

## LOAN PURCHASE PROGRAMS ELECTRONIC ANNOUNCEMENT #36

Date: November 26, 2008

To: FFEL Program Community

From: James A. Manning, Acting Chief Operating Officer  
Federal Student Aid

Subject: Federal Register Notice and Master Loan Sale Agreement for Short-Term Purchase Program

The Secretary, in a [Dear Colleague Letter dated November 20, 2008](#), announced that under the authority granted her by section 459A of the Higher Education Act, the Department will, for a limited period of time, purchase certain 2007-2008 academic year FFEL Program loans. This short-term use of the authority to purchase FFEL Program loans is designed to prevent disruption in student lending prior to one or more of the Asset-Backed Commercial Paper conduits, as described in an earlier [Dear Colleague Letter dated November 10, 2008](#), becoming operational.

Attached to this announcement is the text of the Notice that will shortly be published in the *Federal Register* announcing the terms and conditions of the Department's plan to purchase 2007-2008 FFEL Program loans. Included with the Notice is the "Master Loan Sale Agreement 2007-2008" dated November 24, 2008.

In separate Electronic Announcements we will provide additional information about the academic year 2007-2008 loan purchase program, including the procedures under which a holder of FFEL Program loans submits documents executing the "Master Loan Sale Agreement 2007-2008".

Thank you for your continued support of these FFEL Loan Purchase Programs.

Attachment: [Notice with MLSA](#)



THE SECRETARY OF EDUCATION  
WASHINGTON, DC 20202

November 20, 2008

**Subject:** Continued implementation of the Ensuring Continued Access to Student Loans Act of 2008

**Summary:** This letter provides information on how the Department of Education will use the Secretary's existing authority to purchase 2007-2008 FFEL Program loans to address issues of liquidity in the student loan market.

Dear Colleague:

On November 10, 2008, I issued a Dear Colleague Letter announcing the Department's steps to implement Public Law 110-350, which extends for one year the loan purchase authority contained in the Ensuring Continued Access to Student Loans Act (ECASLA). In that letter, I indicated that additional action may be necessary to ensure that students and families have continued access to Federal Family Education Loan Program (FFELP) loans. The purpose of this letter is to announce a short-term loan purchase program to address potential risks to scheduled subsequent disbursements for the 2008-2009 school year.

Specifically, I am announcing that the Department of Education will use its loan purchase program to purchase certain 2007-2008 academic year FFELP loans. This short-term use of our purchase authority is designed to minimize disruption in student lending prior to the Asset-Backed Commercial Paper conduit announced in my Dear Colleague letter (November 10, 2008) becoming operational. This short-term program will end when the conduit begins operating or on February 28, 2009, whichever comes first. The Department will purchase up to \$500 million in loans each week, during the use of this authority, up to an aggregate total of \$6.5 billion during the time period.

### **Eligible Loans**

Under this program, the Department will buy fully disbursed FFELP Subsidized Stafford, Unsubsidized Stafford, and PLUS loans originated for academic year 2007-2008. The loans must have been first disbursed on or after May 1, 2007, for the loan period beginning on or including July 1, 2007, and must have been made to pay the costs of attendance at a postsecondary institution during the 2007-2008 academic year. If a lender offers to sell a borrower's loan to the Department, it must include all eligible 2007-2008 loans it holds for that borrower. FFELP consolidation loans are not eligible to be purchased by the Department under ECASLA. Loans on which a default claim or other claim for payment has been filed with the guarantor are not eligible for purchase. Further, the Department will not purchase loans that are more than 210 days delinquent at the time of sale. Finally, at the time of purchase by the Department, a loan must be free and clear of any encumbrance, lien, or security interest or any other prior commitment.

## **Borrower Benefits**

Under this authority, the Department will purchase loans with certain borrower benefits; however, the Department will only purchase loans with benefits that can be implemented by Federal Student Aid's current servicing processes. A complete description of approved benefits will be included in a forthcoming *Federal Register* notice announcing this program. Consistent with the law's cost requirements, the Department will not purchase loans where a cash rebate or item/product was promised to the borrower.

## **Pricing**

The Department will purchase loans at 97 percent of the principal and unpaid interest owed by the borrower, coincident with the standard guaranty rate for these loans. Upon purchase, the loans become Federal assets and will be serviced by the Department's servicer as a FFELP loan. Additional terms and conditions will be included in the above-referenced *Federal Register* announcement. As a condition of participation in this purchase program, a lender must continue to originate new loans and participate in the FFEL Program.

## **Loan Volumes**

As noted, the Department will purchase up to \$500 million in eligible loans each week beginning in early December. The Department will specify a day and time period for lenders to offer loans for purchase. The Department will sum the total of the offers for each week. If the total of the original offers is equal to or less than the weekly \$500 million purchase amount, the Department will purchase the loans as offered by each lender. If the loans offered for sale by lenders exceed \$500 million, the Department will determine the amount that each lender will be eligible to receive from the weekly total, not to exceed the amount offered for sale by that particular lender. This will be done through an allocation process that will be outlined in the *Federal Register*. This process is intended to ensure a fair and equitable distribution of purchases based on actual FFELP activity by each lender.

## **Terms and Conditions**

The announcement of the program and the agreements to participate, which include terms and conditions, will be published in a *Federal Register* notice and on the Department's Web site. The official announcement, however, is the one published in the *Federal Register*. While we believe the price and the types of eligible loans will not change, some other terms may need to be adjusted to ensure cost neutrality.

As was noted, I am taking these steps out of concern for ensuring that second and other subsequent disbursements are made for the remainder of the 2008-2009 academic year. This action, combined with the Department's current successful purchase programs and

announced conduit/replication purchase programs, will continue to enable students and families to access loans to pursue higher education.

Sincerely,

/s/

Margaret Spellings



THE SECRETARY OF EDUCATION  
WASHINGTON, DC 20202

November 10, 2008

Subject: Extension of Authority to Purchase FFEL Program Loans

Summary: This letter provides information on how the Department of Education will implement the extension of the Secretary's authority to purchase FFEL Program loans to address issues of liquidity in the student loan market.

Dear Colleague:

On October 7, 2008, the President signed Public Law 110-350, which extends for one year the authorities contained in the Ensuring Continued Access to Student Loans Act (ECASLA). By signing this law, the President reinforced the Administration's strong commitment to providing students and families with every opportunity to obtain federally guaranteed loans to help pay college expenses.

As many know, the U.S. Department of Education (the Department), in collaboration with the U.S. Department of the Treasury and the Office of Management and Budget, has implemented two programs – the Purchase of Participation Interests (PPI) Program and the Loan Purchase ("Put") Program. Both programs are working exceedingly well. To date, the Department has purchased \$8.7 billion in participation interests and has purchased approximately \$62 million in loans through the Put Program.

However, additional action is needed to help ensure students have continued access to federal student loans. The continued tightening of the credit markets has created conditions making it difficult for lenders to secure needed private capital. These conditions have generated concern among students and families, schools, and lenders about the availability of federal guaranteed loans for the 2009-10 academic year. Schools are also in the process of securing commitments from lenders for the next school year.

For these reasons, I am announcing several additional actions the Department is taking to ensure that students and families will have access to loans in the 2009-10 academic school year. Our goals in taking these actions are to:

- Ensure availability of federal student loans for the 2009-10 school year;
- Uphold the public/private partnership in the federal student loan program;
- Protect taxpayer interests by adding no net costs to the Federal Government; and
- Provide the liquidity and support needed to stabilize the student loan marketplace.

Therefore, the Department will replicate the successful PPI and Put Programs for the 2009-10 academic year. The current PPI and Put Programs for the 2008-09 school year will terminate as provided for in the Master Agreements between Federal Family

Education Loan (FFEL) Program lenders and the Department. In addition, I am announcing a new program designed to provide longer-term stability in the federal student loan marketplace through the development of a private market financing vehicle.

#### REPLICATION OF PPI AND PUT PROGRAMS FOR 2009-10 LOANS

The Department will publish in the *Federal Register* the terms and conditions on which the Department will purchase FFEL Program loans (the Put Program) and participation interests in loans (the PPI Program) originated for the 2009-10 academic year. We anticipate that the terms and conditions for these programs will closely mirror those for the current year's programs, though the pricing and terms of these programs may need to be refined in order to ensure that they result in no net cost to the Federal Government.

In the Put Program, lenders will have the option to finalize the sale of a loan or loans to the Department as late as September 30, 2010. Thus, a lender that completes the disbursement of a loan for the 2009-10 academic year can hold and service that loan until September 30, 2010. This option continues to provide an opportunity for lenders to finance and keep loans in the event that capital markets improve, and is designed to protect against losses on new loans for an additional year.

Also, the Department will replicate the PPI Program. These participation interests will be held by the Department until September 30, 2010. As in the current program, 2009-10 academic year loans originated by FFEL Program lenders will be put into short-term participation facilities. No later than the expiration of the program on September 30, 2010, the lender may refinance the loans in the private financial market and redeem the Department's participation interest, or it may sell the loans to the Department under the Put Program.

#### THE CONDUIT – A PRIVATE MARKET FINANCING VEHICLE

Credit markets remain stagnant, and the effects are felt most acutely in those markets with unsecured consumer debt such as student loans. We estimate that approximately \$130 billion of eligible academic year 2003 to academic year 2007 student loans remain on bank balance sheets and tied to auction rate securitizations. Capital markets have been unable to generate sufficient funds at prices that will ensure student loans are made for the 2009-10 academic year.

In order to address this situation, the Department intends to provide liquidity support to one or more conforming Asset-Backed Commercial Paper (ABCP) conduit(s) to purchase FFEL Program loans. These ABCP conduits will purchase FFEL Program loans, providing longer-term stability to the guaranteed student loan marketplace. The Department intends to make all fully disbursed, non-consolidation FFEL loans awarded between October 1, 2003, and July 1, 2009, eligible for this program. An eligible lender trustee creates a pool called a conduit, to which other lenders transfer ownership of their student loans. This conduit issues commercial paper to sell, backed by the loans in the

pool. After private investors purchase the commercial paper, student lenders would be paid out of the amounts received from these investors. The Department will provide liquidity to the facility by entering into forward purchase commitments with these eligible lender trustees, whereby the Department promises to purchase, at a date in the future, eligible student loans at a prearranged price if the commercial paper that has been issued by the conduit cannot be reissued or “rolled” at maturity and the conduit does not have sufficient cash to repay commercial paper investors.

The Department continues to refine the pricing and the terms of these programs to ensure that they will meet the legal obligation of no net cost to the Federal Government. The *Federal Register* Notice for these programs will include the final prices, terms, and conditions, as well as the Administration’s methodology for determining cost neutrality.

The Department has also taken the steps necessary to ensure the Lender-of-Last-Resort Program is ready should it be needed. Further, in recent months, the Department has expanded its capacity in the Direct Loan Program. These measures, along with the new ECASLA programs, will ensure that students and families are able to obtain FFEL Program loans for the 2009-10 academic year and beyond.

Sincerely,

/s/

Margaret Spellings

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DEPARTMENT OF EDUCATION, DEPARTMENT OF THE TREASURY, OFFICE  
OF MANAGEMENT AND BUDGET

Federal Family Education Loan Program (FFELP)

AGENCY: Department of Education, Department of the  
Treasury, Office of Management and Budget.

ACTION: Notice of terms and conditions of additional  
purchase of loans under the Ensuring Continued Access to  
Student Loans Act of 2008.

SUMMARY: Under the authority of section 459A of the Higher  
Education Act of 1965, as amended ("HEA"), as enacted by  
the Ensuring Continued Access to Student Loans Act of 2008  
(Pub. L. 110-227) and amended by Pub. L. 110-315 and Pub.  
L. 110-350, the Department of Education ("Department") may  
purchase, or enter into forward commitments to purchase,  
Federal Family Education Loan Program ("FFELP") loans made  
under sections 428 (subsidized Stafford loans), 428B (PLUS  
loans), or 428H (unsubsidized Stafford loans) of the HEA,  
on such terms as the Secretary of Education ("Secretary"),  
the Secretary of the Treasury, and the Director of the  
Office of Management and Budget (collectively, "Secretaries  
and Director") jointly determine are "in the best interest  
of the United States" and "shall not result in any net cost



to the Federal Government (including the cost of servicing the loans purchased)."

The Secretary initially exercised this authority in accordance with a notice published in the Federal Register on July 1, 2008 (73 FR 37422). This notice (a) establishes the terms and conditions that will govern certain additional loan purchases made under section 459A of the HEA, as extended by Pub. L. 110-350 (Short-term Purchase Program), (b) outlines the methodology and factors that have been considered in evaluating the price at which the Department will purchase these additional FFELP loans, and (c) describes how the use of those factors and methodology will ensure that the additional loan purchases do not result in any net cost to the Federal Government. The Secretaries and Director concur in the publication of this notice and have jointly determined that the purchase of additional loans as described in this notice is in the best interest of the United States and shall not result in any net cost to the Federal Government (including the cost of servicing the loans purchased).

DATES: Effective Date: The terms and conditions governing the purchase of additional loans under the Short-term Purchase Program are effective December 1, 2008.

FOR FURTHER INFORMATION CONTACT: U.S. Department of Education, Office of Federal Student Aid, Union Center Plaza, 830 First Street, NE., room 111G3, Washington, DC 20202. Telephone: (202) 377-4401 or by e-mail: [ffel.agreementprocess@ed.gov](mailto:ffel.agreementprocess@ed.gov).

If you use a telecommunications device for the deaf (TDD), call the Federal Relay Service (FRS), toll free, at 1-800-877-8339.

Individuals with disabilities can obtain this document in an accessible format (e.g., braille, large print, audiotape, or computer diskette) on request to the contact person listed under FOR FURTHER INFORMATION CONTACT.

#### SUPPLEMENTARY INFORMATION:

##### Introduction

The Department's purchase of FFELP loans is intended to ensure that students and parents continue to have access to FFELP Stafford and PLUS loans for the remainder of the 2008-2009 academic year and the 2009-2010 academic year, including second and subsequent disbursements of loans which have already had a first disbursement. The Department initially offered lenders the opportunity to participate in a Loan Participation Purchase Program ("Participation Program") and a Loan Purchase Commitment Program ("Purchase Program") (collectively, "Programs").

Pursuant to section 459A of the HEA, the Secretaries and Director established the terms and conditions that govern the Participation Program and the Purchase Program in a notice published in the Federal Register on July 1, 2008 (73 FR 37422). Minor revisions to this notice were published in the Federal Register on July 17, 2008 (73 FR 41048).

Under the Participation Program, the Department has purchased participation interests in eligible loans that are held by an eligible lender acting as a sponsor under a Master Participation Agreement. To participate in the Participation Program, each sponsor entered into a Master Participation Agreement with the Department and a third-party custodian.

Under the Purchase Program, the Department has purchased eligible loans that are held by eligible lenders. To participate in the Purchase Program, each eligible lender entered into a Master Loan Sale Agreement with the Department and agreed to deliver to the Department or its agent the fully executed master promissory note (or all electronic records evidencing the same) evidencing each eligible loan that the lender wished to sell to the Department and any and all other documents and computerized records relating to all such loans.

