	per account	4,779	$113,703.88
Exceptional Performer Fee	$12,500.00	per month	1	$150,000.00
Cure Fee	$600.00	per account	5	$36,000.00
Secondary Market				
Packaging	$ 1%	loans acquired	as needed	$60,000.00

Inspection/Conversion				
Manual Conversions				
(a) In-School Status	$5.00	per account	155	$9,300.00
(b) All Other Statuses	$10.00	per account	390	$46,800.00
Internal Transfers	$1.50	per account	6,149	$110,682.00
Repurchases	$16.2193	per borrower	100	$19,463.16
Ad Hoc Reports	$50.00	per report	5	$3,000.00
Public Awareness	$200,000.00	per year	yearly	$200,000.00
Privacy Notices	$0.51	per notice	29,833	$182,577.96
Deconversion to Another Servicer	$0.00	per account	330,686 one time	$0.00
Annual Total				$10,687,607.12
Contract Total				$19,738,986.64

1 Estimated volume is per month unless otherwise noted.
Volume may differ based on the actual
number of units processed or needed.

APPENDIX C

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

FFELP PRICING SHEETS

February 1, 2006 through September 30, 2006

Service to be Provided	Quotation	Unit	Estimated Monthly Volume[1]	Annual Cost
Conversion Fee	$7.50	per borrower	20	$ 1,800.00
Hardware/Software/Maintenance	$	per year	yearly	$
Dedicated Data Circuit				
Service Fee	$750.00	per month	1	$9,000.00
System Changes	$90.00	per hour	100	$ 108,000.00
Portfolio Tapes	$2,000.00	per tape	3 per year	$ 6,000.00
Origination				
Stafford and PLUS Applications	$6.00	per application	1,903	$ 137,016.00
Consolidation Applications	$55.00	per application	253	$ 166,980.00
Credit Evaluation				
Regular	$2.50	per application	5	$ 150.00
Pre-Approval	$5.00	per application	30	$ 1,800.00
In-School Status				
Subsidized	$1.3680	per account	35,559	$ 583,736.54
Unsubsidized	$1.6123	per account	26,629	$ 515,207.24
Grace Period/Repayment:				
Subsidized	$2.6921	per account	99,543	$ 3,215,756.52
Unsubsidized	$2.7348	per account	60,744	$ 1,993,472.29
Consolidation Loans	$2.8185	per account	25,976	$ 878,560.27
Repayment: Delinquent Surcharge				
Subsidized and Unsubsidized	$1.9827	per account	23,938	$ 569,542.47
Consolidation	$1.9827	per account	3,978	$ 94,646.17
Exceptional Performer Fee	$12,500.00	per month	1	$ 150,000.00
Cure Fee	$600.00	per account	5	$ 36,000.00
Secondary Market				
Packaging	$ 1%	loans acquired	as needed	$ 60,000.00
Inspection/Conversion				
Manual Conversions				
(a) In-School Status	$5.00	per account	155	$ 9,300.00
(b) All Other Statuses	$10.00	per account	390	$ 46,800.00
Internal Transfers	$1.50	per account	5,083	$ 91,494.00
Repurchases	$16.2193	per borrower	100	$ 19,463.16
Ad Hoc Reports	$50.00	per report	5	$ 3,000.00
Public Awareness	$200,000.00	per year	yearly	$ 200,000.00
Privacy Notices	$0.51	per notice	25,107	$ 153,654.84
Deconversion to Another Servicer	$0.00	per account	330,686 one time	$ -
			Annual Total	$ 9,051,379.51

[1] Estimated volume is per month unless otherwise noted. Volume may differ based on the actual number of units processed or needed.

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 **December 28, 2005**
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

CHANGE NOTICE NO. 4
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **Nelnet Loan Services** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**		TELEPHONE Bud Kern **(303) 696-3699** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 335-4804 **Douglas S. Collier**
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**		
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**	To: **February 1, 2006**
TERMS **N/A**	SHIPMENT **N/A**	
F.O.B. **N/A**	SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**		

NATURE OF CHANGE (S):

Effective December 1, 2005, this contract is hereby EXTENDED two (2) months. The new contract end date is February 1, 2006. The extension will allow time for negotiations to occur before an extension is authorized.

All other terms, conditions, specifications and pricing remain unchanged.

AUTHORITY/REASON:

Per DMB/Acquisition Services and vendor/agency agreement.

TOTAL ESTIMATES CONTRACT VALUE REMAINS: $55,711,848.21

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

June 16, 2004

CHANGE NOTICE NO. 3
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **Nelnet Loan Services** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**			TELEPHONE Bud Kern **(303) 696-3699** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 335-4804 **Douglas S. Collier**
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**			
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**		To: **September 30, 2005**
TERMS **N/A**		SHIPMENT **N/A**	
F.O.B. **N/A**		SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**			

NATURE OF CHANGE (S):

Please note: UNIPAC has changed it name to Nelnet Loan Services. The same vendor identification number and mailing code exist.

All other terms, conditions, specifications and pricing remain unchanged.

AUTHORITY/REASON:

Per vendor and agency concurrence.