Subsequent to the announcements of the Purchase Program and Participation Program in July, the Secretaries of Education and Treasury have concluded that additional actions are necessary to ensure students and parents have access to FFELP for the remainder of the 2008-2009 academic year. Specifically, the Secretaries believe some lenders may not be able to obtain capital to make second disbursements even for the short-term necessary before lenders can utilize the existing programs. Through the Short-term Purchase Program, the Department is extending the offer to purchase loans to include eligible loans made for the 2007-2008 academic year under the terms and conditions established in this notice, including the appended Master Loan Sale Agreement-2007-2008, dated November 24, 2008. The Department plans to purchase these loans on or about December 1, 2008 and will continue purchasing them through February 28, 2009 or the date on which one or more conforming Asset-Backed Commercial Paper (ABCP) conduit(s) for purchasing FFELP loans becomes operational, whichever occurs earlier. The Department will expend up to \$500 million to purchase eligible loans each week during this period, for a potential total aggregate amount of up to \$6.5 billion. The Department will only accept offers from lender requests for the Department to

purchase loans under the Short-term Purchase Program once each week. Details of how a lender must submit such offers will be provided by the Department by postings to its official Web site at [www.federalstudentaid.ed.gov/ffelp](http://www.federalstudentaid.ed.gov/ffelp).

The Department will purchase no loans from a lender in a given week unless the average outstanding principal balance of the loans offered by the lender for that week is at least \$3,000. The Department will calculate the total amount of the outstanding principal balance of the loans offered for sale for the week by lenders that submit offers that meet the \$3,000 minimum balance requirement, and will purchase all such loans if the amount needed to purchase them does not exceed the \$500 million offered amount.

If the amount needed to purchase all loans in qualifying offers in a given week exceeds \$500 million, the Department will initially designate for purchase from each lender an amount that is the lesser of its outstanding balance of loans offered for sale or the total outstanding balance of the loans offered by such lender multiplied by a percentage that is the ratio of that lender's 2007-2008 loan volume to the 2007-2008 loan volume of all lenders that submitted qualifying offers to sell loans in the same week. If this process fails to spend the entire \$500 million in a given week, the Department will determine the

percentage that the amount of loans offered by each lender that was not initially designated for purchase bears to the total amount offered but not so designated from all lenders for that week, and it will multiply the remainder of the \$500 million by this percentage to designate for purchase an additional amount of loans from each lender. The Department will purchase from each lender an amount that is the sum of its initial plus additional designated amounts. In no case will the Department purchase an amount that exceeds a lender's offered amount. Moreover, no lender shall receive more than 85 percent of the weekly offering until all lenders wishing to sell loans to the Department have been satisfied.

#### Terms and Conditions

Under the Short-term Purchase Program, the Department will purchase fully disbursed FFELP loans (subsidized Stafford loans, unsubsidized Stafford loans, and PLUS loans) originated for academic year 2007-2008. FFELP Consolidation loans are not eligible for purchase by the Department under this program. To participate in the Short-term Purchase Program, each eligible lender must enter into a separate Master Loan Sale Agreement-2007-2008, dated November 24, 2008 (attached as Appendix A to this notice) with the Department and deliver to the Department

or its agent the fully executed master promissory note (or all electronic records evidencing the same) evidencing each eligible loan that the lender wishes to sell to the Department and any and all other documents and computerized records relating to that eligible loan.

For the purpose of the Short-term Purchase Program, an otherwise eligible FFELP loan must have been first disbursed on or after May 1, 2007 for a loan period that includes July 1, 2007 or begins on or after that date. At the time of purchase by the Department, the loan must be free and clear of any encumbrance, lien or security interest or any other prior commitment. At the time of purchase by the Department, the loan cannot be in a default status, be 210 or more days delinquent, or have had a lender claim filed for it. In addition, if the lender wishes to sell a loan from a particular borrower, all loans from that particular borrower must be offered for sale.

Under the Short-term Purchase Program, the Department will purchase loans with borrower benefits; however, the benefits are limited to those that can be implemented by the Department's servicer for these loans. The Department will accept loans that provide Eligible Borrower benefits as summarized in Exhibit F to the Master Loan Sale Agreement—2007-2008, dated November 24, 2008, attached as

Appendix A to this notice. A listing of those specific borrower benefits will be posted to the Department's Web site at [www.federalstudentaid.ed.gov/ffelp](http://www.federalstudentaid.ed.gov/ffelp). The Department will not purchase loans if a cash rebate was promised to the borrower.

The Department will purchase loans for 97 percent of the total of the outstanding principal balance plus accrued but unpaid interest as of the purchase date. In order to ensure that the loans offered for sale represent a fair share of the loans in a lender's 2007-2008 portfolio, the average outstanding balance of all of the loans included in a lender's weekly offer must be at least \$3,000. Upon purchase, the loans become Federal assets and will be serviced by the Department's contracted servicer as FFELP loans. Any lender that wishes to participate in the Short-term Purchase Program will be required to commit to originate or acquire loans, and continue participation in the FFEL program, as set forth in the Master Loan Sale Agreement (Appendix A). Additional terms and conditions for the Short-term Purchase Program are contained in the Master Loan Sale Agreement—2007-2008, dated November 24, 2008 (Appendix A).

Outline of Methodology and Factors in Determining Prices



In accordance with Pub.L. No. 110-227, Pub. L. 110-315, and Pub. L. 110-350, the goal in structuring the Short-term Purchase Program is to maximize student loan availability while ensuring loan purchases result in no net cost to the Federal Government. More specifically, this Short-term Purchase Program will offer temporary liquidity to FFELP lenders to encourage their continued participation in the program and ensure that students and parents have access to FFELP Stafford and PLUS loans for the 2008-2009 and 2009-2010 academic years, including second and subsequent disbursements of loans which have already had a first disbursement. This section of the notice responds in particular to the statutory requirement for an outline of the methodology and factors considered in evaluating the price at which loans may be purchased, and describes how the use of such methodology and consideration of such factors will ensure no net cost to the Federal Government results from the loan purchases under the Short-term Purchase Program.

Price: As noted elsewhere in this notice, the Short-term Purchase Program is intended as a temporary, transitional measure to help lenders address immediate liquidity shortages until one or more conforming Asset-

Backed Commercial Paper (ABCP) conduits for purchasing FFELP loans become operational.

To determine the price FFELP loans would be purchased at, the Secretary of Education and the Secretary of Treasury took into account several factors. These factors included the price that would ensure this program resulted in no net cost to the Federal Government; the increased liquidity that the rate would offer distressed lenders; borrower benefits; and other factors. Based on this analysis, the Secretaries determined that 97 percent of outstanding principal and accrued interest was an appropriate price for this program.

Borrower Benefits: The Department will purchase loans with certain borrower benefits; however, the Department will only purchase loans with benefits that can be implemented by Federal Student Aid's current servicing processes. Further, the 97 percent price considers borrower benefits for both administrative expediency, cost neutrality, and to ensure that student's or parent's expected borrower benefits on purchased loans are not compromised.

#### Analysis of Cost Neutrality

The cost-neutrality analysis used credit subsidy cost estimation procedures established under the Federal Credit

Reform Act of 1990 (Pub. L. No. 101-508) and OMB Circular A-11. These procedures entail performing various analyses to project cash flows to and from the Government, excluding administrative costs. For changes to outstanding FFEL guaranteed loans, the analysis reflects the modification cost, or the difference between the estimate of the net present value of the remaining cash flows underlying the most recent President's Budget for such loan guarantees, and the estimate of the net present value of these cash flows after the purchase program, reflecting only the effects of the modification. For new loans, cash flows are discounted to the point of disbursement, using the Credit Subsidy Calculator 2 ("OMB calculator"), developed by the Office of Management and Budget to estimate credit subsidy costs for all Federal credit programs, as the discounting tool.<sup>1</sup> Costs for new loans can be expressed as subsidy rates that reflect the Federal costs associated with a loan; these costs are expressed as a percentage of the credit extended by the loan. For example, a subsidy rate

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<sup>1</sup> The OMB calculator takes projected future cash flows from the Department's student loan cost estimation model and produces discounted subsidy rates reflecting the net present value of all future Federal costs associated with loans made in a given fiscal year. Values are calculated using a "basket of zeros" methodology under which each cash flow is discounted using the interest rate of a zero-coupon Treasury bond with the same maturity as that cash flow. To ensure comparability across various Federal credit programs, this methodology is incorporated into the calculator and used government-wide to develop estimates of the Federal costs of credit programs.

of 10.0 percent indicates a Federal cost of \$10 on a \$100 loan.

The metric to determine cost neutrality was that costs under the new program should not exceed costs expected under the FFEL program had the loan purchase authority in Pub. L. No. 110-227 not been extended in this manner. All costs were based on estimates in the 2009 President's Budget for the FFEL program, and estimated administrative costs.

Student loan cost estimates were developed to assess the Federal cost incurred for loans financed for students in five categories for each loan type: those attending proprietary schools, two-year schools, freshmen/sophomores at four-year schools, juniors/seniors at four-year schools, and students in graduate programs. Risk categories have separate assumptions based on historical patterns -- for example, the likelihood of default or the likelihood of exercising statutory deferments or discharge benefits -- of borrowers in each category. The analysis also considered risk factors particular to the Short-term Purchase Program, such as the likelihood that lenders would sell only their least profitable loans.

This discussion outlines the analysis of the Short-term Purchase Program with respect to the following critical aspects affecting the Federal cost:

- o Administrative costs
- o Borrower behavior
- o Lender behavior
- o Risk factors

Administrative Costs. Federal administrative costs are normally not included in subsidy cost calculations. To capture the full cost of the Short-term Purchase Program, however, section 459A of the HEA requires that the determination of cost neutrality reflect total costs, including Federal administrative costs subject to annual appropriation, and these costs were included in this analysis. Administrative cash flows primarily involve servicing costs associated with loans purchased by the Department. These costs can extend for up to 40 years, as servicing must continue until the last loan is paid in full. Under the base scenario where \$6.5 billion in small loans were purchased, servicing costs would be \$261 million on a present value basis. Estimates were developed using the price structure of the Department's servicing contract for put loans, with adjustments for start-up costs, inflation, and other costs.

Borrower Behavior. Since the base FFEL program serves as the foundation of the Short-term Purchase Program, and the characteristics of the base program are unchanged, there is no reason to believe that the Short-term Purchase Program will affect borrower behavior. Thus, this cost analysis uses borrower behavior assumptions used to prepare the FY 2009 President's Budget to gauge the effect on program costs of borrower-based activities such as loan repayment, use of statutory benefits such as deferments and loan discharges, and default rates and timing. These assumptions are based on a wide range of data sources, including the National Student Loan Data System, the Department's operational and financial systems, and a group of surveys conducted by the National Center for Education Statistics such as the 2004 National Postsecondary Student Aid Survey, the 1994 National Education Longitudinal Study, and the 1996 Beginning Postsecondary Student Survey.

Lender Behavior. A key factor in assessing whether the Short-term Purchase Program would operate in a cost-neutral manner was lender behavior: specifically, how lenders would participate in the program, including how many and what type of loans would they eventually choose to sell to the Department. The Department considered alternative scenarios of lender behavior to determine

whether the Short-term Purchase Program could be considered cost-neutral under each. Because the Short-term Purchase Program would allow lenders to sell loans with contingent borrower benefits--such as interest rate reductions for a specified number of on-time payments--all alternatives include an adjustment to reflect the impact of these potential reductions on future loan repayments. Consistent with stress tests applied by rating agencies in the private securitization market, this adjustment reduces the net cash flow to the Government by reducing the principal of sold loans by 0.5 percent a year.

In both scenarios, the Department assumed a "worst-case" in which lenders sold \$6.5 billion of their smallest, least profitable loans. Because long-term loan servicing costs are generally charged on an account basis independent of loan size, small loans tend to be less profitable than larger loans. Under this scenario, it was determined that costs for the Short-term Purchase Program were less expensive to the Government than baseline subsidy costs for FFELP loans. (Please see Table 1 for a summary of the analysis.)

**Table 1: Cost Neutrality Analysis Short-Term Loan Purchase Program**

**Baseline: Federal Family Education Loan (FFEL) Program Volume Eligible for Short-term Purchase Program , 2007/2008 Award Year**

Original Cohort Year	Volume		
	2007	2008	Total
Stafford	11,868	12,072	23,939
Unsubsidized Stafford	10,917	12,222	23,138
PLUS	5,196	3,341	8,537
<b>Total</b>	<b>27,980</b>	<b>27,635</b>	<b>55,615</b>

**Scenario: Education purchases \$6.5 billion in loans assuming the smallest average borrower balances are put from outstanding 2007-2008 FFEL loans**

Original Cohort Year	Cost Percentage		Outlays		
	2007	2008	2007	2008	Total
Loan Purchase Extension					
Volume (non-add)			3,991	2,509	6,500
FFEL Guaranteed Loan Modification	-7.81%	-8.54%	(312)	(214)	(526)
Administrative Expenses (NPV)	3.67%	4.55%	147	114	261
Loan Purchase Subsidy Costs	-1.50%	2.18%	(60)	55	(5)
Risk Adjustments (base case)					
Claim Rejects	0.12%	0.12%	5	3	8
Operational Risk	0.20%	0.20%	8	5	13
General Administrative Risk	1.00%	1.00%	40	25	65
Portfolio Composition Risk	1.00%	1.00%	40	25	65
<b>Subtotal, Loan Purchase Extension</b>	<b>4.49%</b>	<b>9.05%</b>	<b>179</b>	<b>227</b>	<b>406</b>
<b>Total (base case)</b>			<b>-132</b>	<b>13</b>	<b>-119</b>
Risk Adjustment (high)					
Additional Operational Risk	0.60%	0.60%	24	15	39
<b>Subtotal, Loan Purchase Extension</b>	<b>5.09%</b>	<b>9.65%</b>	<b>203</b>	<b>242</b>	<b>445</b>
<b>Total (high risk)</b>			<b>-108</b>	<b>28</b>	<b>-80</b>

Risk Factors. Analyzing whether the Short-term Purchase Program would operate in a cost-neutral manner requires that projected costs account for the presence of various risk factors that must be assumed since the Short-term Purchase Program will not operate entirely like the base FFELP, or without operational risk. As such, the Secretaries' and Director's estimates included adjustments



for four risk factors: that some of the loans purchased by the Department would be those where the Department would otherwise reject a reinsurance claim under the FFELP ("claim rejects"); that unforeseen problems undermine the Department's ability to effectively oversee and administer the Short-term Purchase Program ("operational risk"); that costs related to servicing purchased loans do not fully reflect possible future requirements ("general administrative risk"); and, that the composition of loans ultimately sold to the Department may result in higher Federal costs than the composition assumed in this analysis ("portfolio composition risk").

To ensure cost estimates reflect a conservative assessment of possible Federal costs, the Secretaries and Director added cost adjustments to incorporate each risk factor. The adjustments were based on an assessment of private-sector behavior and program data as follows:

Claim Rejects. This risk factor takes into account the costs associated with the purchase of loans that would not typically qualify for the federal default guarantee in the FFELP due to improper origination or servicing. The 12 basis point increase in cost is based on a historical rejected claim rate of 1 percent of volume, and assumes that these loans would have higher loss rates than the

average portfolio. This cost assessment is double that which was assessed in the analysis of the original Purchase Program. This doubling is appropriate given that the 45-day period allotted to the Department, under the Terms and Conditions of the original Purchase Program, to conduct due diligence on loans to be purchased is much shorter under the Short-term Purchase Program. This increased cost assessment is intended to take this into account.

Operational Risk. In the Short-term Purchase Program, operational risk might result from servicing errors, technology failures, and the risk of fraud. While the Department has made every effort to mitigate operational risk, the emergency nature and accelerated implementation timeframe for the Short-term Purchase Program make operational risk more of a concern than in established Department programs.

For the low risk scenario, the analysis assumes a 20 basis point increase in program cost to reflect this risk. The analysis of the original Purchase Program only included a 10 basis point assessment. However, given the accelerated implementation timeframe, as compared to the original Purchase Program, the doubling of this assessment is appropriate in this case.

For the high risk scenario, the analysis assumes an

additional 60 basis point increase for operational risk, for a total of 80 basis points, consistent with the assessment in the high risk scenario of the original Purchase Program. In this scenario, the worst-case was estimated using survey data from bank regulators implementing an overhaul of bank regulations. The largest United States banking organizations will be subject to a new system of capital requirements that includes an explicit charge for operational risk. Under those regulations, banks will be required to develop models generating a probability distribution of losses for operational risk, and hold capital equal to the 99.9th percentile of that estimated probability distribution. Banks were surveyed to measure the anticipated impact of the regulations. Using the best available models of operational risk, the banks reported that operational risk would account for roughly 10 percent of their required capital. As banks currently finance on average about eight percent of their assets with capital, worst-case scenario operational risk losses can thus be estimated at about one percent of total assets. Also, while we do not believe that this program has, or necessarily will, face such a level of operational risk, we developed the high scenario to ensure that the program is cost-neutral, even under

extreme and unlikely circumstances.

General Administrative Risk. The analysis of cost neutrality examined the Department's current loan servicing contract, and assumptions of borrower status over the life of the loan after purchase by the Department. The analysis assumed minimal start-up costs as the Short-term Purchase Program builds on the current loan purchase program infrastructure. In December 2008, the Department plans to extend its current loan servicing contract for one year. This will involve the renegotiation of payment rates for certain activities which may affect long-term servicing costs for the loans purchased under the Short-term Purchase Program. Given the future uncertainty surrounding several factors, including the assumptions outlined above and the status of loans ultimately purchased by the Department, it is possible that unforeseen additional costs may be incurred. Accordingly, a General Administrative Risk Factor of 100 basis points was added to the analysis.

Portfolio Composition Risk. The cost to the Government of the Short-term Purchase Program depends on numerous factors, including loan size, default/prepayment risk, borrower benefits, and other characteristics of the purchased loans. The cost-neutrality analysis accounts for some of these factors, as outlined in this notice, but may

not incorporate all of the dimensions of lender behavior and the loans ultimately purchased by the Department. Given this uncertainty, savings may deviate to some degree from the savings estimated in the model. To ensure that the potential risk and the potential costs are adequately reflected, a Portfolio Composition Risk Factor of 100 basis points was added to the analysis. The Department considered a base scenario under which lenders sold \$6.5 billion in loans, the maximum amount allowable under the Short-term Purchase Program. This scenario also assumed lenders would sell their smallest, least profitable loans to the Department and included cost assessments for claim rejects and operational risk. This scenario would result in an average loan balance of approximately \$3,000. Under this scenario, the Short-term Purchase Program is cost-neutral.

The Department also considered a high operational risk scenario in which the cost assessment for operation risk was raised from 20 basis points to 80 basis points. Even with this increased assessment, the Short-term Purchase Program remains cost-neutral. The Terms and Conditions for the Short-term Purchase Program seek to reduce the likelihood of lenders exclusively selling low-balance loans. For example, a floor would be established under

which batches of loans sold to the Department must have a minimum average balance of \$3,000. This would likely ensure that the base scenario considered by the Department would reasonably reflect the cost exposure to the Federal Government should lenders choose to sell their lowest balance loans. In addition, lenders would be required to sell all 2007-08 Stafford loans held for a specific borrower. These provisions make it less likely that lenders will choose to sell only poorly-performing loans to the Department.

Conclusion. After taking into account alternative market and lender behavior scenarios, the Administration determines that the Short-term Purchase Program is in the best interest of the United States and will result in no net cost to the Government.

Applicable Program Regulations: 34 CFR part 682.

Electronic Access to This Document

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<http://www.ed.gov/news/fedregister/index.html>.

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<http://www.ifap.ed.gov>. You may obtain a copy of the Master Loan Sale Agreement and direction regarding submission of the Master Loan Sale Agreement and offers to sell loans at <http://federalstudentaid.ed.gov/ffelp>.

Note: The official version of this document is the document published in the Federal Register. Free Internet access to the official edition of the Federal Register and the Code of Federal Regulations is available on GPO Access at: <http://www.gpoaccess.gov/nara/index.html>.

(Catalog of Federal Domestic Assistance Number 84.032  
Federal Family Education Loan Program)

Program Authority: 20 U.S.C. 1087i-1.

Dated:

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Margaret Spellings,  
Secretary of Education.

Dated:

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Karthik Ramanathan,  
Acting Assistant Secretary of the  
Treasury.

Dated:

---

Jim Nussle,  
Director, Office of Management and  
Budget.



APPENDIX A

MASTER LOAN SALE AGREEMENT 2007-2008

UNITED STATES DEPARTMENT OF EDUCATION

NOVEMBER 24, 2008

ELIGIBLE LOANS MADE PURSUANT TO THE  
FEDERAL FAMILY EDUCATION LOAN PROGRAM

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## MASTER LOAN SALE AGREEMENT 2007-2008

This is a Master Loan Sale Agreement 2007-2008, dated November 24, 2008 (“Master Loan Sale Agreement 2007-2008”), among the United States Department of Education (“Department”) and an individual Eligible Lender (as defined below) or the holder of beneficial interests in Loans (such entity, “Seller”), and if the latter, the related Eligible Lender Trustee, in each case made party to this Master Loan Sale Agreement 2007-2008 by executing an Adoption Agreement in the form attached hereto as Exhibit A.

WHEREAS, pursuant to Section 459A of the Higher Education Act of 1965, as amended by the Ensuring Continued Access to Student Loans Act of 2008 (Pub. L. No. 110-227) (“Higher Education Act”), the Department has the authority to purchase Stafford Loans and PLUS Loans, on such terms as the Secretary of Education, the Secretary of the Treasury, and the Director of the Office of Management and Budget jointly determine are in the best interest of the United States to encourage Eligible Lenders to provide students and parents access to Stafford Loans and PLUS Loans made under the Federal Family Education Loan Program for the 2008-2009 and 2009-2010 academic years;

WHEREAS, the Seller has an ownership interest in certain Stafford Loans and PLUS Loans guaranteed under the Higher Education Act;

WHEREAS, the Seller may desire to sell its interest in such loans from time to time and the Department may desire to purchase such loans from the Seller;

WHEREAS, to the extent that the Department, the Seller and the Eligible Lender Trustee (if applicable) enter into an Adoption Agreement, this Master Loan Sale Agreement 2007-2008 shall provide for the Seller to sell to the Department certain of such loans by sale and transfer to the Department of all of the Seller’s and the Eligible Lender Trustee’s (if applicable) right, title and interest in, to and under such loans (including the right to service such loans) as authorized by the Higher Education Act, all on the terms and conditions set forth below; and

WHEREAS, by its execution of an Adoption Agreement to this Master Loan Sale Agreement 2007-2008, and upon each transfer hereunder, the Seller shall represent to the Department that it shall continue to participate in the Federal Family Education Loan Program and that it will originate new FFELP loans or acquire FFELP loans made by other lenders after the Department’s purchases of Loans from the Seller.

NOW, THEREFORE, in connection with the mutual promises contained herein, the parties hereto agree as follows:

Section 1. Terms. This Master Loan Sale Agreement 2007-2008 establishes the terms under which the Seller, together with an Eligible Lender Trustee, if any, which holds legal title to Eligible Loans on behalf of the Seller and which is authorized to sell Eligible Loans on behalf of the Seller, may sell, and the Department shall purchase, the Eligible Loans (and all obligations of the Borrowers thereunder) specified on each Loan Schedule attached to each Bill of Sale as the parties may execute from time to time pursuant to this Master Loan Sale Agreement 2007-2008, subject to the terms of this Master Loan Sale Agreement 2007-2008. Each such Bill of Sale shall be substantially in the form of Exhibit B, attached hereto,

incorporating by reference the terms of this Master Loan Sale Agreement 2007-2008, and shall be a separate agreement among the Seller, the Eligible Lender Trustee (if applicable) and the Department with respect to the Loans covered by the terms of such Bill of Sale for all purposes. If the terms of a Bill of Sale conflict with the terms of this Master Loan Sale Agreement 2007-2008, the terms of this Master Loan Sale Agreement 2007-2008 shall supersede and govern except to the extent that such conflict is specifically noted in the Bill of Sale and the parties acknowledge and agree that notwithstanding such conflict, the terms of the Bill of Sale shall govern.

The Department shall not purchase Loans hereunder unless the scheduled Purchase Date is before the earlier of February 28, 2009 or the date on which an Asset-Backed Commercial Paper (ABCP) Conduit is prepared to purchase loans. The Department will expend no more than an aggregate total of \$6.5 billion to purchase loans from all Sellers that enter into this Agreement. The Department will not purchase a Loan owed by an individual unless the Seller sells all Eligible Loans it holds that are owed by that individual.

For any given week the Department will expend up to \$500 million to purchase Loans from all Sellers with which it enters into this Agreement. The Department will purchase no Loans from a lender for a given week unless the Department determines that the average outstanding balance of the Loans offered for sale by the lender for that week is at least \$3,000. For each week, the Department will specify a time period within which interested Sellers must offer Loans for purchase, and the procedure by which an offer must be made. The Department will provide this information by electronic publication at <http://federalstudentaid.ed.gov/ffelp>. The Department will consider only those offers that it receives within the specified time period and that were submitted in the form and manner there stated. The Department will calculate the total amount of the outstanding balance of the Eligible Loans offered for sale for the week by lenders that submit offers that meet the required minimum average Loan balance. The Department will purchase all such Loans if the amount needed to purchase them does not exceed \$500 million. If the amount needed to purchase all Eligible Loans in qualifying offers exceeds \$500 million, the Department will purchase, from each Lender, an amount up to the total outstanding balances of the Loans offered by such Lender multiplied by the percentage which the Lender's FFELP Loan volume originated in the 2007-2008 academic year bears to the FFELP Loan volume originated in the 2007-2008 academic year by all Lenders that submitted qualifying offers to sell Loans in the same week. If the Department spends less than \$500 million for a given week to complete purchases in the amounts determined based on 2007-2008 lending, the Department will determine the percentage that the amount of loans offered from each lender that was not purchased bears to the total amount offered but not so purchased from all lenders for that week. The Department will then spend up to the remainder of the \$500 million to purchase an amount of Loans from each Lender that corresponds to that lender's percentage of all Loans offered but not yet purchased. The Department will purchase Loans in the amounts determined in this process on the basis of qualifying offers submitted by Sellers during the required time period in the preceding week. The offers and purchases referenced in this paragraph shall also be subject to terms set forth in a Federal Register notice to which this Agreement is appended, and the terms of such notice are incorporated herein.

Section 2. Commitment to Lend Under the FFELP. By its execution of the Agreement, the Seller (and, as applicable, the Eligible Lender Trustee acting on its behalf)

represents that within the eighteen (18) months next following the month in which it sells Eligible Loans to the Department under this Agreement –

A. It will originate and fully disburse Stafford or PLUS loans, or acquire Stafford or PLUS loans made by other lenders for the 2008-2009 or 2009-2010 academic year, and that the combined amount of such originated and acquired loans when fully disbursed shall be in a dollar volume equal to 100 percent of the total of funds received in connection with the sale of those Eligible Loans to the Department under this Agreement, net of any amounts expended to remove encumbrances on such loans to make them eligible to be sold to the Department, and excluding any loans sold by any Seller to the Department or to an ABCP Conduit and any loans in which any Seller sells a participation interest to the Department.

The Seller may credit toward the amount of loans which it makes or acquires to meet its responsibility under Section 2A those Loans that are made at its request by another lender, if those loans meet these conditions, are not loans sold by any Lender to the Department or to an ABCP Conduit, and are not loans in which any Lender sells a participation interest to the Department.

B. It will conduct activities constituting a continued participation in the FFELP, including but not limited to servicing a pre-existing FFELP loan portfolio, purchasing additional FFELP loans, and maintaining a platform from which the Seller may originate FFELP loans.

C. It will, not later than fifteen (15) months next following the month in which it sells Eligible Loans to the Department under this Agreement provide a report to the Department setting forth that it originated FFELP loans in an amount equal of exceeding the total of funds received in connection with the sale of those Eligible Loans to the Department, and setting forth a detailed explanation of the manner in which it met the requirements of Section 2A. Department.

Section 3. Definitions. For purposes of this Master Loan Sale Agreement 2007-2008, the following capitalized terms shall have the respective meanings set forth below:

A. “Adoption Agreement” means an Adoption Agreement, substantially in the form of Exhibit A, attached hereto, of which this Master Loan Sale Agreement 2007-2008 forms a part by reference, by and among the Department, a Seller and an Eligible Lender Trustee (if applicable) obligating each of the parties thereto to the terms of this Master Loan Sale Agreement 2007-2008. If the terms of an Adoption Agreement conflict with the terms of this Master Loan Sale Agreement 2007-2008, the terms of this Master Loan Sale Agreement 2007-2008 shall govern except to the extent that such conflict is specifically noted in such Adoption Agreement and the parties acknowledge and agree that notwithstanding such conflict, the terms of the Adoption Agreement shall govern.

B. “Bill of Sale” means each document in the form of Exhibit B, attached hereto, executed by an authorized officer of the Seller and acknowledged by the Department, which shall (i) set forth the Loans offered by the Seller and accepted for purchase by the Department, (ii) sell, assign and convey to the Department and its assignees, all right, title and interest of the Seller, in the Loans listed on that Bill of Sale and (iii) certify that the representations and

warranties made by the Seller pursuant to Sections 6A and 6B of this Master Loan Sale Agreement 2007-2008 are true and correct.

C. “Borrower” means the student or parent obligor on a Loan.

D. “Business Day” means any day other than (i) a Federal holiday, (ii) a Saturday or Sunday, or (iii) any other day on which banking institutions or trust companies operating in the state or jurisdiction where the Eligible Lender is headquartered is authorized or obligated by law, regulation, or executive order to remain closed.

E. “Conduit” or “ABCP Conduit” means an entity that issues asset-backed commercial paper to finance acquisition of FFELP loans and that holds an agreement from the Department to purchase FFELP loans (a “Put Agreement”) it acquires.

F. “Eligible Borrower Benefits,” or “Approved Borrower Benefits,” means only those borrower benefits for a Loan that are listed in Exhibit F.

G. “Eligible Lender” means an entity that is an eligible lender under Section 435(d) of the Higher Education Act that holds Eligible Loans (whether directly or as an Eligible Lender Trustee).

H. “Eligible Lender Trustee” means an Eligible Lender that holds legal title to a Loan for the benefit or on behalf of the Seller which holds the related beneficial ownership interest in such Loan that is authorized to sell Eligible Loans on behalf of the Seller, and that executes an Adoption Agreement together with such Seller.

I. “Eligible Loan” means a Loan that meets the following criteria as of the applicable Purchase Date:

- (i) the Loan was made for a loan period that included, or began on or after, July 1, 2007 and ended on or before August 31, 2008, and the first disbursement on the Loan was made on or after May 1, 2007;
- (ii) the Loan is owned by the Seller, together with the Eligible Lender Trustee (if applicable), and is fully disbursed;
- (iii) the Loan has been originated and serviced in compliance with all requirements of applicable law, including the Higher Education Act and the implementing regulations, the Equal Credit Opportunity Act, Regulation B and other applicable consumer credit laws and equal credit opportunity laws, as applicable to such Loan;
- (iv) the Loan is guaranteed at least 97% as to principal and interest by the applicable Guarantor and eligible for reinsurance by the Department in accordance with the Higher Education Act;

- (v) the Loan bears interest at a stated rate equal to the maximum rate permitted under the Higher Education Act for such loan, except as the rate is modified by an approved borrower benefit;
- (vi) the Loan is eligible for the payment of quarterly Special Allowance Payments;
- (vii) if the Loan is not yet in repayment status, the Loan is eligible for payment of Interest Subsidy Payments, or if not eligible, has interest either billed quarterly to the Borrower or capitalized to the extent permitted by the applicable Guarantor (unless, by the Purchase Date, the Seller would not otherwise have billed the borrower quarterly for interest accrued on the Loan);
- (viii) the Loan is evidenced by a signed Promissory Note in the form (including any required addenda) published by, and prescribed by, the Department, without change of any kind, and is not subject to any agreement not contained in that note that would bar, condition, or limit either transfer of the loan or the exercise by a transferee of the rights of the Lender under terms of the note, except as such an agreement relates exclusively to borrower benefits on the loan.;
- (ix) the Seller, together with the Eligible Lender Trustee (if applicable), has good and marketable title to the Loan free and clear of any encumbrance, lien or security interest or any other prior commitment other than as may be granted in favor of the Department or that will be released pursuant to a Security Release Certification upon the transfer hereunder;
- (x) the Loan has not been modified, extended or renegotiated in any way, except as required or permitted under the Higher Education Act or other applicable laws, rules and regulations, and the applicable Guarantee Agreement, except as any such modification, extension, or renegotiation relates exclusively to borrower benefits on the loan;
- (xi) the Loan constitutes a legal, valid and binding obligation to pay on the part of the related Borrower enforceable in accordance with its terms and is not subject to a current bankruptcy proceeding;
- (xii) the Loan is supported by the documents required under this Agreement;
- (xiii) the Loan has no borrower benefits or other incentive programs other than Eligible Borrower Benefits;
- (xiv) if the Loan is subject to a servicing agreement, such servicing agreement is terminable with respect to such Loan upon ten (10) Business Days' notice by the Department without the payment by the Department of any de-boarding, deconversion or related fees or expenses of the related servicer and without any liability on the part of the Department;
- (xv) the sale or assignment of the Loan does not conflict with any law or require notice to or consent, approval, authorization or order of any Person or governmental



authority, except for such consent, approval, authorizations or orders, if any, that have been obtained prior to the related Purchase Date, and for any notices to Borrowers and Guarantors required by the Higher Education Act;

- (xvi) if the Loan is one of several Eligible Loans held by or on behalf of the Seller that are owed by an individual, each of those loans is sold to the Department; and
- (xvii) the Loan has been originated or acquired by either an Eligible Lender, or a lender that is not an Eligible Lender and the legal title of such Loan is held by an Eligible Lender Trustee.

The following loans shall, without limitation, not be eligible for sale to the Department pursuant to the terms of this Master Loan Sale Agreement 2007-2008:

- (i) loans which do not comply with the representations and warranties set forth in Section 6B of this Master Loan Sale Agreement 2007-2008;
- (ii) FFELP consolidation loans or any other types of loans not specifically described in this Master Loan Sale Agreement 2007-2008;
- (iii) loans disbursed for academic years other than 2007-2008;
- (iv) loans on which the Lender has committed to providing the Borrower with any borrower benefits other than Eligible Borrower Benefits, without regard to whether such a commitment purports to bind only the Lender;
- (v) loans on which a default claim or other claim for payment on the loan has been filed with the related Guarantor or loans that are 210 or more days delinquent; and
- (vi) loans made by a guarantor or other lender as a Lender of Last Resort, pursuant to Section 428(j) of the Higher Education Act, whether made with Federal advances or other funds...

J. “Equal Credit Opportunity Act” means the Equal Credit Opportunity Act (15 U.S.C. Section 1691 *et seq.*) as amended.

K. “FFELP” means the Federal Family Education Loan Program authorized under title IV, Part B of the Higher Education Act.

L. “Guarantee Agreement” means an agreement between a Guarantor and the Seller or the Eligible Lender Trustee (if applicable) that provides for the payment by such Guarantor of amounts authorized to be paid pursuant to the Higher Education Act to holders of qualifying FFELP student loans guaranteed in accordance with the Higher Education Act.

M. “Guarantor” means any FFELP guaranty agency with which the Seller or the Eligible Lender Trustee (if applicable) has in place a Guarantee Agreement, and which guarantor is reinsured by the Department of Education for a percentage of claims paid for a given federal fiscal year.

N. “Higher Education Act” means the Higher Education Act of 1965, as amended, 20 U.S.C. Section 1001 et seq.

O. “Interest Subsidy Payments” means the interest subsidy payments on certain FFELP student loans authorized to be made by the Department pursuant to Section 428 of the Higher Education Act.

P. “Loan” means a FFELP Subsidized Stafford Loan or Unsubsidized Stafford Loan or FFELP PLUS Loan that was made to a student or in the case of a parent PLUS loan, made to a parent of a dependent student, evidenced by a Promissory Note and all related Loan Documents together with any guaranties and other rights relating thereto including, without limitation, Interest Subsidy Payments and Special Allowance Payments, together with the servicing rights related thereto.

Q. “Loan Documents” means with respect to each Loan, the following documents (except as otherwise specifically provided by the Department):

- (i) a copy of the loan application if a separate application was provided to the Seller;
- (ii) a copy of the signed Promissory Note;
- (iii) the repayment schedule;
- (iv) a record of each disbursement;
- (v) notices of changes in a Borrower’s address and status as at least a half-time student;
- (vi) evidence of the Borrower’s eligibility for a deferment;
- (vii) the documents required for the exercise of forbearance;
- (viii) documentation of the assignment of the loan, if any;
- (ix) a payment history showing the date and amount of each payment received from or on behalf of the Borrower, and the amount of each payment that was attributed to principal, interest, late charges, and other costs;
- (x) a collection history showing the date and subject of each communication between the Seller and the Borrower or endorser relating to collection of a delinquent Loan, each communication other than regular reports by the Seller showing that an account is current, between the Seller and a credit bureau regarding the loan, each effort to locate a Borrower whose address is unknown at any time, and each request by the Seller for default aversion assistance on the Loan;
- (xi) documentation of any master promissory note confirmation process or processes;

- (xii) any additional records that are necessary to document the validity of a claim against the guarantee or the accuracy of reports submitted by the Seller; and
- (xiii) a statement identifying the name and location of the entity in possession of the original electronic promissory note and, if different, the name, company, address and contact information of the person who is able to provide the affidavit or certification described in 34 C.F.R. Section 682.414(a)(6)(i), including any necessary supporting documentation.

R. “Loan Schedule” means the schedule attached to each Bill of Sale (in the form provided by the Department) and completed by or on behalf of the Seller and the Eligible Lender Trustee (if applicable) that lists, by Borrower, (i) the Loans sold to the Department pursuant to such Bill of Sale, (ii) the name and address of such Borrower, the loan number, the qualifying institution attended by the Borrower, and the outstanding Principal Balance and accrued interest of such Loans as of the related Purchase Date, and (iii) any other information the Department may require including but not limited to certain identification numbers and dates relating to the Eligible Loans.

S. “Master Loan Sale Agreement 2007-2008” means this Master Loan Sale Agreement 2007-2008, of which the Adoption Agreement forms a part by reference.

T. “Master Participation Agreement” means the Master Participation Agreement, dated July 25, 2008, together with the related adoption agreement among the Department, the Seller, the Eligible Lender Trustee (if applicable) and the related Custodian.

U. [Reserved.]

V. “Person” means an individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

W. “PLUS Loan” means a Loan described in Section 428B of the Higher Education Act and shall include loans to parents, designated as “PLUS Loans” or loans to graduate or professional students, designated “Grad PLUS Loans.”

X. “Principal Balance” means the outstanding principal amount of the Loan, plus interest capitalized through the Purchase Date (if any).

Y. “Promissory Note” means the master promissory note of the Borrower and any amendment thereto evidencing the Borrower’s obligation with regard to a student loan guaranteed under the Higher Education Act or the electronic records evidencing the same and that contains the terms required by the Higher Education Act and implementing regulations.

Z. “Purchase Date” means with respect to any purchase, the effective date of the related Bill of Sale by which the related Loans are sold to the Department and legal title to such Loans is conveyed to the Department. The latest Purchase Date scheduled hereunder shall be the earlier of February 28, 2009 or the date on which an ABCP Conduit is prepared to purchase loans.

AA. “Purchase Price” means with respect to each Loan sold to the Department hereunder, 97 percent of the sum of (1) the outstanding Principal Balance of the Loan as of the related Purchase Date, plus (2) accrued and unpaid interest on the Loan up to, but not including, the related Purchase Date.

BB. “Regulation B” means the federal regulations governing the Equal Credit Opportunity Act as it appears in Title 12, Code of Federal Regulations, Part 202.

CC. “Responsible Officer” means any director, vice president, assistant vice president, any associate or any other officer of the Sponsor, customarily performing functions similar to those performed by any of the above designated officers and with respect to a particular matter, to whom such matter is referred because of such officer’s knowledge of and familiarity with the particular subject and having direct responsibility for the administration of this Agreement.

DD. “Secretary” means the Secretary of Education, and “Department” means the United States Department of Education, and either term includes any official of the Department duly authorized to perform any function with respect to the transactions under this Master Loan Sale Agreement 2007-2008.

EE. “Security Release Certification” means the certification executed by the Seller and a lienholder with respect to one or more Loans substantially in the form of Exhibit E hereto.

FF. “Seller” has the meaning set forth in the preamble hereof.

GG. “Special Allowance Payments” means special allowance payments on FFELP student loans authorized to be made by the Department pursuant to Section 438 of the Higher Education Act.

HH. “Stafford Loan” means a Subsidized Stafford Loan or an Unsubsidized Stafford Loan.

II. “Subsidized Stafford Loan” means a Loan described in Section 428(a) of the Higher Education Act.

JJ. “Unsubsidized Stafford Loan” means a Loan described in Section 428H of the Higher Education Act.

#### Section 4. Sale/Purchase.

A. Notice. The Seller shall notify the Department of its intent to sell Loans pursuant to this Master Loan Sale Agreement 2007-2008 at least five (5) Business Days prior to the related Purchase Date and shall deliver a Loan Schedule for the Loans to be sold on a particular Purchase Date to the Department together with such notice. The Department will notify the Seller whether it agrees to purchase Loans and if so, the amount of Loans that the Department agrees to purchase. The Seller shall submit, in a form specified by the Department, a list of the loans it offers to sell and related information. The Seller shall submit this list of loans either with the notice or at such later date as the Department may specify.

B. Consummation of Sale and Purchase. The sale and purchase of Loans pursuant to a Bill of Sale as of any Purchase Date shall be consummated upon (i) the Department's receipt from the Seller and the Eligible Lender Trustee (if applicable) of the related Bill of Sale together with a Loan Schedule attached thereto, (ii) the delivery of the related Promissory Notes and related Loan Documents to the Department, (iii) the payment by the Department to the Seller of the Purchase Price, and (iv) the satisfaction of all other conditions precedent set forth in Section 5B hereof in the manner set forth in this Agreement (or if unsatisfied, the Department has permitted such unsatisfied conditions to be cured within an acceptable period of time following the Purchase Date, in the Department's sole discretion). The Department and the Seller acknowledge and agree that the Purchase Price paid for each Loan includes consideration for release by the Seller of any claim it may otherwise have with respect to related servicing rights appurtenant to such Loan. Upon consummation, such sale and purchase shall be effective as of the date of the Bill of Sale. The Seller shall use its best efforts to perform promptly its obligations pursuant to such Bill of Sale with respect to each Loan.

C. Settlement of the Purchase Price. On the Purchase Date, the Department shall pay to the Seller the Purchase Price by electronic transfer in funds available by the next Business Day to the account specified by the Seller. Upon payment to the Seller of the Purchase Price, (i) the Seller shall deliver to the Department a duly executed Bill of Sale with respect to the related Loans being sold on such Purchase Date in the form attached hereto as Exhibit B, (ii) either (x) if the Seller is an Eligible Lender, the Seller does hereby sell, transfer, assign, set over and convey to the Department, without recourse, but subject to the terms of the Agreement, all rights, title and interest of the Seller in and to the Loans listed on the Loan Schedule delivered in connection with the related Purchase Date, or (y) if the Seller is not an Eligible Lender, the Eligible Lender Trustee does hereby sell, transfer, assign, set over and convey to the Department, without recourse, but subject to the terms of the Agreement, all of its rights, title and interest in and to the related Eligible Loans, and the Seller does hereby sell, transfer, assign, set over and convey to the Department, without recourse, but subject to the terms of the Agreement, all of its beneficial interests in such Eligible Loans, and (iii) the Seller does hereby sell, transfer, assign, set over and convey to the Department all of the related servicing files and servicing rights appurtenant to the related Loans, the related Promissory Notes and related Loan Documents (including, without limitation, any rights of the Seller to receive from any third party any documents which constitute a part of the loan or servicing files) and all rights and obligations arising under the documents contained therein.

D. Purchase Frequency. The Seller may not sell Loans to the Department more frequently than weekly.

E. Interest Subsidy and Special Allowance Payments and Fees. The Seller shall be entitled to all Interest Subsidy Payments and Special Allowance Payments on the Loans up to but not including the related Purchase Date, and shall be responsible for the payment of fees, if any, applicable to Loans accruing up to but not including the related Purchase Date. The Department shall be entitled to all payments on a Loan which are received after the Purchase Date.

F. Transfer of Servicing. The Seller shall cause each related servicer of the Loans to transfer servicing in accordance with the directions of the Department and in accordance with industry standards related to the prudent servicing of FFELP loans.

G. Intent of the Parties. With respect to each sale of Loans pursuant to this Master Loan Sale Agreement 2007-2008 and the related Bills of Sale, it is the express intention of the Seller and the Department, and the Seller hereby warrants that, the transfer and assignment constitute a valid sale of such Loans and the rights to service such Loans from the Seller to the Department, and that the legal and beneficial interest in and title to such Loans shall not be part of the Seller's estate in the event of the bankruptcy of the Seller or the appointment of a receiver with respect to the Seller. If such transfer and assignment is deemed to be a pledge to secure a loan and not a sale, then the parties also intend and agree that the Seller shall be deemed to have granted, and in such event does hereby grant, to the Department, a first priority security interest in all of its right, title and interest in, to and under such Loans, including the servicing rights appurtenant thereto, all payments of principal or interest on such Loans due after the related Purchase Date, all other payments made in respect of such Loans after the related Purchase Date and all proceeds thereof and that this Master Loan Sale Agreement 2007-2008 shall constitute a security agreement under applicable law. If such transfer and assignment is deemed to be a pledge to secure a loan and not a sale, the Seller consents to the Department hypothecating and transferring such security interest in favor of Department's successors or assigns.

Section 5. Conditions Precedent to Purchase.

A. Initial Document Delivery. Not less than five (5) Business Days prior to the first Purchase Date hereunder, the Seller shall submit to the Department fully executed originals of the following documents:

- (i) an Adoption Agreement, in substantially the form of Exhibit A hereto, duly executed by the Seller and the Eligible Lender Trustee (if applicable), in three counterparts;
- (ii) if the Seller has not entered into the Master Loan Sales Agreement dated July 25, 2008 with the Department –
  - (1) an officer's certificate, in substantially the form of Exhibit C hereto, including all attachments thereto, and
  - (2) an opinion of counsel to the Seller, in substantially the form of Exhibit D hereto; and
- (iii) such other documents as the Department may request.

B. Purchase Date Closing Conditions. Any purchase of Loans pursuant to this Master Loan Sale Agreement 2007-2008 on any Purchase Date is subject to the following conditions precedent being satisfied (and the Seller, by accepting payment, shall be deemed to have certified that all such conditions are satisfied on such Purchase Date):

- (i) Activities Prior to the Related Purchase Date. The Seller shall have provided any assistance requested by the Department in determining that all required documentation on the related Loans is present and correct.
- (ii) Servicing Released. Each Loan subject to a servicing agreement shall have been released from such servicing agreement upon the sale to the Department hereunder. The Seller shall be responsible for, and shall have paid, any deboarding, deconversion or related fees or expenses to the related servicer. The Department shall obtain all rights to service such Loan and may, in its sole discretion require deconversion of such Loan in order to service the loan itself or through a third-party servicer of its designation.
- (iii) Bill of Sale/Loan Schedule/Loan Documents. The Seller shall deliver to the Department:
  - (1) A Bill of Sale that has been duly authorized and executed by an authorized officer of the Seller and the Eligible Lender Trustee (if applicable), covering the applicable Loans offered by the Seller and acknowledged and accepted by the Department as set forth thereon;
  - (2) The Loan Schedule attached to the Bill of Sale identifying each of the Eligible Loans proposed to be sold; and
  - (3) The Loan Documents for each Loan listed on the Loan Schedule.
  - (4) In the case of a purchase of Loans evidenced by electronically signed promissory notes, the Seller may, for all such Loans, satisfy its obligation to provide Loan Documents by providing with its Bill of Sale a “representative affidavit,” with full supporting material, that describes the procedures the Lender used to make and hold a particular Loan and the procedures whereby that Seller will be able to meet any additional needs of the Department for records supporting that Loan, and a certification that such representative affidavit describes the procedures that have been and will be used respecting all other Loans sold to the Department (unless otherwise indicated respecting any such other Loans, in which case a separate representative affidavit may be provided) under this Master Loan Sales Agreement. The Department shall consider a representative affidavit acceptable only if it contains each of the following elements:
    - (I) The name and location of the entity in possession of any original electronic promissory note.

- (II) A description (such as a flow chart) of the steps followed by the borrower to execute the promissory note (including those relating to any applicable master promissory note confirmation process).
  - (III) A copy of each computer screen as it appeared to the borrower when signing the note electronically.
  - (IV) A description of the field edits and any other security measures used to ensure the integrity of the data submitted to the originator electronically.
  - (V) A description of how the executed promissory note has been preserved so as to ensure that it could not be altered after it was executed.
  - (VI) Documentation supporting the Seller's authentication and electronic signature process.
  - (VII) An indication of the Seller's capability and readiness to provide Loan-specific affidavits for particular Loans in the future, as may be requested by the Department.
- (iv) Endorsement. At the direction of and in such form as the Department may designate, the Seller also agrees to individually endorse any Loan as the Department may request from time to time.
  - (v) Eligible Lender Trustee Sales. The Eligible Lender Trustee (if applicable) shall have delivered to the Department such additional documents and information as the Department shall have requested to evidence that the Eligible Lender Trustee is fully authorized to sell each related Loan on behalf of the Seller.
  - (vi) Security Release Certification. If any of the Loans has at any time been subject to any security interest, pledge or hypothecation for the benefit of any Person, the Seller shall deliver to the Department a Security Release Certification, in the form of Exhibit E attached hereto executed by such Person.
  - (vii) Additional Documents. The Seller shall have delivered to the Department such additional documents and information as the Department shall have requested.
  - (viii) Additional Notices of Loan Transfer. The Seller shall deliver to the Borrower such notices of loan transfer as may be required by the Higher Education Act and implementing regulations. The Seller agrees that the Department may use the related Bill of Sale, together with the related, attached Loan Schedule, as official notification to the Guarantor of the assignment by the Seller and the Eligible Lender Trustee (if applicable) on behalf of the Seller to the Department of the Loans listed on such Loan Schedule.



- (ix) Independent Public Accountant Review. Upon the consummation of the initial purchase of Loans hereunder, and on any subsequent dates specified by the Department (but not more often than monthly), the Seller shall deliver an agreed upon procedures letter by an independent public accountant with respect to the Loans proposed to be sold on such Purchase Date, in form acceptable to the Department.

C. Power of Attorney. The Seller hereby grants to the Department an irrevocable power of attorney, which power of attorney is coupled with an interest, (i) to individually endorse or cause to be individually endorsed in the name of the Seller any Loan, (ii) to evidence the transfer of such Loan to the Department, (iii) to cause to be transferred physical possession from the Seller to the Department of any Promissory Note evidencing a Loan sold to the Department hereunder, and (iv) to perform all other acts which the Department deems appropriate to protect, preserve and realize upon the Loans sold hereunder, including, but not limited to, the right to take possession of and endorse and collect any checks, drafts, notes, acceptances or other instruments for the payment of moneys due with respect to any Promissory Note, complete blanks in documents, transfer servicing and execute assignments and other instruments on behalf of the Seller as its attorney in fact.

Section 6. Representations and Warranties of the Seller and the Eligible Lender Trustee.

A. Representations as to the Seller and the Eligible Lender Trustee. The Seller, as to each matter referenced below, and, to the extent expressly required below, the Eligible Lender Trustee (if applicable), represents and warrants to the Department, as of the date the Adoption Agreement is executed and as of the date of each Bill of Sale, that:

- (i) Each of the Seller and the Eligible Lender Trustee (if applicable) (1) is duly organized, validly existing and in good standing under the laws of the State of its formation or of the United States, as applicable, (2) has all licenses necessary to carry out its business as now being conducted or is otherwise exempt under applicable law from such licensing or qualification or is otherwise not required under applicable law to effect such licensing or qualification and no demand for such licensing or qualification has been made upon it by any such state, and (3) in any event is in compliance with the laws of any such state to the extent necessary to ensure the enforceability of each Loan. No licenses or approvals obtained by it have been suspended or revoked by any court, administrative agency, arbitrator or governmental body and no proceedings are pending which might result in such suspension or revocation;
- (ii) The Seller or the Eligible Lender Trustee (if applicable) is an “eligible lender” as such term is defined in Section 435(d) of the Higher Education Act, has a lender identification number issued by the Department with respect to the Loans, and has in effect a Guarantee Agreement with a Guarantor with respect to each of the Loans;

- (iii) With respect to each state or jurisdiction therein in which the Seller undertakes origination activities, Seller is in full compliance with such state's or jurisdiction's (as applicable) laws, rules, regulations, orders, settlement agreements and other standards and procedures, including those promulgated by agencies or officers thereof, applicable to it and pertaining to the conduct of participants in the student loan industry (including, without limitation, any applicable "code of conduct" for participants in the student loan industry that specifically and legally applies to the Seller and the Eligible Lender Trustee, to the extent that non-compliance with such a code of conduct would adversely affect the Department's rights or interests with respect to the Loans that it purchases);
- (iv) The Seller has administered, operated and maintained its FFEL program in such manner as to ensure that such program and the Loans will benefit, in all material respects, from the FFELP, the Guarantee Agreements related thereto and the federal program of reimbursement for FFELP loans pursuant to the Higher Education Act;
- (v) The Seller has not, with respect to any Loan sold under any Bill of Sale executed pursuant to this Master Loan Sale Agreement 2007-2008, agreed to release any Guarantor from any of its contractual obligations as a guarantor of such Loan or agreed otherwise to alter, amend or renegotiate any material term or condition under which such Loan is guaranteed, except as required by law or rules and regulations issued pursuant to law, without the express prior written consent of the Department;
- (vi) Each of the Seller and the Eligible Lender Trustee (if applicable) (1) has all requisite power and authority to hold each Loan, to sell each Loan, and to execute, deliver and perform, and to enter into and consummate, all transactions contemplated by this Master Loan Sale Agreement 2007-2008, (2) has duly authorized the execution, delivery and performance of this Master Loan Sale Agreement 2007-2008 and (3) has duly executed and delivered this Master Loan Sale Agreement 2007-2008. This Master Loan Sale Agreement 2007-2008, assuming due authorization, execution and delivery by the other parties hereto, constitutes the legal, valid and binding obligation of the Seller and the Eligible Lender Trustee (if applicable), enforceable against each of them in accordance with its terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of rights of creditors generally, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or law); provided, however, that if the Seller is not an Eligible Lender, the power and authority to hold and sell each Loan described in clause (1) shall refer, with respect to the Seller, to the beneficial interest of the Seller, and with respect to the Eligible Lender Trustee, to its interest as the legal title holder of the Loan;
- (vii) The execution and delivery of this Master Loan Sale Agreement 2007-2008 by each of the Seller and the Eligible Lender Trustee (if applicable) and the

performance of and compliance with the terms of this Master Loan Sale Agreement 2007-2008 will not violate its formation documents or constitute a default under or result in a breach or acceleration of, any material contract, agreement or other instrument to which it is a party or which may be applicable to it or its assets;

- (viii) Neither the Seller nor the Eligible Lender Trustee (if applicable) is in violation of, and the execution and delivery of this Master Loan Sale Agreement 2007-2008 by it and its performance and compliance with the terms of this Master Loan Sale Agreement 2007-2008 will not constitute a violation with respect to, any order or decree of any court or any order or regulation of any federal, state, municipal or governmental agency having jurisdiction over it or its assets, which violation might have consequences that would materially and adversely affect the condition (financial or otherwise) or its operations or its assets or might have consequences that would materially and adversely affect the performance of its obligations and duties hereunder;
- (ix) The Seller does not believe, nor does it have any reason or cause to believe, that it cannot perform each and every covenant contained in this Master Loan Sale Agreement 2007-2008;
- (x) There are no actions or proceedings against, or investigations of, the Seller before any court, administrative agency or other tribunal (A) that might prohibit its entering into this Master Loan Sale Agreement 2007-2008, (B) that seeks to prevent the sale of the Loans or the consummation of the transactions contemplated by this Master Loan Sale Agreement 2007-2008 or (C) that might prohibit or materially and adversely affect the performance by the Seller of its obligations under, or the validity or enforceability of, this Master Loan Sale Agreement 2007-2008;
- (xi) No consent, approval, authorization or order of any court or governmental agency or body is required for the execution, delivery and performance by the Seller or the Eligible Lender Trustee (if applicable) of, or compliance by it with, this Master Loan Sale Agreement 2007-2008 or the consummation of the transactions contemplated by this Master Loan Sale Agreement 2007-2008, except for such consents, approvals, authorizations or orders, if any, that have been obtained prior to the related Purchase Date;
- (xii) The transfer of the Loans shall be treated as a sale on the books and records of the Seller and the Eligible Lender Trustee (if applicable), and each of the Seller and the Eligible Lender Trustee (if applicable) will treat the disposition of the Loans pursuant to this Master Loan Sale Agreement 2007-2008 for tax and accounting purposes as a sale. Each of the Seller and the Eligible Lender Trustee (if applicable) shall maintain a complete set of books and records for each Loan which shall be clearly marked to reflect the ownership of each Loan by the Department;

- (xiii) The consideration received by the Seller upon the sale of the Loans constitutes fair consideration and reasonably equivalent value for such Loans;
- (xiv) The Seller is solvent and will not be rendered insolvent by the consummation of the transactions contemplated hereby. The Seller is not transferring any Loan with any intent to hinder, delay or defraud any of its creditors; and
- (xv) The Seller has an internal quality control program that verifies, on a regular basis, the existence and accuracy of its legal documents, credit documents and underwriting decisions, including all such documents and decisions that would affect the validity of the representations and warranties required under this Section 6A. The program shall include evaluating and monitoring the overall quality of the Seller's loan production and the servicing of such loans. The program is to ensure that the Loans are originated and serviced in accordance with applicable law; guard against dishonest, fraudulent, or negligent acts; and guard against errors and omissions by officers, employees, or other authorized persons.

B. Loan Level Representations. The Seller, as to each matter referenced below, and, to the extent expressly required below, the Eligible Lender Trustee (if applicable), represents and warrants to the Department, as to each Loan purchased by the Department under a Bill of Sale, as of the related Purchase Date:

- (i) The Seller or the Eligible Lender Trustee (as applicable) has good and marketable title to, and the Seller and Eligible Lender Trustee together are the sole owners of, the Loans, free and clear of any security interest or lien (other than an interest or lien that will be released simultaneously with the purchase of the Loan hereunder pursuant to a Security Release Certification), charges, claims, offsets, defenses, counterclaims or encumbrances of any nature (including, without limitation, any circumstance that could impair transfer of title to the Loans free and clear of the claim of any party) and no right of rescission, offsets, defenses or counterclaims have been asserted or threatened with respect to any Loan. The sale of each Loan constitutes the absolute transfer of all right, title and interests of the Seller and the Eligible Lender Trustee (if applicable) in such Loan to the Department free and clear of any lien or adverse claim;
- (ii) Each Loan is an Eligible Loan and the description of and information regarding the Loans set forth in the Bill of Sale and the Loan Schedule is true, complete and correct;
- (iii) The Seller or the Eligible Lender Trustee (as applicable) is authorized to sell, assign, transfer and reacquire the Loans; and the sale, assignment and transfer of such Loans is or, in the case of a Loan reacquisition by the Seller or the Eligible Lender Trustee (if applicable), will be made pursuant to and consistent with the laws and regulations under which each of the Seller and the Eligible Lender Trustee (if applicable) operates, and will not violate any decree, judgment or order of any court or agency, or conflict with or result in a breach of any of the terms, conditions or provisions of any agreement or instrument to which it is a party or

by which the it or its property is bound, or constitute a default (or an event which could constitute a default with the passage of time or notice or both) thereunder;

- (iv) Each Loan is in full force and effect in accordance with its terms and is the legal, valid and binding obligations of the respective Borrower thereunder subject to no defenses;
- (v) No consents and approvals are required by the terms of any Loan for the consummation of the sale of such Loans hereunder to the Department;
- (vi) Each Loan has been duly made and serviced in accordance with the provisions of the FFELP established under the Higher Education Act, and has been duly guaranteed by a Guarantor; the Guarantee Agreement is in full force and effect, and all premiums due and payable to such Guarantor as of the related Purchase Date shall have been paid in full;
- (vii) Each Loan provides or, when the payment schedule with respect thereto is determined, will provide for payments on a periodic basis that fully amortize the Principal Balance thereof by its maturity, as such maturity may be modified in accordance with any applicable deferral or forbearance periods granted in accordance with applicable laws, including, those of the Higher Education Act or any applicable Guarantee Agreement, as applicable;
- (viii) Any payments on a Loan received by the Seller that have been allocated to the reduction of principal and interest on such Loan have been allocated on a simple interest basis;
- (ix) Each Loan has been duly made and serviced in accordance with the provisions of the related program under which such Loan was originated and all applicable federal, state and local laws;
- (x) Due diligence and reasonable care have been exercised in the making, administering, servicing and collecting on each Loan and, all disclosures of information required to be made pursuant to the Higher Education Act prior to the Purchase Date have been made;
- (xi) Each Borrower is an eligible borrower under the terms of Section 428, 428B or 428H of the Higher Education Act, as applicable;
- (xii) All borrower origination and loan fees required by Section 438 of the Higher Education Act have been paid to the Secretary or appropriately reserved by the Seller or the Eligible Lender Trustee (if applicable) for payment to the Secretary;
- (xiii) Each Loan is denominated and payable only in Dollars in the United States;
- (xiv) The transfer and assignment herein contemplated constitute a valid sale of the Loans from the Seller or the Eligible Lender Trustee (if applicable) to the Department, and the beneficial interest in and title to such Loans shall not be part

of the Seller's or the Eligible Lender Trustee's (if applicable) estate in the event of its bankruptcy or the appointment of a receiver with respect to it;

- (xv) There is only one originally executed Promissory Note evidencing each Loan, and such original Promissory Note (or a true and correct copy thereof) has been delivered to the Department. For Loans that were executed electronically, the Seller of such Loan (or its designee) has possession of the electronic records evidencing the Promissory Note, including all Loan Documents. The Promissory Notes that constitute or evidence the Loans do not have any marks or notations indicating that they are pledged, assigned or otherwise conveyed to any Person other than the Department or the Department's designee (other than an interest or lien that will be released simultaneously with the purchase of the Loan hereunder pursuant to a Security Release Certification or, if applicable, any lien in favor of the Department and its custodian under the Master Participation Agreement);
- (xvi) To the extent any Loan is evidenced by an electronic Promissory Note or an electronic record, or to the extent the signature of the obligor on any Promissory Note is an electronic signature, the Sponsor has complied (and has caused any originator or servicer of the Loan to comply) with all regulations and other requirements provided by the applicable Guarantor or the Department relating to the validity and enforceability of such Promissory Note;
- (xvii) Neither the Seller nor the Eligible Lender Trustee (if applicable) has pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Loans (other than an interest or lien that will be released simultaneously with the purchase of the Loan hereunder pursuant to a Security Release Certification). Neither the Seller nor the Eligible Lender Trustee (if applicable) has authorized the filing of or is aware of any financing statements against it that include a description of collateral covering the Loans hereunder (whether or not additional collateral is covered by such financing statements) or any other security interest that has not been terminated, or that will not be terminated upon purchase by the Department. Neither the Seller nor the Eligible Lender Trustee (if applicable) is aware of any judgment or tax lien filings against it; and
- (xviii) No Borrower of a Loan as of the related Bill of Sale, is noted in the related Loan File as being currently involved in a bankruptcy proceeding.

Section 7. Rescission of Purchase; Obligation to Reimburse and Indemnify. Upon the occurrence of any of the conditions set forth below in this Section 7, the Department may rescind its purchase of a Loan, and upon written demand by the Department, the Seller shall repay to the Department the Purchase Price for such Loan (less any payments received by the Department on that Loan), plus accrued and unpaid interest and applicable negative Special Allowance Payments that would have been paid with respect to such Loan from the Purchase Date to and including the date of repayment, plus any amounts otherwise owed to the Secretary with respect to such Loan, plus any attorneys' fees, legal expenses, court costs, damages, servicing fees or other fees and expenses incurred by the Department in connection with such

Loan by reason of the occurrence of such conditions, and the Department shall thereupon relinquish its interest in such Loan to the Seller:

A. Any representation or warranty made or furnished by the Seller or the Eligible Lender Trustee (if applicable) pursuant to Sections 6A and 6B of this Master Loan Sale Agreement 2007-2008 shall prove to have been materially incorrect as of the applicable Purchase Date (except that the Department may allow the Seller or the Eligible Lender Trustee up to 30 days to cure an unfounded representation or warranty made or furnished under Section 6B);

B. On account of any circumstance or event that occurred prior the Purchase Date of the Loan, a defense is asserted by a Borrower of the Loan with respect to such Borrower's obligation to pay all or any part of the Loan, and the Department, in good faith, believes that the facts reported, if true, raise a reasonable doubt as to the legal enforceability of such Loan; or

C. The Loan is not, in fact, an Eligible Loan on its Purchase Date.

In addition to the obligation described above, the Seller shall indemnify the Department and any subsequent purchaser of the Loans and hold them harmless against liability for any losses, damages, penalties, fines, forfeitures, reasonable and necessary legal fees and related costs, judgments, and other costs and expenses resulting from any claim, demand, defense or assertion based on or grounded upon, or resulting from, any of the circumstances described in Sections 7A through 7C above.

Section 8. Obligation to Remit Subsequent Payments and Forward Communications.

A. Any payment received by the Seller with respect to amounts accrued after the date of the related Bill of Sale for any Loan sold to the Department, which payment is not reflected in the related Loan Schedule, shall be held by the Seller in trust for the account of the Department and the Seller hereby disclaims any title to or interest in any such amounts. Within two (2) Business Days following the date of receipt, the Seller shall remit to the Department an amount equal to any such payments along with a listing on a form provided by the Department identifying the Loans with respect to which such payments were made, the amount of each such payment and the date each such payment was received.

B. Any written communication received at any time by the Seller or the Eligible Lender Trustee (if applicable) with respect to any Loan subject to this Master Loan Sale Agreement 2007-2008 or the related Bill of Sale shall be transmitted to the Department, or its designated agent, within two (2) Business Days of receipt. Such communications shall include, but not be limited to, letters, notices of death or disability, notices of bankruptcy, forms requesting deferment of repayment or loan cancellation, and like documents.

Section 9. Continuing Obligation of the Seller. The Seller shall provide all reasonable assistance necessary for the Department to resolve account problems raised by any Borrower, the Guarantor or the Secretary provided such account problems are attributable to or are alleged to be attributable to (a) an event occurring during the period the Seller owned the related Loan, or (b) a payment made or alleged to have been made to the Seller.

Section 10. Liability of the Seller; Indemnities. The Seller shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Seller under this Master Loan Sale Agreement 2007-2008 and each related Bill of Sale.

A. The Seller shall indemnify, defend and hold harmless the Department and its officers, employees and agents in their individual capacity from and against any taxes that may at any time be asserted against any such person with respect to the transactions contemplated herein and in the other documents related hereto, including any sales, gross receipts, general corporation, tangible and intangible personal property, privilege or license taxes and costs and expenses in defending against the same.

B. In addition to the indemnity of the Department set forth in Section 7 hereof, the Seller shall indemnify, defend and hold harmless the Department and its officers, employees and agents in their individual capacity, from and against liability for any and all costs, expenses (including, without limitation, costs and expenses of litigation and of investigation counsel fees, damages, judgments and amounts paid in settlement), losses, claims, damages and liabilities arising out of, or imposed upon such person through, the Seller's or the Eligible Lender Trustee's (if applicable) willful misfeasance, bad faith or negligence in the performance of its respective duties under this Agreement, or by reason of its breach of any of its representations, warranties, covenants or other obligations or duties under this Agreement.

Indemnification under Section 7 and this Section 10 shall survive the resignation or the termination of this Master Loan Sale Agreement 2007-2008, and shall include reasonable fees and expenses of counsel and expenses of litigation. If the Seller shall have made any indemnity payments pursuant to this Section and the person to or on behalf of whom such payments are made thereafter shall collect any of such amounts from others, such Person shall promptly repay such amounts to the Seller, without interest.

Section 11. Transfer of Servicing. The Seller hereby agrees that the Loans are being purchased by the Department on a servicing-released basis. If the Loan is subject to a servicing agreement with any third party servicer, such agreement must be terminable with respect to such Loan upon ten (10) Business Days' notice by the Department (which may be given at any time following the Department's receipt of the Seller's notice of intent to sell such Loan pursuant to Section 4A hereof; provided, however, that such termination shall in no event be effective prior to the consummation of the sale of such Loan to the Department), and the Seller shall be responsible for any de-boarding, deconversion or related fees or expenses of such servicer. Accordingly, upon purchase of any Loan, the Department shall obtain all rights to service such Loan and may, in its sole discretion require deconversion of such Loan in order to service the Loan itself or through a third-party servicer of its designation. The Seller shall deliver, or cause the servicer of the Loans to deliver, the servicing and all related servicing files and records with respect to the Loans to the designee specified by the Department in accordance with the servicing transfer provisions provided by the Department to the Seller or its designated servicer; provided, however, that the Seller and its designees may retain copies (in electronic or paper medium) of the servicing files related to the origination and servicing of the Loans sold to the Department hereunder.



Section 12. Merger or Consolidation of, or Assumption of the Obligations of, the Seller. Any Person (a) into which the Seller or the Eligible Lender Trustee (if applicable) may be merged or consolidated, (b) which may result from any merger or consolidation to which the Seller or the Eligible Lender Trustee (if applicable) shall be a party or (c) which may succeed to the properties and assets of the Seller or the Eligible Lender Trustee (if applicable) substantially as a whole, shall be the successor to the Seller or the Eligible Lender Trustee (if applicable) without the execution or filing of any document or any further act by any of the parties to this Master Loan Sale Agreement 2007-2008; provided, that (i) the surviving Person, if other than the Seller or the Eligible Lender Trustee (if applicable), shall, promptly following such merger or consolidation, execute and deliver to the Department an agreement of assumption to perform every obligation of the Seller or the Eligible Lender Trustee (if applicable) under this Master Loan Sale Agreement 2007-2008 and each Bill of Sale; (ii) immediately after giving effect to such transaction, no representation or warranty made pursuant to Section 6 shall have been breached; and (iii) the surviving person, if other than the Seller, shall, promptly following such merger or consolidation, deliver to the Department an Officers' Certificate in the form of Exhibit C and an Opinion of Counsel in the form of Exhibit D each stating that such consolidation, merger or succession and such agreement of assumption comply with this Section and that all conditions precedent, if any, provided for in this Master Loan Sale Agreement 2007-2008 relating to such transaction have been complied with.

Section 13. Expenses. The Department shall pay the legal fees and expenses of its attorneys. The Seller shall pay all other costs and expenses incurred in connection with preparation, execution and delivery of this Master Loan Sale Agreement 2007-2008 and any Bill of Sale and the transactions contemplated herein or therein, including, without limitation, the reasonable fees and out-of-pocket expenses of counsel for any Seller with respect thereto, and all other costs and expenses incurred in connection with the transfer and delivery of the Loans to the Department, including, without limitation, any fees and expenses incurred in connection with transferring ownership of any Loans to the Department. The Seller need not pay for expenses related to the servicing of Loans after the Loans are transferred to the Department. The Seller is responsible for the costs it incurs for activities required under Section 8 and Section 9 of this Master Loan Sale Agreement 2007-2008.

Section 14. Survival of Covenants. All covenants, agreements, representations and warranties made herein and in or pursuant to any Bills of Sale executed pursuant to this Master Loan Sale Agreement 2007-2008 shall survive the consummation of the acquisition of the Loans provided for in the related Bill of Sale. All covenants, agreements, representations and warranties made or furnished pursuant hereto by or on behalf of the Seller and the Eligible Lender Trustee (if applicable) shall bind and inure to the benefit of any successors or assigns of the Department and shall survive with respect to each Loan.

Section 15. Communication and Notice Requirements. All communications, notices and approvals provided for hereunder shall be in writing and mailed or delivered to the Seller, the Eligible Lender Trustee (if applicable), or the Department, as the case may be, at such address as either party may hereafter designate by notice to the other party. All demands, notices and communications hereunder shall be in writing and shall be deemed to have been duly given if mailed, by registered or certified mail, return receipt requested, or, if by other means, when received by the other party at the address as follows:

If to the Department:

By U.S. Postal Service mail:

United States Department of Education  
400 Maryland Avenue, SW  
UCP, Room 111G3  
Washington, DC 20202-5402  
Attention: FFEL Agreement Process Team

By courier or express mail:

United States Department of Education  
830 First Street, N.E.  
Room 111G3  
Washington, DC 20202-5402  
Attention: FFEL Agreement Process Team

If to the Seller or the Eligible Lender Trustee:

The address designated in the accompanying Adoption Agreement.

Section 16. Form of Instruments. All instruments and documents delivered in connection with this Master Loan Sale Agreement 2007-2008 and any Bill of Sale, and all proceedings to be taken in connection with this Master Loan Sale Agreement 2007-2008 and any Bill of Sale and the transactions contemplated herein and therein, shall be in a form as set forth in the attachments hereto, and the Department shall have received copies of such documents as it or its counsel shall reasonably request in connection therewith.

Section 17. Amendment; Waiver. This Master Loan Sale Agreement 2007-2008, any Bill of Sale and any document or instrument delivered in accordance herewith or therewith may be amended by the parties hereto and thereto with the written consent of all parties hereto or thereto. No term or provision of this Master Loan Sale Agreement 2007-2008 may be waived or modified unless such waiver or modification is consistent with the requirements of Section 459A of the Higher Education Act, is in writing and signed by the party against whom such waiver or modification is sought to be enforced.

Section 18. Audits. Pursuant to Section 432(f) of the Higher Education Act, Seller hereby grants the Department and its agents (including but not limited to, legal counsel and internal or external auditors), the right at any time and from time to time during regular business hours, (i) to examine and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in the possession or under the control of Seller relating to Loans sold hereunder and (ii) to visit the offices of Seller for the purpose of examining such material described in clause (i) above, and to discuss matters relating to such Loans or Seller's performance hereunder with any officers and employees of Seller having knowledge of such matters.

Section 19. Severability Clause. Any part, provision, representation or warranty of this Master Loan Sale Agreement 2007-2008 which is prohibited or which is held to be void or unenforceable shall be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof. Any part, provision, representation or warranty of this Master Loan Sale Agreement 2007-2008 which is prohibited or unenforceable or is held to be void or unenforceable in any jurisdiction shall be ineffective, as to such jurisdiction, to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction as to any Loan shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereto waive any provision of law which prohibits or renders void or unenforceable any provision hereof. If the invalidity of any part, provision, representation or warranty of this Master Loan Sale Agreement 2007-2008 shall deprive any party of the economic benefit intended to be conferred by this Master Loan Sale Agreement 2007-2008, the parties shall negotiate, in good-faith, to develop a structure the economic effect of which is nearly as possible the same as the economic effect of this Master Loan Sale Agreement 2007-2008 without regard to such invalidity.

Section 20. Governing Law. This Master Loan Sale Agreement 2007-2008 and any Bill of Sale and the rights and obligations of the parties thereto shall be governed by and construed in accordance with Federal law. To the extent there may be no applicable Federal law, the internal laws of the State of New York (without giving regard to conflicts of laws principles other than Sections 5-1401 and 5-1402 of the New York General Obligations Law) shall be deemed reflective of Federal law insofar as to do so would not frustrate the purposes of any provision of this Master Loan Sale Agreement 2007-2008 or the transactions governed thereby.

Section 21. Exhibits. The exhibits to this Master Loan Sale Agreement 2007-2008 are hereby incorporated and made a part hereof and are an integral part of this Master Loan Sale Agreement 2007-2008.

Section 22. General Interpretive Principles. For purposes of this Master Loan Sale Agreement 2007-2008, except as otherwise expressly provided or unless the context otherwise requires:

A. The terms defined in this Master Loan Sale Agreement 2007-2008 have the meanings assigned to them in this Master Loan Sale Agreement 2007-2008 and include the plural as well as the singular, and the use of any gender herein shall be deemed to include the other gender;

B. Accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles;

C. References herein to “Articles,” “Sections,” “Subsections,” “Paragraphs,” and other Subdivisions without reference to a document are to designated Articles, Sections, Subsections, Paragraphs and other subdivisions of this Master Loan Sale Agreement 2007-2008;

D. Reference to a Subsection without further reference to a Section is a reference to such Subsection as contained in the same Section in which the reference appears, and this rule shall also apply to Paragraphs and other subdivisions;

E. The words “herein,” “hereof,” “hereunder” and other words of similar import refer to this Master Loan Sale Agreement 2007-2008 as a whole and not to any particular provision; and

F. The term “include” or “including” shall mean without limitation by reason of enumeration.

Section 23. Reproduction of Documents. This Master Loan Sale Agreement 2007-2008 and all documents relating thereto, including, without limitation, (a) consents, waivers and modifications which may hereafter be executed, (b) documents received by any party at the closing, and (c) financial statements, certificates and other information previously or hereafter furnished, may be reproduced by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process. The parties agree that any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding, whether or not the original is in existence and whether or not such reproduction was made by a party in the regular course of business, and that any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence.

Section 24. Further Agreements. Each of the Seller and the Eligible Lender Trustee (if applicable) agrees to execute and deliver to the other such reasonable and appropriate additional documents, instruments or agreements as may be necessary or appropriate to effectuate the purposes of this Master Loan Sale Agreement 2007-2008.

Section 25. Other Department Program. Separately, the Department is offering purchase of other loans under authority granted by the Ensuring Continued Access to Student Loans Act of 2008.. This Master Loan Sale Agreement 2007-2008 does not require, nor does it preclude, the participation of the Seller in the sale of those other loans.

Section 26. Adoption. This Master Loan Sale Agreement 2007-2008 shall be effective with respect to any Seller and the Eligible Lender Trustee (if applicable) as of the day and year on which an Adoption Agreement, in the form attached hereto as Exhibit A, is entered into by both such Seller, the Eligible Lender Trustee (if applicable) and the Department.

Section 27. Integration. The Master Loan Sale Agreement 2007-2008, together with the related Adoption Agreement, embodies the entire agreement and understanding of the parties hereto and thereto and supersedes any and all prior agreements, arrangements and understandings relating to the matters provided for herein and therein.

[NO FURTHER TEXT ON THIS PAGE]

**EXHIBIT A**

**ADOPTION AGREEMENT**

This Adoption Agreement, dated as of the date set forth on the signature page, among the United States Department of Education (“Department”) [, the Eligible Lender Trustee (as listed in Section 1A hereof) (“Eligible Lender Trustee”)] and the Seller (as listed in Section 1 hereof) (“Seller”) is made pursuant to the Master Loan Sale Agreement 2007-2008, dated November 24, 2008, published by the Department (“Master Loan Sale Agreement 2007-2008”). Capitalized terms used but not otherwise defined herein, shall have the meanings set forth in the Master Loan Sale Agreement 2007-2008.

a) The Department desires to purchase and the Seller desires to sell to the Department, from time to time, certain Eligible Loans (as that term is defined in the Master Loan Sale Agreement 2007-2008).

b) The Department[, the Eligible Lender Trustee] and the Seller desire to set forth herein the terms and conditions of such purchase and sale arrangements.

c) This Adoption Agreement shall supersede and replace all prior agreements between the parties regarding the sale of Eligible Loans by the Seller [and the Eligible Lender Trustee] to the Department.

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Department and the Seller hereby agree as follows:

Section 1. “Seller” shall mean:

[SELLER]  
[ADDRESS]  
[LENDER ID]

The above address shall be the Seller’s address for the purpose of receiving notices pursuant to the Master Loan Sale Agreement 2007-2008.

[Section 1A. “Eligible Lender Trustee” shall mean:

[ELIGIBLE LENDER TRUSTEE]  
[ADDRESS]  
[LENDER ID]

The above address shall be the Eligible Lender Trustee’s address for the purpose of receiving notices pursuant to the Master Loan Sale Agreement 2007-2008.]

Section 2. Purchase and Sale of Loans. Following the date of this Adoption Agreement, the Seller agrees to participate in the Department’s Purchase Program for Eligible Loans made pursuant to the Federal Family Education Loan Program under the Master Loan Sale Agreement

2007-2008 and to deliver to the Department such Loans in the aggregate principal amounts as evidenced by Bills of Sale executed by the Seller and acknowledged and accepted by the Department pursuant to the Master Loan Sale Agreement 2007-2008. The Seller agrees to sell to the Department and the Department agrees to purchase from the Seller such Loans on the terms and subject to the conditions of the Master Loan Sale Agreement 2007-2008 as the same may be supplemented or amended from time to time. Each of the Seller and the Department hereby acknowledges and agrees to all terms and provisions of the Master Loan Sale Agreement 2007-2008 which relate to the selling of Loans which are incorporated herein in their entirety as if such had been set forth herein in their entirety, as the same may be supplemented or amended from time to time.

Section 3. Incorporation of Master Loan Sale Agreement 2007-2008. [Each of] [T]he Seller [and the Eligible Lender Trustee] and the Department hereby acknowledges and agrees to all terms and provisions of the Master Loan Sale Agreement 2007-2008 which are incorporated herein in their entirety as if such had been set forth herein in their entirety, as the same may be supplemented or amended from time to time.

Section 4. Governing Law. This Adoption Agreement and the rights and obligations of the parties hereto shall be governed by and construed in accordance with Federal law. Insofar as there may be no applicable Federal law, the internal laws of the State of New York (without giving regard to conflicts of laws principles other than Sections 5-1401 and 5-1402 of the New York General Obligations Law) shall be deemed reflective of Federal law insofar as to do so would not frustrate the purposes of any provision of this Adoption Agreement.

**[Signature Page Follows]**

IN WITNESS WHEREOF, the parties hereto have caused this Adoption Agreement to be duly executed by their respective officers hereunto duly authorized, as of the day and year first above written.

United States Department of Education

By: \_\_\_\_\_  
Name:  
Title:

**Date of Adoption Agreement:** \_\_\_\_\_  
(to be inserted by the Department)

[SELLER], as Seller

By: \_\_\_\_\_  
Name:  
Title:

[[ELIGIBLE LENDER TRUSTEE], as Eligible  
Lender Trustee

By: \_\_\_\_\_  
Name:  
Title:]

**EXHIBIT A**

*[May Be Used By Seller That Is Party*

*To July 25, 2008 Master Loan Sales Agreement]*

**ADOPTION AGREEMENT**

This Adoption Agreement, dated as of the date set forth on the signature page, among the United States Department of Education (“Department”) [, the Eligible Lender Trustee (as listed in Section 1A hereof) (“Eligible Lender Trustee”)] and the Seller (as listed in Section 1 hereof) (“Seller”) is made pursuant to the Master Loan Sale Agreement 2007-2008, dated November 24, 2008, published by the Department (“Master Loan Sale Agreement”). Capitalized terms used but not otherwise defined herein, shall have the meanings set forth in the Master Loan Sale Agreement 2007-2008.

a) The Department desires to purchase and the Seller desires to sell to the Department, from time to time, certain Eligible Loans (as that term is defined in the Master Loan Sale Agreement).

b) The Department[, the Eligible Lender Trustee] and the Seller desire to set forth herein the terms and conditions of such purchase and sale arrangements.

c) This Adoption Agreement shall supersede and replace all prior agreements between the parties regarding the sale of Eligible Loans by the Seller [and the Eligible Lender Trustee] to the Department.

NOW, THEREFORE, in consideration of the above recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Department and the Seller hereby agree as follows:

Section 1. “Seller” shall mean:

[SELLER]  
[ADDRESS]  
[LENDER ID]

The above address shall be the Seller’s address for the purpose of receiving notices pursuant to the Master Loan Sale Agreement.

[Section 1A. “Eligible Lender Trustee” shall mean:

[ELIGIBLE LENDER TRUSTEE]  
[ADDRESS]  
[LENDER ID]

The above address shall be the Eligible Lender Trustee’s address for the purpose of receiving notices pursuant to the Master Loan Sale Agreement.]



Section 2. Purchase and Sale of Loans. Following the date of this Adoption Agreement, the Seller agrees to participate in the Department's Purchase Program for Eligible Loans made pursuant to the Federal Family Education Loan Program under the Master Loan Sale Agreement and to deliver to the Department such Loans in the aggregate principal amounts as evidenced by Bills of Sale executed by the Seller and acknowledged and accepted by the Department pursuant to the Master Loan Sale Agreement. The Seller agrees to sell to the Department and the Department agrees to purchase from the Seller such Loans on the terms and subject to the conditions of the Master Loan Sale Agreement as the same may be supplemented or amended from time to time. Each of the Seller and the Department hereby acknowledges and agrees to all terms and provisions of the Master Loan Sale Agreement which relate to the selling of Loans which are incorporated herein in their entirety as if such had been set forth herein in their entirety, as the same may be supplemented or amended from time to time.

Section 3. Incorporation of Master Loan Sale Agreement. [Each of] [T]he Seller [and the Eligible Lender Trustee] and the Department hereby acknowledges and agrees to all terms and provisions of the Master Loan Sale Agreement which are incorporated herein in their entirety as if such had been set forth herein in their entirety, as the same may be supplemented or amended from time to time.

Section 4. Governing Law. This Adoption Agreement and the rights and obligations of the parties hereto shall be governed by and construed in accordance with Federal law. Insofar as there may be no applicable Federal law, the internal laws of the State of New York (without giving regard to conflicts of laws principles other than Sections 5-1401 and 5-1402 of the New York General Obligations Law) shall be deemed reflective of Federal law insofar as to do so would not frustrate the purposes of any provision of this Adoption Agreement.

Section 5. Reaffirmation of Certification by Seller's Officer and Opinion of Counsel. On [mm/dd/yy], the Seller executed an Officer's Certification and provided an Opinion of Counsel supporting the Seller's Adoption Agreement for the July 25, 2008 Master Loan Sales Agreement. The Seller hereby reaffirms the representations made in that Certification as remaining true and correct as of the date on which the Seller executes this Adoption Agreement. The Seller further represents that it has requested and received confirmation from the Counsel who issued the Opinion of Counsel that nothing stated in the Opinion has changed in any material respect through the date on which the Seller executes this Adoption Agreement.

**[Signature Page Follows]**

IN WITNESS WHEREOF, the parties hereto have caused this Adoption Agreement to be duly executed by their respective officers hereunto duly authorized, as of the day and year first above written.

United States Department of Education

By: \_\_\_\_\_  
Name:  
Title:

**Date of Adoption Agreement:** \_\_\_\_\_  
(to be inserted by the Department)

[SELLER], as Seller

By: \_\_\_\_\_  
Name:  
Title:  
Date executed by Seller: \_\_\_\_\_

[[ELIGIBLE LENDER TRUSTEE], as Eligible  
Lender Trustee

By: \_\_\_\_\_  
Name:  
Title:

**EXHIBIT B**  
**BILL OF SALE**

\_\_\_\_\_ <Name of Selling Lender> \_\_\_\_\_ (“Seller”) as the Seller [and  
\_\_\_\_\_ <Name of Eligible Lender Trustee> \_\_\_\_\_ as the Eligible Lender Trustee]  
under that certain Master Loan Sale Agreement 2007-2008 (“the Agreement”), dated November 24, 2008  
and that certain Adoption Agreement executed in connection therewith by the Seller [, the Eligible Lender  
Trustee], and the Department of Education (“the Department”) as of \_\_\_\_\_ <Date of Execution of the  
Adoption Agreement of the MLSA> \_\_\_\_\_] do[es] hereby sell, transfer, assign, set over and convey to the  
Department as purchaser under the Agreement all right, title and interest of the Seller [and the Eligible  
Lender Trustee] in and to the Loans included on the Loan Schedule attached hereto, together with the  
related servicing files and servicing rights appurtenant thereto, the related Promissory Notes and related  
Loan Documents (including, without limitation, any rights of the Seller to receive from any third party  
any documents which constitute a part of the loan or servicing files) and all rights and obligations arising  
under the documents contained therein, as of the date and time of receipt by the Seller of the Purchase  
Price of \$\_\_\_\_\_ for such Loans. The Seller has requested that the purchase date be  
\_\_\_\_\_ (“Purchase Date”). This sale is without recourse but subject to the terms of the  
Agreement. Pursuant to the Agreement, the Seller has delivered to the Department or its designee the  
documents for each Loan to be purchased as set forth in the Agreement.

On the Purchase Date, the ownership of each Loan and the related Promissory Note and the  
contents of the Loan file and servicing file shall vest in the Department and the ownership of all records  
and documents with respect to the related Loan prepared by or which come into the possession of the  
Seller shall vest in the Department, and the Seller shall have delivered such records as are required by the  
Department, or its designee, to the Department or its designee (except that copies thereof may be retained  
as provided in the Agreement). During any period that the related Loan files and servicing files are  
retained by the Seller, such files shall be retained and maintained, in trust, by the Seller for the benefit of  
the Department.

If any of the Loans were made under a Master Promissory Note, this Bill of Sale excludes an  
assignment of right[s] of the Seller [or Eligible Lender Trustee] to offer future loans under such Master  
Promissory Note, and the Seller [or Eligible Lender Trustee] expressly reserve[s] such right to offer future  
Loans under such Master Promissory Note. The Department agrees and warrants that it will not offer or  
make any future loans under such Note.

The Seller authorizes the Department to use a copy of this Bill of Sale, including the Loan  
Schedule attached, as official notification to the applicable Guaranty Agency(s) of assignment to the  
Department of the Loans purchased pursuant hereto on the Purchase Date.

[Each of] [T]he Seller [and the Eligible Lender Trustee] named below hereby certifies to the Department that with respect to the Loans included on the Loan Schedule attached here, as of the date of the Seller's signature below (Check one of the following) –

\_\_\_\_\_ No security interests of any kind have been granted that are now in effect.

\_\_\_\_\_ Security interests have been granted to \_\_\_\_\_ <Name of Secured Lender> (“Secured Lender”) that will be released by that Secured Lender using the revised “Security Release Certification” (Exhibit E to the Master Loan Sales Agreement).

[Each of] [T]he Seller [and the Eligible Lender Trustee] confirms to the Department that the representations and warranties set forth in Section 6 of the Agreement are true and correct with respect to the Seller [and the Eligible Lender Trustee] and the Loans included on the Loan Schedule attached hereto as of the date hereof, and that all statements made in the Seller's Officer's Certificate (Exhibit C of the Agreement) and all attachments thereto remain complete, true and correct in all respects as of the date hereof, and that the Loan characteristics identified on the attached Loan Schedule are true and correct as of the date hereof.

Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Agreement.

IN WITNESS WHEREOF, the undersigned Seller/Sponsor [and the Eligible Lender Trustee] have executed and delivered this Bill of Sale as of the latest date below written.

\_\_\_\_\_  
<Name of Seller> \_\_\_\_\_, as Seller

Signature \_\_\_\_\_  
Typed Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

\_\_\_\_\_  
<Name of Eligible Lender Trustee> \_\_\_\_\_, as Eligible Lender Trustee  
Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

Acknowledged by the United States Department of Education:

**BILL OF SALE ATTACHMENT  
AND FINAL LOAN SCHEDULE SUMMARY OF LOANS SOLD  
PURSUANT TO  
NOVEMBER 24, 2008 MASTER LOAN SALE AGREEMENT 2007-2008**

To: U.S. Department of Education [\_\_\_\_\_, 200\_\_]

From: [\_\_\_\_ Seller \_\_\_\_\_]  
[Seller's Lender ID (LID)\_\_\_\_\_]

**Scheduled Purchase Date:** [MM/DD/CCYY]

(Must be submitted with the BILL OF SALE to the U.S Department of Education)

**FINAL LOAN SCHEDULE SUMMARY OF LOANS SOLD**

<b>Loan Type</b>	<b>Number of loans</b>	<b>Outstanding Principal Balance at Purchase Date</b>	<b>Accrued Unpaid Interest at Purchase Date</b>
FFEL Stafford Subsidized			
FFEL Stafford Unsubsidized			
FFEL PLUS (Parent & Graduate or Professional Student)			
Totals			

**PURCHASE PRICE CALCULATION**

Total Outstanding Principal Balance at Purchase Date [\$\_\_\_\_\_.]

Total Borrower's Accrued/Unpaid Interest at Purchase Date[\$\_\_\_\_\_.]

Total Amount Outstanding at Purchase Date [\$\_\_\_\_\_.]

X .97 =

**TOTAL FINAL PURCHASE PRICE** [\$\_\_\_\_\_.]

## Loan Schedule

**EXHIBIT C**

**SELLER'S OFFICER'S CERTIFICATE**

I, \_\_\_\_\_, hereby certify that I am the duly elected \_\_\_\_\_ of [SELLER], a \_\_\_\_\_ ("Seller"), and further certify, on behalf of the Seller as follows:

Attached hereto as Attachment I are a true and correct copy of the [Certificate of Incorporation and by-laws][certificate of limited partnership and limited partnership agreement][certificate of formation and limited liability company operating agreement] of the Seller as are in full force and effect on the date hereof.

No proceedings looking toward merger, liquidation, dissolution or bankruptcy of the Seller are pending or contemplated.

Each person who, as an officer or attorney-in-fact of the Seller, signed (a) the Adoption Agreement between the Department[, the Eligible Lender Trustee] and the Seller pursuant to the Master Loan Sale Agreement 2007-2008 ("Agreement"), dated November 24, 2008, by the Department of Education ("Department") and (b) any other document delivered prior hereto or on the date hereof in connection with the sale of the Loans in accordance with the Agreement and the related Bill of Sale was, at the respective times of such signing and delivery, and is as of the date hereof, duly elected or appointed, qualified and acting as such officer or attorney-in-fact, and the signatures of such persons appearing on such documents are their genuine signatures.

Attached hereto as Attachment II is a true and correct copy of the resolutions duly adopted by the board of directors of the Seller on \_\_\_\_\_, 200\_ ("Resolutions") with respect to the authorization and approval of the sale of the Loans; said Resolutions have not been amended, modified, annulled or revoked and are in full force and effect on the date hereof.

Attached hereto as Attachment III is a Certificate of Good Standing of the Seller dated \_\_\_\_\_, 200\_. No event has occurred since \_\_\_\_\_, 200\_ which has affected the good standing of the Seller under the laws of the State of \_\_\_\_\_.

All of the representations and warranties of the Seller contained in Section 6 of the Agreement are true and correct in all material respects as of the date hereof.

[Each of] [T]he Seller [and the Eligible Lender Trustee] will have performed all of its duties and satisfied all the material conditions on its part to be performed or satisfied prior to the related Purchase Date pursuant to the Agreement and the related Bill of Sale, including conditions regarding the constitution, qualifications, and operations of the Seller and the Eligible Lender Trustee referenced in the representations and warranties required under Section 6A of the Agreement.

All capitalized terms used herein and not otherwise defined shall have the meaning assigned to them in the Agreement.

IN WITNESS WHEREOF, I have hereunto signed my name and affixed the seal of the Seller.

Dated: \_\_\_\_\_

[Seal]

[SELLER]  
(Seller)

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: [Responsible Officer]

I, \_\_\_\_\_, Secretary of the Seller, hereby certify that \_\_\_\_\_ is the duly elected, qualified and acting [Responsible Officer] of the Seller and that the signature appearing above is his/her genuine signature.

IN WITNESS WHEREOF, I have hereunto signed my name.

Dated: \_\_\_\_\_

[Seal]

[SELLER]  
(Seller)

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: [Assistant] Secretary



**EXHIBIT D**

**OPINION OF COUNSEL TO THE SELLER**

\_\_\_\_\_  
(Date)

United States Department of Education  
400 Maryland Avenue, SW  
Washington, DC 20202

Re: Master Loan Sale Agreement 2007-2008, dated November 24, 2008

Gentlemen:

I have acted as counsel to [SELLER], a \_\_\_\_\_ (“Seller”), in connection with the sale of certain Loans by the Seller to the Department of Education (“Department”) pursuant to a Master Loan Sale Agreement 2007-2008, dated November 24, 2008, and the related Adoption Agreement, between the Seller, [the Eligible Lender Trustee] and the Department (“Agreement”). Capitalized terms not otherwise defined herein have the meanings set forth in the Agreement.

In connection with rendering this opinion letter, I, or attorneys working under my direction, have examined, among other things, originals, certified copies or copies otherwise identified to my satisfaction as being true copies of the following:

- A. The Agreement;
- B. The Seller’s [Certificate of Incorporation and by-laws][certificate of limited partnership and limited partnership agreement][certificate of formation and limited liability company operating agreement], as amended to date;
- C. Resolutions adopted by the Board of Directors of the Seller with specific reference to actions relating to the transactions covered by this opinion (“Board Resolutions”); and
- D. Such other documents, records and papers as we have deemed necessary and relevant as a basis for this opinion.

For the purpose of rendering this opinion, I have made such documentary, factual and legal examinations as I deemed necessary under the circumstances. As to factual matters, I have relied upon statements, certificates and other assurances of public officials and of officers and other representatives of the Seller, and upon such other certificates as I deemed appropriate, which factual matters have not been independently established or verified by me. I have also assumed, among other things, the genuineness of all signatures, the legal capacity of all natural persons, the authenticity of all documents submitted to me as originals, and the conformity to original documents of all documents submitted to me as copies and the authenticity of the originals of such copied documents.

On the basis of and subject to the foregoing examination, and in reliance thereon, and subject to the assumptions, qualifications, exceptions and limitations expressed herein (if any), I am of the opinion that:

1. The Seller has been duly [incorporated][formed] and is validly existing and in good standing under the laws of the State of \_\_\_\_\_ with corporate power and authority to own its properties and conduct its business as presently conducted by it. The Seller has the corporate power and authority to service the Loans, and to execute, deliver, and perform its obligations under the Agreement.

2. The Agreement has been duly and validly authorized, executed and delivered by the Seller.

3. The Agreement constitutes valid the legal and binding obligation of the Seller, enforceable against the Seller in accordance with its terms.

4. No consent, approval, authorization or order of any state or federal court or government agency or body is required for the execution, delivery and performance by the Seller of the Agreement or the consummation of the transactions contemplated by the Agreement, except for those consents, approvals, authorizations or orders which previously have been obtained.

5. The fulfillment of the terms of or the consummation of any other transactions contemplated in the Agreement will not result in a breach of any term or provision of the [certificate of incorporation or by-laws][certificate of limited partnership or limited partnership agreement][certificate of formation and limited liability company operating agreement] of the Seller, or, to the best of my knowledge, will not conflict with, result in a breach or violation of, or constitute a default under, (i) the terms of any indenture or other agreement or instrument known to me to which the Seller is a party or by which it is bound, (ii) any State of \_\_\_\_\_ or federal statute or regulation applicable to the Seller, or (iii) any order of any State of \_\_\_\_\_ or federal court, regulatory body, administrative agency or governmental body having jurisdiction over the Seller, except in any such case where the default, breach or violation would not have a material adverse effect on the Seller or its ability to perform its obligations under the Agreement.

6. There is no action, suit, proceeding or investigation pending or, to the best of my knowledge, threatened against the Seller which, in my judgment, either in any one instance or in the aggregate, would draw into question the validity of the Agreement or which would be likely to impair materially the ability of the Seller to perform under the terms of the Agreement.

7. The sale of each Loan as and in the manner contemplated by the Agreement is sufficient fully to transfer to the Department all right, title and interest of the Seller thereto as noteholder.

[Assumptions and qualifications, if any]

I am admitted to practice law in the State of \_\_\_\_\_, and I render no opinion herein as to matters involving the laws of any jurisdiction other than the State of \_\_\_\_\_ and the Federal laws of the United States of America.

Very truly yours,

**EXHIBIT E**

**SECURITY RELEASE CERTIFICATION**

I. Release of Security Interest

\_\_\_\_\_ <Name of Secured Lender> \_\_\_\_\_ (the Secured Lender), hereby relinquishes any and all right, title and interest it may have in and to the Loans described on the Schedule of Loans attached hereto upon purchase thereof by the Department of Education (“the Department”) from \_\_\_\_\_ <Name of Seller> \_\_\_\_\_ (“Seller”) pursuant to a Bill of Sale executed by the Seller on \_\_\_\_\_ <Date Seller Signed Bill of Sale \_\_\_\_\_> under that certain Master Loan Sale Agreement 2007-2008 (“the MLSA”), dated November 24, 2008, and the related Adoption Agreement between the Seller, [the Eligible Lender Trustee] and the Department dated as of \_\_\_\_\_ <Date Seller Signed the MLSA Adoption Agreement> \_\_\_\_\_. This release is effective as of the date and time of receipt by the Secured Lender of \$ \_\_\_\_\_ from the purchase of such Loans (“Date and Time of Receipt”). The Secured Lender also certifies that, as of the Date and Time of Receipt, (i) all notes, assignments and other documents in its possession relating to such Loans will have been delivered and released to the Seller named below or its designees, other than copies thereof that are retained by the undersigned or its designee (in electronic or paper medium), and (ii) all appropriate Uniform Commercial Code termination statements will promptly be filed evidencing the release of its lien on the related Loans.

Secured Lender’s Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Signed Name: \_\_\_\_\_

Typed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

II. Certification of Release

The Seller hereby certifies to the Department of Education that, as of the date stated below, the security interests to be released by the above named Secured Lender in the Loans in the Schedule referred to above comprise all security interests relating to or affecting any and all such Loans. The Seller warrants that, as the date stated below, there are no other security interests affecting any or all of such Loans, and none will be created.

Seller's Name: \_\_\_\_\_

Signed Name: \_\_\_\_\_

Typed Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

Schedule 1

Loan Schedule

## EXHIBIT F

### LIST OF APPROVED BORROWER BENEFITS

- a. An unconditional upfront fee reduction that has been paid prior to the loan purchase date;
- b. A reduction in the outstanding principal balance that was applied prior to the loan purchase date;
- c. A reduction in the loan's interest rate that was applied prior to the loan purchase date;
- d. A promised reduction in the loan's interest rate under a plan included in those listed by the Department at <http://federalstudentaid.ed.gov/ffelp> that is contingent on the use of an automatic payment process by the borrower for any payments due;
- e. A promised reduction in the loan's outstanding principal balance that is contingent on the borrower making those payments required under a plan included in those listed by the Department at <http://federalstudentaid.ed.gov/ffelp>; and
- f. A promised reduction in the loan's interest rate that is contingent on the borrower making those payments required under a plan included in those listed by the Department at <http://federalstudentaid.ed.gov/ffelp>.

## Paperwork Burden Statement

According to the Paperwork reduction Act of 1995, no persons are required to respond to a collection of information unless such collection displays a valid OMB control number. The valid OMB control number for this information collection is 1845-0087. The time required to complete the Master Loan Sales Agreement and Exhibits A, C, D and F for this information collection is estimated to average 3 hours per response, including the time to review instructions, search existing data resources, gather the data needed, and complete and review the information collection. **If you have any comments concerning the accuracy of the time estimate(s) or suggestions for improving this form, please write to:** U.S. Department of Education, Washington, D.C. 20202-4537. **If you have comments or concerns regarding the status of your individual submission of this form, write directly to:** Policy Liaison and Implementation, Federal Student Aid, U.S. Department of Education, 400 Maryland Avenue, S.W., UCP3, 11<sup>th</sup> floor, Washington D.C. 20202-4537.

Additionally, the time required to complete Exhibits B, and E for this information collection is estimated to be 1 hours per response, including time to review instructions, search existing data resources, gather the data needed and complete and review the information collection.