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

April 1, 2004

CHANGE NOTICE NO.2 (Revised*)
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **UNIPAC Service Corporation** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**	TELEPHONE Bud Kern **(303) 696-3699** VENDOR NUMBER/MAIL CODE BUYER/CA (517) 335-4804 **Douglas S. Collier**
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**	
CONTRACT PERIOD: 5 yrs From: **October 1, 2000**	To: **September 30, 2005**
TERMS **N/A**	SHIPMENT **N/A**
F.O.B. **N/A**	SHIPPED FROM **N/A**
MINIMUM DELIVERY REQUIREMENTS **N/A**	

NATURE OF CHANGE (S):

UNIPAC 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-afflicted 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, UNIPAC * 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 UNIPAC*, 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

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 Nelnet (UNIPAC), dated 1/19/04 and request from agency 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

April 1, 2004

CHANGE NOTICE NO.2 (Revised)
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR		TELEPHONE Bud Kern **(303) 696-3699**
UNIPAC Service Corporation **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014** **bill.munn@nelnet.net**		VENDOR NUMBER/MAIL CODE
		BUYER/CA (517) 335-4804 **Douglas S. Collier**
Contract Compliance Inspector: Marlene Pierce **Loan Servicing--FFELP/MI-Loan - Department of Treasury**		
CONTRACT PERIOD: 5 yrs	From: **October 1, 2000**	To: **September 30, 2005**
TERMS **N/A**	SHIPMENT **N/A**	
F.O.B. **N/A**	SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**		

NATURE OF CHANGE (S):

UNIPAC 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-afflicted 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:

1. **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**

2. **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 Nelnet (UNIPAC), dated 1/19/04 and request from agency 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
OFFICE OF PURCHASING **August 20, 2001**
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

CHANGE NOTICE NO.1
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **UNIPAC Service Corporation** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014**		TELEPHONE Bud Kern **(303) 696-3699** 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: **October 1, 2000**	To: **September 30, 2005**
TERMS **N/A**	SHIPMENT **N/A**	
F.O.B. **N/A**	SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**		

NATURE OF CHANGE (S):

Effective immediately these following items are required under 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 consumers regarding the disclosure and protection of nonpublic personal information.**

Please see attached Revised Pricing/Fee Summary. Note repayment: Delinquent section has been revised to allow for additional line item detail, with overall fee costs same as original pricing/fee summary. Note: Cost per letter is .51 subject to change if first class postage rate increases Estimated Cost $950,000.00, current contract value should cover this cost. All other terms, and conditions to remain the same.

AUTHORITY/REASON:

Per letter from agency procurement, Tom Falik, dated 8-8-01, and letter from vendor, Todd Eicher UNIPAC, dated 5-6-01, to comply with LBA public law 106-102.

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
OFFICE OF PURCHASING **September 28, 2000**
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

NOTICE
TO
CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **UNIPAC Service Corporation** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014**		TELEPHONE Bud Kern **(303) 696-3699** 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: **October 1, 2000**		To: **September 30, 2005**
TERMS **N/A**		SHIPMENT **N/A**	
F.O.B. **N/A**		SHIPPED FROM **N/A**	
MINIMUM DELIVERY REQUIREMENTS **N/A**			

The terms and conditions of this Contract are those of ITB #071I0000411, this Contract Agreement and the vendor's quote 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.

Estimated Contract Value: $55,711,848.21

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
OFFICE OF PURCHASING
P.O. BOX 30026, LANSING, MI 48909
OR
530 W. ALLEGAN, LANSING, MI 48933

CONTRACT NO. 071B1001010
between
THE STATE OF MICHIGAN
and

NAME & ADDRESS OF VENDOR **UNIPAC Service Corporation** **3015 S. Parker Rd., Suite 400** **Aurora, CO 80014**	TELEPHONE Bud Kern **(303) 696-3699** 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: **October 1, 2000**	To: **September 30, 2005**
TERMS **N/A**	SHIPMENT **N/A**
F.O.B. **N/A**	SHIPPED FROM **N/A**
MINIMUM DELIVERY REQUIREMENTS **N/A**	
MISCELLANEOUS INFORMATION: **The terms and conditions of this Contract are those of ITB #071I0000411, this Contract Agreement and the vendor's quote 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.** **Estimated Contract Value: $55,711,848.21**	

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.

FOR THE VENDOR:	**FOR THE STATE:**
Firm Name	Signature
Authorized Agent Signature	**David F. Ancell** Name
Authorized Agent (Print or Type)	**State Purchasing Director** Title
Date	Date

MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

MICHIGAN DIRECT STUDENT LOAN PROGRAM

STATE SECONDARY MARKET

MICHIGAN ALTERNATIVE STUDENT LOAN (MI-LOAN®) PROGRAM

CONTRACT

AUGUST 2000

INVITATION TO BID
THIRD-PARTY SERVICING FOR THE
MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

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SECTION II – WORK STATEMENT – MI-LOAN

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DEFINITION OF TERMS

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".

DEFINITION OF TERMS

Billing Account – Continued from Previous Page	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. <u>Social Security Number</u> – The borrower's federal social security number. <u>Program Type</u> – The state currently has two (2) loan programs—the michigan direct student loan program (MDSLP), through which loans are originated, and the state secondary market (SSM), through which loans are acquired. <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. <u>Guarantor</u> – The guaranty agency which provides the guarantee for the student loan under the FFELP. <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. <u>Federal Interest Rate Cap</u> – The maximum interest rate per the ffelp that may be assessed to the loan. <u>Loan Status</u> – The current conditions under which the loan is being serviced (i.e., In-school, grace, repayment). <u>Due Date</u> – The day, month and year in which the payment is due.
Bond Fund Series	The bonds sold to secure funds to make loans and the computer code used to identify specific bond fund series.
Borrower Account	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.
Days	Business days unless specified otherwise.
Loan	The amount of money lent that is secured by a promissory note.
Promissory Note	A written legal document that promises to pay a debt according to specific terms.
Eligible School	FFELP – as designated by the u.s. department of education; MI-LOAN – a Michigan degree-granting college or university.

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
X 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 10/01/2000 through 09/30/2005. 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 lst 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 Invitation to Bid and any Contract(s) awarded as a result of this Bid Invitation. 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
Professional & Management 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 any Contract resulting from this Bid Invitation implies no authority to change, modify, clarify, amend, or otherwise alter the prices, terms, conditions, and specifications of such 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 any Contract resulting from this Bid Invitation. Total liability of the State is limited to the terms and conditions of this Bid Invitation and any resulting 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 the anticipated Contract. If any part of the work is to be subcontracted, responses to this ITB should include 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 the 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 the Contract without approval of the Contract Administrator.

I-I. DISCLOSURE

All information in a bidder's proposal and any Contract resulting from this ITB 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 the 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 the 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 not withstanding 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. <u>LITIGATION</u>

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 the 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 the

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 the Contract.

I-N. CANCELLATION

The State may cancel the 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 the 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 the Contract in the event the State no longer needs the services or products specified in the 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 the Contract is not feasible, or if prices for additional services requested by the State are not acceptable to the State. The State may cancel the 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 the 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 the 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 the 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 the 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 the 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 any Contract or purchase order resulting herefrom, 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 the 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 document and the vendor's quotation will become contractual obligations, if a Contract ensues. Failure of the successful bidder to accept these obligations may result in cancellation of the award.

I-T. REVISIONS, CONSENTS, AND APPROVALS

The Contract resulting from 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 the 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 resulting from the ITB 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 a Contract resulting from the ITB 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 the Contract and, if one or more of the provisions of the Contract shall be declared invalid, the remaining provisions of the 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 the 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 the 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 ITB 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

The objective of this ITB is to contract with 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 ITB.

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 MDSLP 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 ITB 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 ITB, 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 ITB. 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, 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 handing 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. <u>Deferment Documentation</u>

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. <u>Prior Delinquency</u>

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. <u>Retroactive Deferments</u>

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 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 it's 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 form 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.

Fund Series		Fund Series	
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:
REPORT: APPLICATIONS ENTERED BY SCHOOL TYPE
SECTION:
FUND SERIES:

REPORT PERIOD:
PAGE:
RUN DATE:

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

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: (Company Name)
LENDER: MHESLA - 825585
GUARANTOR: MGA
REPORT: APPLICATIONS IN PROCESS
SECTION:
FUND SERIES:

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

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: (Company Name)
LENDER: MHESLA - 825585
GUARANTOR: MGA
REPORT: DISBURSEMENT REGISTER
SECTION: DISBURSEMENT DETAIL - CHECK/EFT/MASTER CHECK NUMBER ORDER
FUND SERIES:

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	ORIG FEE	NET CHK/EFT/ MAST CHK AMT	DISB # OF # TOTAL SCHD DISB	FUND CODE

A:DISBREGF O-F (6/19/95)

SERVICER: (Company Name)
LENDER: MHESLA - 825585
GUARANTOR: MGA
REPORT: DISBURSEMENT REGISTER
SECTION: DISBURSEMENT DETAIL - SOCIAL SECURITY NUMBER ORDER
FUND SERIES:

REPORT PERIOD:
PAGE:
RUN DATE:

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 SCHD DISB

A:DISBREGO O-F (6/19/95)

SERVICER: (Company Name)
LENDER: MHESLA - 825585
GUARANTOR: MGA
REPORT: DISBURSEMENT REGISTER
SECTION: SUMMARY BY DISBURSEMENT NUMBER
FUND SERIES:

REPORT PERIOD: Task 26
PAGE:
RUN DATE:

DISBURSEMENT NUMBER	LOAN PROGRAM	TOTAL NUMBER OF DISBURSEMENTS	TOTAL AMOUNT DISBURSED	TOTAL GUARANTEE FEES	TOTAL ORIGINATION FEES	TOTAL NET CHECK/EFT/MASTER CHECK AMOUNTS
TOTAL PORTFOLIO:			$	$	$	$

A:DISBSUMF O-F (6/19/95)

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: (Company Name)
LENDER: MHESLA - 825585
GUARANTOR: MGA
REPORT: MISSING FUND CODE NUMBER
SECTION:
FUND SERIES:

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: