

Testimony of Jonathan Selkowitz, Esq.

Pine Tree Legal Assistance, Inc.

Testimony in Support of LD 1645 “An Act to Establish Protections for Private Student Loan Borrowers and a Registry of Lenders”

Before the Joint Committee on Health Coverage, Insurance and Financial Services

May 13, 2021

The Honorable Heather Sanborn, Senate Co-Chair

The Honorable Denise Tepler, House Co-Chair

Members of the Joint Standing Committee on Health Coverage, Insurance and Financial Services:

My name is Jonathan Selkowitz. I am a staff attorney at Pine Tree Legal Assistance, and I have been requested by Senator Vitelli to share Pine Tree’s perspective on LD 1645. Pine Tree is Maine’s general civil legal services provider, and provides assistance to Maine student loan borrowers facing various problems associated with both federal and private student loans. With the dramatically increasing costs of higher education and ballooning student loan debt that Pine Tree sees impairing our clients’ ability to improve their financial situations, Pine Tree supports LD 1645 as necessary to protect private student loan borrowers from the life-altering problems that can arise from private student loan debt.

My testimony will focus on the Bill’s protections against abusive collection practices of private lenders and their debt collectors. In the last several years, Pine Tree has represented an increasing number of clients who have been sued for private student loan debt in Maine courts.

Many of these suits are filed by a notorious collection of securitized trusts called National Collegiate Student Loan Trusts. Similar to how the securitization of mortgage loans led to sloppy and abusive foreclosure practices after the last recession, National Collegiate has committed much of the same abuses, which are well documented.¹ In 2017, the federal Consumer Financial Protection Bureau [brought an action against the Trusts and their servicing agent for suing borrowers for invalid or unverified debts](#). Among many abuses cited, federal investigators found the Trusts were suing borrowers without documentation showing they owned the debts, using robo-signed affidavits in court, and suing for debts after the statute of limitations had passed. The Trusts themselves even sued their own servicer because the servicer was failing to properly maintain borrowers’ account records. NCSLT v. PHEAA, Del. Chancery, C.A. No. 12111-VCS. A

¹ See, e.g., <https://www.nytimes.com/2017/07/17/business/dealbook/student-loan-debt-collection.html>; <https://www.usatoday.com/story/money/2017/07/20/new-york-attorney-general-investigates-student-debt-collector-missing-paperwork/494971001/>; <https://www.courier-journal.com/story/opinion/columnists/2019/01/16/student-loan-servicer-borrower-protection-andy-beshear/2575251002/>

copy of the Trusts' auditor findings outlining the record keeping problems is appended to my written testimony.

I represented a father from Biddeford who was sued twice by National Collegiate as the co-signor of loans for his son, who had tragically passed away after attending Southern Maine Technical College. In one of the suits, it became clear the Trusts were suing the father beyond the statute of limitations. In the other case, after we signaled our intention to mount a trial defense, National Collegiate folded.

In another case where I represented a young father from Sanford, National Collegiate failed to comply with routine obligations to provide us with records proving they owned the loan. After we defeated National Collegiate's Motion for Summary Judgment that was supported by a factually deficient, boilerplate affidavit, and the trial was approaching, they informed the Court they would not be sending any corporate witnesses for the trial and thus were giving up on the case. These were good results for my clients, but I fear how these cases would have resolved for a borrower without an attorney.

These experiences illustrate why the collection provisions and the private right of action in LD 1645 are so critical. We cannot simply rely on government regulators to prevent these kinds of abuses. In fact, the federal Consumer Financial Protection Bureau's action against National Collegiate was recently dismissed due to technical defect in the agency's structure.

Across all of Pine Tree's work, we are seeing the increasing burden student loan debt is having on clients' abilities to get a home loan, avoid subprime auto loans, qualify for favorable student loan consolidation loans, and get to the place where consumer credit is helping, rather than hampering, their life goals. This Bill is a major step toward creating the environment for Maine student loan borrowers to thrive, which benefits everyone in the state.

For these reasons, I ask you to support LD 1645. Thank you for your consideration, and I welcome any questions I can answer.



EXHIBIT A

Servicing Performance Review of Pennsylvania Higher Education Assistance Agency

12/30/2015

Prepared By:

BOSTON PORTFOLIO ADVISORS, INC.

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Appendices

- Appendix A Grant Thornton Auditors' Report of Independent Service Auditors for the period of October 1, 2013 to September 30, 2014
- Appendix B Annual Report of the CFPB Student Loan Ombudsman dated October 2015
- Appendix C PHEAA's System Access Narrative Letter dated September 25, 2015

Executive Summary

On behalf of Odyssey Education Resources, LLC (“Odyssey”), Boston Portfolio Advisors, Inc. (“BPA”) conducted an emergency audit of the student loans serviced by the Pennsylvania Higher Education Assistance Agency (“PHEAA”) via its student loan servicer American Educational Services (“AES”). The loan portfolio consists of approximately 800,000 loans with original balances totaling approximately \$12 billion within 15 NCSLT securitization trusts.

The on-site review team consisted of Thomas Glanfield, Desiree Daly, Mark Mousseau, Kathy Palmer, Jacob Brier and William Steadman of BPA. Jorge Rodriguez-Lugo and Tad Cook from VCG also participated in the on-site meetings. The review was conducted in PHEAA’s Harrisburg, PA offices on September 9, 10 and 11, 2015. A loan level review of the securitizations was conducted on site and then continued remotely at BPA’s offices accessing PHEAA’s information.

Objective

The objective of the servicing review was to:

- Assess the quality of loan servicing functions performed by PHEAA.
- Evaluate the quality of the loan documentation.
- Assess the effectiveness of the servicing operation as it impacts the value of the loans in the trusts and its requirements under the Servicing and Custodial Agreements and any other agreement governing PHEAA’s servicing of NCSLT Trusts.
- Conduct a review of 379 accounts from the servicing system to examine adherence to servicing requirements, policies and procedures.
- Assess servicing contract requirement and determine next steps.

The overall approach was divided into three major efforts: (1) review servicing process, policies, procedures, vendor oversight, compliance, payment processing, and document management for accounts pre- and post-charge-off; and (2) review student loan notes, document availability, balance amounts, transaction activities and correspondence at the individual loan level; and (3) Review PHEAA servicing contracts to understand PHEAA’s responsibilities and determine further testing needs.

BPA conducted a Servicing Review of Policies, Procedures including a review of the Servicing and Custodial Agreements including the Servicing Guidelines and Service Level Agreement to determine PHEAA’s/AES’s responsibility for maintaining servicing records.

1. BPA conducted a loan level review, including:

- Selected a sample of loans from PHEAA's servicing system, including loans that were paid-off, charged-off or otherwise brought to a zero balance on the AES servicing system, and a sample of loans that are still being serviced by PHEAA.
- Reviewed collection servicing notes, activities and correspondence to assess if collection efforts were consistent with the Servicing Guidelines referenced in the Servicing Agreement and/or AES Servicing Policies and Procedures.
- Conducted an audit of selected documents to determine whether PHEAA custodial requirements were met and appropriate maintenance of electronic records has been followed.

2. BPA received the following to complete the review:

- PHEAA/AES Servicing and Custodial Agreements and any amendments and addendums.
- Account and transaction histories with pre-charge-off and post-charge-off data.
- Access using the AES web portal to AES's loan servicing system and imaged servicing files, including the following documents:
 - Existence of and signature for the Student Loan Note.
 - Existence of and signature for the Student Loan Application.
 - Existence of and signature for the Loan Disclosure Statement.
 - Notification letter to borrowers informing them of servicing transfer.
- AES MR50 and MR53 files for various selected months
- AES vendor Policies and Procedures for vendor and subcontractor selection and vendor audit.
- Copies of servicing policies and procedures applicable to the NCSLT portfolio.

Management Meetings

VCG and BPA interviewed the following people:

Jason Swartley	SVP, Chief Legal and Compliance Officer
Deb Callahan	Senior Counsel
Vicky Roganish	Vice President, Client Relations
Kenneth Shutter	Assistant Vice President, Client Relations
Sarah Parish	Client Relations
Stephanie Foltz	SVP of Client Relations, Loan Operations and Client Contractual Testing
Todd Mosko	SVP of Loan Assets Management
Tyler Baer	Assistant Vice President

Background

The following background information was gathered through conversations with PHEAA management and is helpful in understanding how and why certain policies and procedures existed as they did. PHEAA's initial relationship was with First Marblehead Corporation ("FMC"). PHEAA, as a loan servicer, did not originate any loans and stated that the process of how FMC originated was convoluted. A timeline is outlined below:

Initial Relationship (2001):

- In 2001, FMC created an alliance with The Education Resource Institute ("TERI"), a non-profit loan guarantor, wherein FMC acquired TERI's loan processing operations, forming the basis of FMC's new subsidiary, First Marblehead Education Resources ("FMER"). As part of this agreement, FMC was to provide the loan origination and processing services related to TERI education loans as part of a master servicing agreement.
- FMC had two subsidiary companies, both of which played a role in the portfolios:
 - FMER, acted as a special servicer and performed other functions which included marketing and sales for FMC;
 - First Marblehead Data Services, Inc. ("FMDS") acted as administrator and performed tasks that included trust administration services and investor reporting.
- Also in 2001 the first servicing contract between FMC and PHEAA was created. The agreement stated that PHEAA would service fully disbursed loans that would become part of the trusts. Most of the originating banks at the time used TERI as the guarantor but those that did not later added the TERI guaranty. PHEAA began servicing loans after they were originated by the banks or by FMC (most were originated by FMC). The loans were serviced under separate guidelines prior to securitization.
- While loan data was sent to PHEAA electronically, FMC sent loan documents in paper form. The documents included the collateral documents supporting each loan, namely the promissory notes, and disclosure statements. PHEAA indicated there was no consistent order or system of filing for the documents. PHEAA sorted the documents, organized and imaged the files onto their system. Original signature documents were kept in storage and copies of original signatures were retained for one year then destroyed. Although there was a process to check the data, PHEAA did not create a list of missing documents as the loans were delivered.
- In instances where claims had to be processed through the TERI guaranty, PHEAA was instructed and authorized by FMC to use Affidavits of Lost Note. PHEAA was advised by FMC that because the loans ultimately come back to FMC at the time the claim is filed, it did not matter if PHEAA was missing any collateral documents and that it was acceptable for PHEAA to send an affidavit of missing noted to FMC at the

time the claim was filed if, in fact, a note was missing. This became a standard process as it was a less costly option. PHEAA stated that FMC was more interested in how a loan was serviced and not the presence of a note that was held by FMC, therefore PHEAA did not have to prove that the loan origination documentation existed as FMC theoretically had possession of the documentation.

- Certain documents were held by TERI as guarantor. PHEAA did not consistently receive all of the documents for each loan and according to PHEAA the contract did not require that TERI send every single document to PHEAA.

Amended and Restated Servicing Agreement (2006):

- The Servicing Agreement was amended and restated in 2006 to accommodate the dual role in creating an SPE and committed loans, added regulatory language, as well as service level requirements for securitization filings since the NCSLT trusts were now securitized. Per PHEAA, the agreement needed to be “market approved” to sell to investors, rating agencies, etc.
- PHEAA and FMC held quarterly meetings to review issues. FMC would inform PHEAA of pending changes to servicing guidelines requiring TERI’s approval. Changes were made by FMC on behalf of and signed off by TERI.
- Per PHEAA, there was high turnover at FMC during the 2006-2008 time period resulting in inconsistencies and many changes. The people at FMC that drafted the 2006 agreement were only at FMC for a short period of time.
- PHEAA is not aware of the criteria FMC used for assigning a batch of loans to any given trust except the general knowledge that FMC was able to package loans to appeal to investors. PHEAA would change the owner on its system upon notification from FMC. Loans were not bundled by disbursement year or period (i.e. the 2007 trust does not contain all loans originated in the 2006-2007 academic year) and the criteria that FMC used to formulate the trusts was never disclosed to PHEAA. The first trust (National Collegiate Master Student Loan Trust) was replenished with 6 independent securitizations from 2001 to 2006, while the other 14 trusts were one and done transactions. The early disbursements were all direct to consumer and mainly with Chase Bank and Bank One.
- PHEAA has custodial responsibilities for the loan documents but indicated it did not receive nor have all of the documents for each loan. PHEAA wrote to FMC on numerous occasions to send orderly documents which continued for more than two years. PHEAA requested an imaging solution to eliminate the need for paper documents. It was an ongoing struggle to obtain the documents from FMC/FMER.
- As the trust performance deteriorated, TERI mandated that PHEAA develop a process to get borrowers to perform better resulting in constant changes to

payment plans. PHEAA stated that bondholders accused them of putting “band aids” on the loans. In an effort to cure delinquencies, FMC started outsourcing collections to approximately 5 independent collection agencies (Zwicker, DCS, Windham, CCS, Simms). The outsourcing occurred when a loan was between 31 and 179 days delinquent prior to being paid by TERI’s guaranty.

Portfolio Bond Performance Issues and TERI’s Bankruptcy (2008):

- By 2008, there were numerous bondholder lawsuits alleging that FMC was trying to hide portfolio underperformance. Charge off temporarily changed to 90 days instead of 180.
- In April 2008, TERI filed a petition in the United States Bankruptcy Court for relief under Chapter 11 of the United States Bankruptcy Code.
- Also in April 2008, the servicing agreement between FMC and PHEAA received its third amendment, adding NCO Financial Systems, Inc. (“NCO”) as an outsourcing party to receive loans for collections. According to the agreement:
 - NCO was added as the 31-60 day default prevention collector. PHEAA would send daily files to NCO containing all loans that were between 31-60 days delinquent and NCO performed collection services to bring the accounts to less than 31 days delinquent. Formal recall files, separate from the daily update files, were not sent to NCO and PHEAA assumed that NCO knew not to continue to collect when loans were either less than 31 days or more than 60 days delinquent.
 - At day 61, default prevention services were performed by FMER. PHEAA sent daily files to FMER containing all loans that were between 61 and 179 days delinquent.
 - PHEAA was only responsible for default prevention services for loans that were between 1 and 30 days delinquent, and for sending the final demand letter to the borrower which at the time occurred at 120 days delinquent.
- In November 2008, TERI made FMER its agent, which permitted FMER to make changes to the servicing guidelines and processes without prior approval from TERI. FMER was introduced to PHEAA as its direct contact and PHEAA began taking direction from FMER. According to PHEAA, it is likely that FMER became TERI’s agent to avoid the required sign-off process when changes to the guidelines were needed.
- In November 2009, the pre-claim process changed and PHEAA was instructed to submit claims to FMER on the 30th day of delinquency. FMER assumed all delinquency servicing activity from day 30 until the time the loan was charged off.
- In certain instances, FMC sent loans back to PHEAA for default prevention activities as part of a Champion-Challenger program.

FMER Resignation (2012):

- In April 2012 FMER resigned as special servicer, causing US Bank as the backup special servicer, to take over special servicing.
- Also in 2012, GOAL purchased FMDS rendering GOAL the new administrator of the portfolio.
- On July 20, 2012 PHEAA received an email from GOAL explaining that “NCO will need the borrower data that was previously provided to FMER” and that FMDS, as administrator for each of the NCSLT trusts, will provide a direction letter to AES (PHEAA) to document this transaction. Per PHEAA, it never received this direction letter.
- On October 26, 2012 and October 30, 2012, PHEAA received a directive from FMC to send all charged off loans directly to NCO. The email also advised PHEAA that if it sends the charged off loans to FMC, FMC would send them to NCO.
- At the direction of FMC, PHEAA has been sending communications and claim packages to NCO since this time. PHEAA noted that NCSLT is the most complained upon portfolio to the CFPB, however PHEAA does not have authority to make decisions and GOAL and NCO typically do not make exceptions and are non-responsive.

PHEAA Servicing Process Today (September 2015):

- PHEAA provides default prevention services for loans between 1 and 60 days delinquent. At day 61, the loans are outsourced to NCO.
- At the time a loan is charged off, PHEAA sends it to NCO pursuant to the direction PHEAA was given by FMC in 2012.
- All questions, inquiries, documents, and claim packages that were previously sent to FMER pursuant to the 2008 directive, are now sent to NCO. PHEAA stated that NCO rarely responds to any questions or inquiries and when a response is provided, it typically takes 30 to 60 days.
- PHEAA had to update SCRA guidelines on its own because it received no direction or response from either GOAL or US Bank despite numerous requests from PHEAA.
- PHEAA has recently received communication from NCO requesting that PHEAA stop sending NCO all questions and inquiries concerning non-charged off loans.
- PHEAA noted that NCSLT is the most complained about portfolio that PHEAA services. Unresolved complaints are sent to NCO, whose responses commonly tell PHEAA to follow the servicing guidelines. This does not provide PHEAA with

adequate direction it needs to resolve the issue. PHEAA has sent these complaints to GOAL, however there is no evidence of replies from GOAL.

- PHEAA has attempted to preserve consistency with the consumer to maintain regulatory compliance and have had to resort to involving US Bank. There is no evidence of any communication with US Bank.
- PHEAA indicated that throughout all of the transition and to this day, US Bank has never talked to or visited PHEAA.
- GOAL has never issued any letters to change servicing guidelines. Per PHEAA, GOAL said they do not have the authority to change guidelines.

Operations/Systems

BPA performed a review of a Report of Independent Service Auditors (the “Auditors’ Report”) for the period October 1, 2013 through September 30, 2014 prepared by Grant Thornton LLP (See Appendix A attached). The purpose of the report was to examine PHEAA’s internal controls “likely or relevant to user entities’ internal controls over financial reporting” and therefore does not encompass all aspects of PHEAA’s operations. The auditors examined PHEAA’s computer applications for processing student loan transactions and its design suitability with respect to operating effectiveness and controls. BPA reviewed and extracted content from the Auditors’ Report pertinent to this review.

Delinquency and Default Due Diligence

PHEAA’s due diligence processing activities include emails, delinquency letters, telephone attempts/contacts, as well as skip tracing and delinquency claims. PHEAA’s COMPASS servicing system uses various applications to queue its system for calls, emails and letter production at the specified dates.

PHEAA provided a servicing due diligence schedule reflecting their current servicing practices pertaining to delinquencies. The table below outlines AES’s current servicing practices:

AES SERVICING CURRENT DUE DILIGENCE SCHEDULE

Days Delinquent	Action
1	Email borrower only
5	Email borrower only
8	Email co-borrower only
10	Letter to borrower and co-borrower
11	Email borrower and co-borrower; begin calling borrower and co-borrower and continue until contact is made. <i>Contact includes leaving a message</i>
26	Email borrower and co-borrower
150	Final demand letter is sent. <i>Prior to 2/7/2012 and beginning 11/11/2009, a final demand letter was sent at 165 days</i>

Loan Conversion

The Auditors' Report notes that the majority of loans converted onto PHEAA's COMPASS SYSTEM are done so electronically. A batch process is utilized to develop a validation error report identifying potential discrepancies based on pre-set program parameters. Validation errors are addressed individually and resolved by the conversions staff. No mention is made with respect to PHEAA's process for the intake of collateral documentation.

As noted in the Background section of this report PHEAA originally received paper documents in boxes which were sent to imaging. Originals were stored in a vault. Once the documents were scanned, PHEAA performed a review to confirm that the promissory notes were present, signed and dated with proper terms. Missing promissory notes were included on a list and PHEAA would follow up for six months. With respect to missing notes:

- If the notes were not delivered within the six month timeframe, PHEAA made a "liability" notation on the account.
- PHEAA indicated that it does not have all promissory notes because it was never required to obtain them as collateral was kept and maintained by FMC and TERI as originator and guarantor.
- PHEAA asserted that although the 2006 Agreement appoints PHEAA as custodian of the required documents, the Agreement does not place responsibility on PHEAA to ensure that all notes are present.
- PHEAA was authorized by TERI to use affidavits in claim packages, and there was a point when TERI intentionally did not send promissory notes so they would not have to request them back if a claim was filed.

Complaints

BPA reviewed the Annual Report of the CFPB Student Loan Ombudsman (the "Report") (see Appendix B) dated October 2015. The report analyzes student loan complaints submitted by borrowers and provides a discussion and commentary on issues faced by student loan borrowers including:

- Student loans made by private lenders *"have a higher concentration of borrowers in default or delinquency than the student loan market at-large."*
- Student loan borrowers *"continue to submit complaints describing servicing and debt collection practices that create barriers to enroll in alternative repayment plans."*

- The subjects of the majority of complaints included:
 - Locating information on repayment options
 - Paperwork processing delays on repayment plans
 - Inconsistent or confusing instructions from servicers
 - Overall difficulty in enrolling in a repayment plan.

The Report ranks companies with the most private student loan complaints and shows that PHEAA complaints have increased from 378 for the period October 2013 through August 2014 to 401 for the period October 2014 to August 2015. The table below was taken from the Report detailing the above information:

TABLE 1: COMPANIES WITH THE MOST PRIVATE STUDENT LOAN COMPLAINTS RANKED BY VOLUME⁴

Company	Oct. 2013 – Aug. 2014	Oct. 2014 – Aug. 2015
Navient	1,854	1,724
AES/PHEAA	378	401
Genesis Lending	24	374
Wells Fargo	229	244
Sallie Mae	231	240

The Report also notes that 61% of PHEAA complaint reasons included: *“Dealing with my lender or servicer”*; and 38% of complaints referenced *“Can’t repay my loan”* demonstrating that borrowers are not receiving appropriate relief indicating potentially inadequate loss mitigation processes. This point had been presented by PHEAA.

The Report noted PHEAA as one of the top recipients of student loan debt collections complaints and shows that PHEAA received 401 complaints for the period October 1, 2014 through August 31, 2015 indicating that neither GOAL nor NCO provide proper or timely responses, if at all, to borrower inquiries.

Vendor Oversight

Although the Auditors' Report indicates PHEAA's reliance upon vendors to perform certain tasks throughout the report, there is no description of or review of PHEAA's vendor oversight process.

Since NCO is not technically a PHEAA vendor as the relationship is between US Bank and NCO, PHEAA did not discuss its vendor oversight process during the site visit or subsequently.

Disaster Recovery

PHEAA operates a large technology center supporting data processing for its servicing and guaranty systems. PHEAA has a large data network delivering these services and its IT group is the custodian of these applications. PHEAA's Disaster Recovery Plan ("DRP") is outlined in the Auditors' Report attached as Appendix A:

The DRP encompasses the production applications and data supported on PHEAA platforms, including:

- Servers
- Web sites
- Local area networks
- Wide area networks
- Distributed systems
- Mainframe systems
- Telecommunication systems

The DRP was developed based upon defined critical response timeframes, potential time-associated tangible losses, and application recovery priorities.

To assist with recovery efforts, PHEAA has entered into a business recovery agreement with an off-site recovery provider. PHEAA's contract with the off-site recovery provider includes provisions for both hot-site and cold-site recovery support. The off-site recovery provider facility contains equipment comparable to that currently installed at PHEAA, which gives PHEAA the capability of providing business units and user entities with the priority services they would receive on a normal business day.

PHEAA maintains inventories of data processing equipment and software to aid in acquiring and installing the portion of the PHEAA environment that would be recovered in the cold-site facilities. PHEAA performs at least one complete exercise of its DRP annually. The exercise includes the restoration of its operating systems, system utility programs, file definitions and datasets, batch processing, and communications testing. To ensure consistency, test scripts detailing the actions and activities required to conduct the technical elements of the test are used. After the exercise, a report is submitted to Executive Management that outlines the results of the exercise. The most recent Disaster Recovery exercise was completed in June 2014.

In the event of a disaster, current information on data files may be lost or damaged. PHEAA's DRP restores data maintained at an off-site location.

Business Continuity

PHEAA's Business Continuity Plan is designed to provide immediate response and recovery from any business interruption ensuring that critical business processes are restored by providing a framework for an unplanned event and minimizing loss of vital resources. The Business Continuity Plan is described in further detail in the excerpt below as taken from the Auditors' Report:

Components of the EBCP include the recovery strategy, continuity steps, outage levels, the alternate facilities plan, the conceptual recovery timeline, business unit continuity plans, evacuation procedures, communication plan, identification of critical business processes, key personnel listing, and critical vendor contact information.

ESO is accountable for leading, managing, and providing ongoing life cycle management for the development, implementation, and validation of the EBCP. ESO works closely with IT infrastructure and application teams, business units, and external vendors to recover mission critical production systems pertaining to the EBCP.

PHEAA also contracts with communication carriers to provide a backup data communication network that is in place and held in reserve. In the event of a disaster and the subsequent move to the alternate processing site, the entire PHEAA data communication network would be re-routed with service provided to the user entity base as if operations were coming from PHEAA's local Data Center. In addition, hardware and software components of the data transmission environment are replicated at the alternative recovery site and procedures exist to expediently restore data transmissions following an outage due to physical or technical failure or damage.

Individuals in the organization have been assigned responsibility for updating the DRP and EBCP every quarter, or more frequently, as required.

Loan and Collateral Review

Sampling Methodology

BPA selected a total of 379 student loan accounts for review, 50 of which were reviewed on site at PHEAA with the remainder reviewed remotely at BPA's offices.

First 50 Loan Sample:

The first 50 accounts consisted of defaulted loans that were reviewed on site:

- The accounts were selected from the September 4, 2015 MR50 file sent to VCG from GOAL and provided to PHEAA on September 4, 2015 (two days prior to the site visit).
- PHEAA was unable to match the borrower identification information in the data file; therefore, BPA did not have a sample to work with when it arrived at PHEAA's office on September 8, 2015.
- To expedite productivity while on site, BPA selected 50 accounts from the November 3, 2014 charge-off file as the charged-off loans were a primary concern for the review.

Remaining 329 Loan Sample:

The remaining sample was selected from the August 2015 MR50 data file using 329 unique borrowers. From this group 329 individual accounts were randomly selected to represent an accurate distribution across the entire NCSLT portfolio based on five main categories: original lender, trust, days delinquent (if not charged-off), disbursement date, and charge-off date (if charged-off). The sample considered a mix of accounts including:

- Original Lender – As the NCSLT portfolio consists of accounts that were originated by many different lenders, accounts were selected on a basis that represents the makeup of the overall portfolio. Over 50 different lenders are represented in the sample.
- Trust – Accounts were selected to be evenly distributed among the 15 Trusts represented in the NCSLT portfolio.
- Number of Days Delinquent – 100 of the 379 sample were not charged-off as of the time of the review. Among the 100 non charged-off loans, 50 accounts were in some stage of delinquency which ranged from 3 days to 138 days delinquent. The remaining 50 non charged-off accounts were zero days delinquent or "current".

- Disbursement Date – The disbursement dates represented in the sample ranged from September 2001 to August 2007 and accounts were selected to be evenly distributed relative to the overall NCSLT portfolio.
- Charge-Off Date – The charge-off dates represented in the sample ranged from September 2004 to July 2015 and accounts were selected to be fairly evenly distributed relative to the default experience of the overall NCSLT portfolio.

The review was conducted to:

- Validate servicing due diligence; and
- Assess loan collateral documentation integrity.

Servicing due diligence was tested against the schedule provided in the Due Diligence section of this report.

Overall Observations

From the review of collateral files provided by PHEAA, as well as PHEAA servicing activity as observed in its servicing system, BPA notes the following concerns:

1. There were 35 instances where there was no evidence that borrowers were notified that their accounts had been transferred to PHEAA.
2. Assignments were not present in any of the collateral files provided and PHEAA did not indicate if an Assignment existed elsewhere. Based on representations made by PHEAA, it is likely that the Assignments do not exist. Without appropriately issued Assignments, collection efforts are more challenging and costly to defend in Court.
3. PHEAA's servicing system does not provide a schedule of delinquencies. As borrowers make payments, delinquencies are either fully or partially cured and this activity causes delinquency information to be updated to the current status. The servicing system does not clearly demonstrate whether a borrower payment cured a prior delinquency in part or in full as once a prior delinquency is cured, there is no clear record to track. The above issues are significant concerns as customer service agents have limited information from which to discuss options with borrowers as they only see the most recent delinquency. This suggests that borrowers are offered or are not offered forbearance or deferment without consideration of delinquency history.

4. There were accounts where PHEAA did not perform follow up on initial unsuccessful contact efforts for delinquent borrowers. This is a significant concern as it is essential that borrowers and co-borrowers are contacted upon becoming delinquent to remedy delinquency and in these instances, PHEAA did not engage in an effort to comply with servicing compliance requirements.

During the early stages of delinquency, establishing trust and confidence with borrowers assists in the repayment process. Borrowers are more successfully assisted in the default management process when the servicer makes early contact, obtains important information, assesses workout options and sets clear expectations for borrowers. This method of mitigating loss by educating borrowers on expectations enables quicker delinquency resolution thereby decreasing the risk that a borrower will default.

Collateral Review

Subsequent to the site visit PHEAA delivered to BPA imaged collateral files in groups of 20 with the last group delivered on October 1, 2015. BPA reviewed 379 imaged files to validate the following information:

- The student loan Promissory Note was signed by all borrowers.
- The loan program code in the PHEAA servicing system matched the sample file to validate the data.
- If there was a co-borrower on the account.
- To determine whether terms and conditions were affixed to the Note.
- Whether or not PHEAA sent a letter to the borrower(s) notifying them that PHEAA was servicing the account and whether NCSLT was listed as the owner of the loan on the letter.
- Whether a Disclosure Statement was provided under the appropriate loan program (as noted in the AES servicing system).
- The presence of an Assignment.

Collateral Review Results:

1. 100% of the accounts did not contain an Assignment. It is unknown whether Assignments were appropriately issued. Based on representations made by PHEAA, it is likely that the Assignments do not exist.

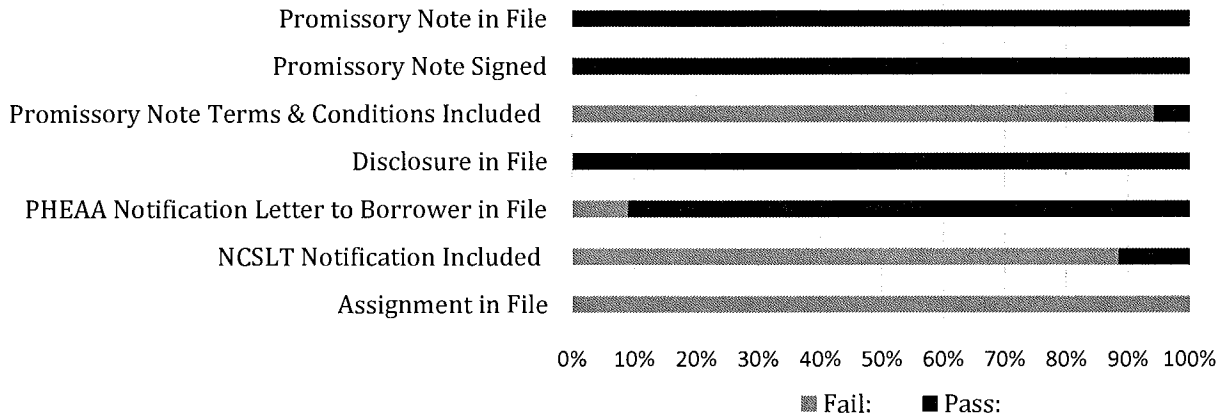
2. 1 Note or .3% of the sample was not signed which renders the account uncollectable.
3. 336 or 88.7% of the PHEAA letters to borrowers did not have a statement that NCSLT was the owner of the loan.
4. 358 or 94.5% of the sample did not have terms and conditions affixed to the Note. Per the Note borrowers acknowledged receipt of the terms and conditions and PHEAA's servicing contract states that borrowers are only required to return the signature page with PHEAA responsible for maintaining the signed first and second (if applicable) page.
5. 35 or 9.2% did not contain PHEAA notification letters to the borrowers.
6. All Disclosure Statements were provided under the appropriate loan program.

The collateral review results are illustrated in the table below:

COLLATERAL REVIEW CHARACTERISTICS

	Promissory Note in File	Promissory Note Signed	Promissory Note Terms & Conditions Included	Disclosure in File	PHEAA Notification Letter to Borrower in File	NCSLT Notification Included	Assignment in File
Count							
Fail:	1	1	358	0	35	336	379
Pass:	378	378	21	379	344	43	0
Percentage							
Fail:	0.3%	0.3%	94.5%	0.0%	9.2%	88.7%	100.0%
Pass:	99.7%	99.7%	5.5%	100.0%	90.8%	11.3%	0.0%

Collateral Review Results by Percentage Pass/Fail



Servicing Review

BPA selected 379 accounts for review. BPA tested the accounts on the servicing system to validate whether or not PHEAA adhered to its servicing responsibilities (PHEAA refers to this as the “due diligence schedule”). There were limitations to the review which are described below:

1. BPA tested PHEAA’s compliance with its servicing responsibilities from the most recent delinquency date. However, if the prior delinquency was not fully cured BPA had to track back to the date when due diligence started and match that with the correct delinquency date:
 - The servicing system does not provide a schedule of delinquencies that could be easily reconciled. As borrowers make payments, delinquencies are either fully or partially cured, as such delinquency information is essentially updated (partially or fully) by a payment event.
 - The servicing system does not demonstrate whether a borrower payment cured the prior delinquency in part or in full due to the system functionality described above.
 - Once a prior delinquency is fully cured, there is no clear record to track delinquency history.

The above issues are significant concerns as customer service agents have limited information from which to discuss options with borrowers as they only see the most recent delinquency date as prior delinquencies are cured partially or wholly by payment events. This suggests that borrowers are offered forbearance or deferment without consideration of delinquency history.

2. PHEAA's servicing system does not have a specific field for email addresses; however it does capture emails voluntarily provided by borrowers. Therefore, BPA tested email servicing compliance using the following rules:
 - If an email was sent for any first due diligence event, then it was evident that PHEAA had an email address and all email due diligence events were tested.
 - If emails were in the system, then emails were tested to eliminate the potential for false negative results. PHEAA's responsibility to collect emails is strictly voluntary; therefore if borrowers did not provide an email address, PHEAA was not penalized for this during the test.

Loan Review Results:

BPA selected 379 accounts for review, however 2 loan records were missing and therefore, 377 loan records were reviewed.

A total of 105 or 28.1% of the 377 loans tested were deemed unacceptable having failed without recourse one or more of the tests administered in accordance with PHEAA's due diligence compliance schedule. The most problematic events within the 105 accounts found to be unacceptable demonstrate that PHEAA did not adhere to the specified due diligence schedule include:

1. PHEAA's servicing due diligence compliance schedule requires that it send delinquency notifications to borrowers and co-borrowers via email at certain delinquency dates if it has been provided with such emails. BPA tested PHEAA's compliance with its email notification requirements by capturing the dates that emails were sent, comparing the captured date to the delinquency date, noting whether payments that may have partially or fully cured delinquency and determining whether the emails complied with the due diligence schedule. Below are the email due diligence findings of the 105 unacceptable accounts:
 - Day 1 Borrower Email – 6 or 5.7% of the emails did not adhere to PHEAA's delinquency notification due diligence schedule.
 - Day 5 Borrower Email – 2 or 1.9% of the emails did not adhere to PHEAA's delinquency notification due diligence schedule.
 - Day 8 Co-Borrower Email – 2 or 1.9% of the emails did not adhere to PHEAA's delinquency notification due diligence schedule.
 - Day 11 Borrower Email – 2 or 1.9% of the emails did not adhere to PHEAA's delinquency notification due diligence schedule.

- Day 11 Co-Borrower Email – 1 or 1% of the emails did not adhere to PHEAA’s delinquency notification due diligence schedule.
 - Day 26 Borrower Email – 1 or 1% of the emails did not adhere to PHEAA’s delinquency notification due diligence schedule.
 - Day 26 Co-Borrower Email – 1 or 1% of the emails did not adhere to PHEAA’s delinquency notification due diligence schedule.
2. PHEAA’s servicing due diligence compliance schedule requires that it send delinquency notifications letters to borrowers and co-borrowers on specified delinquency dates. BPA tested PHEAA’s compliance with this requirement by capturing the dates that letters were sent, comparing the captured date to the initial delinquency date, noting whether there were any payments that partially cured delinquency and determining whether the letter complied with the due diligence schedule. Below are the letter due diligence findings of the 105 unacceptable accounts:
- Day 10 Borrower Letter – 8 or 7.6% of the delinquency notification letters did not adhere to PHEAA’s delinquency notification due diligence schedule.
 - Day 10 Co-Borrower Letter– 6 or 5.7% of the delinquency notification letters did not adhere to PHEAA’s delinquency notification due diligence schedule.
3. PHEAA’s servicing due diligence compliance schedule requires that PHEAA call and make contact with borrowers and co-borrowers on specified delinquency dates with continuous follow-up until contact is made. BPA tested PHEAA’s compliance with this requirement by capturing the dates that calls were made, comparing the captured date to the initial delinquency date, noting whether there were any payments that partially cured delinquency, and determining whether calls complied with the due diligence schedule. Below are the call due diligence findings of the 105 unacceptable accounts:
- Day 11 Borrower Call – 7 or 6.7% of the borrowers were not called:
 - Of this group initial contact with the borrower was not successful on 93 or 88.6% of the accounts
 - Where there was no initial borrower contact, no further calls were attempted on 6 or 6.5% of the accounts. This is a significant concern as it is imperative that borrowers are contacted to remedy delinquency and in these instances, PHEAA did not engage in an effort to comply with servicing compliance requirements.

- Day 11 Co-Borrower Call – 4 or 3.8% of the co-borrowers were not called:
 - Of this group initial contact with the co-borrower was not successful on 72 or 68.6% of the accounts
 - Where there was no initial co-borrower contact, no further calls were attempted on 9 or 12.5% of the accounts. Once again, this is a significant concern as it is imperative that borrowers are contacted to remedy delinquency and in these instances, PHEAA did not engage in an effort to comply with servicing compliance requirements.

The table below breaks down the issues identified by required due diligence event. Certain tests are indicated as “N/A” as they were not applicable due to factors such as the loan was never delinquent or became current at a point where delinquency servicing efforts were no longer necessary.

Servicing Review Characteristics for Unacceptable Accounts

	Day 1 Borrower Email	Day 5 Borrower Email	Day 8 Co-Borrower Email	Day 11 Borrower Email	Day 11 Co- Borrower Email	Day 26 Borrower Email	Day 26 Co-Borrower Email	Day 10 Borrower Letter	Day 10 Co-Borrower Letter	Day 11 Borrower Call	Borrower Contact Made Day 11? (Y/N)	If No Borr Contact, More Calls Made? (Y/N)	Day 11 Co-Borrower Call	Co-Borrower Contact Made Day 11? (Y/N)	If No Co- Borr Contact, More Calls Made?
Count															
Fail:	6	2	2	2	1	1	1	8	6	7	93	6	4	72	9
Pass:	77	29	7	31	9	6	6	85	62	84	1	87	65	3	63
N/A:	22	74	96	72	95	98	98	12	37	14	11	0	36	30	0
Grand Total:	105	105	105	105	105	105	105	105	105	105	105	93	105	105	72
Percentage															
Fail:	5.7%	1.9%	1.9%	1.9%	1.0%	1.0%	1.0%	7.6%	5.7%	6.7%	88.6%	6.5%	3.8%	68.6%	12.5%
Pass:	73.3%	27.6%	6.7%	29.5%	8.6%	5.7%	5.7%	81.0%	59.0%	80.0%	1.0%	93.5%	61.9%	2.9%	87.5%
N/A:	21.0%	70.5%	91.4%	68.6%	90.5%	93.3%	93.3%	11.4%	35.2%	13.3%	10.5%	0.0%	34.3%	28.6%	0.0%
Grand Total:	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Servicing Contract Compliance Review

A review of the PHEAA Servicing Contract along with accompanying documents was conducted to determine if PHEAA was, and remains in compliance with the provisions of the five documents listed below governing PHEAA's activities. This section of the Report is focused on the standards of performance that could impact the performance of the trusts if compliance was not met. In summary:

- BPA identified 61 standards in the various agreements that met the criteria above. Of the 61 standards that were reviewed for testing, 34 require additional information to determine compliance. A written request has been submitted to PHEAA for the information needed to confirm compliance.
- Of the 27 that could be tested, 26 did not meet the compliance standard set forth in the agreements and are noted as Fails. These are shown in the Fail column in the table below. Of the Fails, 10 were a result of PHEAA not providing VCG with the required reports.

Compliance Document	Pass	Fail	TBD	Total
Servicing Agreement	1	14	32	47
Servicing Guidelines		6	1	7
Customer Service Schedule		3	1	4
Required Reports Schedule		1		1
System Access Schedule		2		2
Total	1	26	34	61

Servicing Contract Compliance Review Result Table

Compliance Document	Pass	Fail	TBD	Total
Servicing Agreement	1	14	32	47
4.01 - Servicing Duties		1		1
4.02 - Failed Service Levels: Notice and Cure			2	2
4.04 - Custody Procedures		2	3	5
4.05 - Lost or Damaged Records			2	2
4.07 - System Access		2	1	3
4.09 - Operations Meeting; Procedures Manual			2	2
4.11 - Customer Service		1		1
4.13 - Collections			3	3
4.14 - Late Fees			1	1
4.16 - Reports and Forms		1		1
4.17 - Governmental Reporting			1	1
4.18 - Reporting to Consumer Reporting Agencies			2	2
4.19 - Data Error Correction; Account Adjustment			1	1
5.06 - No Subcontractors	1			1
5.07 - OFAC Check			3	3
5.08 - FACT Act, PATRIOT Act and OFAC Check			1	1
4.03 - Product Setup and Conversion (a) Credit Agreements			1	1
7.03 - SAS 70 Audit		1	1	2
7.05 - Regulatory Audit			1	1
7.06 - Financial and Other Information		2		2
7.07 - Annual Statement as to Compliance		1		1
7.08 - Annual Independent Public Accountant's Servicing Reports		1	1	2
7.09 - Cooperation with Audits; Follow-Up			1	1
11.01 - Proprietary/ Confidential Information		1		1
11.02 - Privacy			1	1
11.03 - Security Program			1	1
11.04 - Security Breach		1		1
11.05 - Business Continuity and Site Disaster Recovery Plans			3	3
Servicing Guidelines		6	1	7
Default Notifications		1	1	2
Default Prevention Activities		3		3
Fraud/Forgery/Identity Theft		1		1
Read and Agreed dated 11/5/2008		1		1
Customer Service Schedule		3	1	4
1. Call Monitoring			1	1
5. Borrower Correspondence/ Complaints		3		3
Required Reports Schedule		1		1
Required Reports Schedule (3) - (6)		1		1
System Access Schedule		2		2
4. FMC/FMER/TERI User Access Security Requirements		2		2
Total	1	26	34	61

Servicing Contract Compliance Review Result Details

Passed Compliance Standards

PHEAA passed 1 of the 27 standards that could be tested. The detail of the passed compliance standard includes:

1. Section 5.06 No Subcontractors of the Servicing Agreement states with the exception of skip tracing services, PHEAA shall not utilize or engage a subcontractor to perform any Services under the Servicing Agreement without the prior written consent of FMC (VCG).
 - PHEAA advised it does not have subcontractors or third party vendors working the portfolio. The parties working on the portfolio were given the assignment by FMC or FMER and PHEAA has been instructed by FMC or FMER to work with those third parties.

Failed Compliance Standards

PHEAA has failed 26 of the 27 standards that were tested. The details of each failed compliance standard include:

1. Section 4.01 Servicing Duties of the Servicing Agreement states that PHEAA is required to provide and perform its services in full compliance with: the terms of the Servicing Agreement, including the Service Level Agreement, the Servicing Guidelines, the Program Manual, the terms and conditions of the Credit Agreements, and all federal and state laws and regulations.
 - As demonstrated in paragraphs 2 through 20 below, PHEAA has failed to comply with certain provisions of its Servicing Agreement, including the Service Level Agreement and the Servicing Guidelines. PHEAA has failed to comply with section 4.01 Servicing Duties of the Servicing Agreement.
2. Section 4.04 Custody Procedures of the Servicing Agreement states that PHEAA shall hold all Original Credit Agreements and related documents and shall retain each Credit Agreement and related documents until five (5) years after the earlier of (a) the date upon which the student loan evidenced by such Credit Agreement and related documents is paid in full, or (b) the date upon which the student loan is deconverted from PHEAA's servicing system.
 - PHEAA advised that deconversion is the change in loan servicer from PHEAA to another entity prior to charge off, which has not occurred on any loan.
 - PHEAA stated that all Original Credit Agreements were not on file as not all documents were sent to PHEAA for storage. It appears PHEAA did not have a method to check whether all accounts had appropriate documentation provided at the time the account was converted to PHEAA's system.
 - Upon receipt of loan documents, PHEAA had a procedure to notate the account on its system to indicate that the Promissory Note was missing. At that time, PHEAA would send a missing document list to FMER. FMER would send PHEAA the missing documents, and upon receipt of those missing documents, PHEAA did not log the new documents or update the student loan account on its system to state that the missing documents were now received. Without PHEAA updating its system to verify documents were received, PHEAA is without recourse in stating that they were not provided the Promissory Note.
 - PHEAA failed to maintain custody of all Original Credit Agreements and related documents as per its own admission. PHEAA has failed to comply with section 4.04 Custody Procedures of the Servicing Agreement.

3. Section 4.04 Custody Procedures of the Servicing Agreement requires PHEAA to create microfilm or electronic records of all Original Credit Agreements and related documents.
 - Since PHEAA indicated it does not have all of the Original Credit Agreements, it would not be able to make copies of such Original Credit Agreements. PHEAA has failed to comply with section 4.04 Custody Procedures of the Servicing Agreement.

4. Section 4.07 System Access of the Servicing Agreement prohibits PHEAA from granting system access to third parties without first receiving approval from VCG (formerly FMC).
 - PHEAA described its current system access procedure during the on-site visit and in its System Access Narrative letter dated September 25, 2015 (attached as Appendix C). PHEAA independently makes the decision to add users based on the user filling out a form called the AES System Access Form. PHEAA then unilaterally grants access to users based on functional need, as outlined on page 1 of its System Access Narrative. PHEAA has not requested permission from VCG or any third party to add or remove users.
 - PHEAA has provided system access to more than 178 individuals from various companies.
 - On page 2 of PHEAA's System Access Narrative, PHEAA stated it sent three reports to VCG since the onset of this review and identified one report to have contained 199 users which had access to PHEAA's system. However, BPA has recorded only two reports sent during the review:
 - Report 1 titled Compass Access to 122962 and dated 9/9/2015, contained 178 users.
 - The 178 individuals include: DCS Collectors (18); GOAL Staff (10); GOAL Auditing Access (14); NCO Staff (40); SIMM Collectors (29); Unknown Users/Company (67).
 - Report 2 titled Access to NCSLT and dated 9/14/2015, contained 111 users.
 - PHEAA has failed to disclose the name of the company for 37.6% of the individuals who are currently accessing the PHEAA system and NCSLT borrowers' personal identification information. On page 3 of the System Access Narrative, PHEAA explains that those users were mistakenly reported to VCG in error.

- PHEAA's failure to receive permission from VCG (formerly FMC) before giving system access to these users causes PHEAA to fail to comply with section 4.07 System Access of the Servicing Agreement.
5. Section 4 of the System Access Schedule prohibits PHEAA from adding or deleting users without receiving notification from VCG to do so.
- On page 2 of PHEAA's System Access Narrative, PHEAA stated that users' accounts would be automatically deleted when non-use of the account existed for 365 days.
 - According to the second user access report dated 9/14/2015:
 - 8.4% of the users last accessed the system between September, October and December of 2014;
 - 53.9% of the users last accessed the system in 2015;
 - PHEAA has deleted users that reach 365 days of non-use
 - PHEAA has failed to comply with section 4 of the System Access Schedule by both adding and deleting users without receiving authorization from VCG to do so.
6. Section 4 of the System Access Schedule requires PHEAA to send VCG a user access report that lists who has system access to borrower information on a quarterly basis.
- PHEAA has confirmed that these reports have never been sent to VCG. VCG has confirmed that these reports have never been received.
 - PHEAA has failed to comply with section 4 of the System Access Schedule.
7. Section 4.07 System Access of the Servicing Agreement requires PHEAA to comply with the requirements of the System Access Schedule.
- PHEAA's failure to comply with section 4 of the System Access Schedule (see paragraphs 5 and 6 above) has caused PHEAA to fail in complying with section 4.07 System Access of the Servicing Agreement.
8. Section 5 of the Customer Service Schedule requires PHEAA to send VCG copies of escalated customer complaints from Borrowers and PHEAA's responses thereto on a weekly basis
- PHEAA forwards escalated customer complaints to NCO. Depending on the nature of the complaint and the stage of the account (i.e. in repayment,

delinquency stage, charged-off, etc.), PHEAA may provide a response to the complaint or rely on NCO to make the response.

- PHEAA confirmed it has never sent escalated customer complaints to VCG. VCG has confirmed it has never received escalated customer complaints from PHEAA.
 - PHEAA has failed to comply with section 5 of the Customer Service Schedule.
9. Section 5 of the Customer Service Schedule requires PHEAA to contact VCG immediately for complaints received from any regulatory body or federal or state agency.
- PHEAA forwards complaints received from any regulatory body or federal or state agency to NCO. Depending on the nature of the complaint and the stage of the account (i.e. in repayment, delinquency stage, charged-off, etc.), PHEAA may provide a response to the complaint or rely on NCO to make the response.
 - PHEAA confirmed it has never sent complaints received from any regulatory body or federal or state agency to VCG. VCG has confirmed it has never received these types of complaints from PHEAA.
 - PHEAA has failed to comply with section 5 of the Customer Service Schedule.
10. Section 4.11 Customer Service of the Servicing Agreement requires PHEAA to maintain compliance with the Customer Service Schedule.
- PHEAA's failure to comply with section 5 of the Customer Service Schedule (see paragraphs 8 and 9 above) has caused PHEAA to fail in complying with section 4.11 Customer Service of the Servicing Agreement.
11. Section 5. Borrower Correspondence and Complaints of the Customer Service Schedule states that PHEAA shall be responsible for handling all customer service complaints.
- As referenced in paragraphs 8 and 9, PHEAA sends complaints to NCO for handling. PHEAA has failed to comply with Section 5 Borrower Correspondence and Complaints of the Customer Service Schedule.
12. Section 3 through 6 of the Required Reports Schedule, PHEAA is required to send VCG various material reports on a monthly basis, including the weekly MR-01 Report, MR-50 Report, and the MR-53 Report, which detail things such as recent transactions, borrower account status, new defaults and recent charge offs.

- PHEAA stated these reports have not been sent to VCG. VCG it has not received these reports.
 - PHEAA has failed to comply with sections 3 through 6 of the Required Reports Schedule.
13. Section 4.16 Reports and Forms of the Servicing Agreement requires PHEAA to promptly and routinely send VCG copies of all material reports, records, and other documents and data as required by the Servicing Guidelines or as otherwise required by this Agreement, including the reports set forth on the Required Reports Schedule.
- As referenced in paragraphs 6, 8, 9, 11, 13, 14, 15, 16, 17, and 18, PHEAA has failed to supply VCG with copies of all material reports, records, and other documents and data as required by the Servicing Guidelines or as otherwise required by this Agreement, including the reports set forth on the Required Reports Schedule. PHEAA has failed to comply with section 4.16 Reports and Forms of the Servicing Agreement.
14. Section 7.03 SAS 70 Audit of the Servicing Agreement requires PHEAA to engage an Independent CPA annually to conduct reviews of PHEAA's general controls. PHEAA is required to provide VCG with a copy of each report submitted by PHEAA's independent accountants within thirty (30) days of its receipt.
- PHEAA stated these reports have not been sent to VCG. VCG confirmed it has not received these reports.
 - PHEAA has failed to comply with section 7.03 SAS 70 Audit of the Servicing Agreement.
15. Section 7.06 Financial and Other Information of the Servicing Agreement PHEAA is required to send VCG, within forty-five (45) days after the end of each of the first three quarters of each fiscal year, an unaudited financial statement of PHEAA for such quarter.
- PHEAA stated these reports have not been sent to VCG. VCG confirmed it has not received these reports.
 - PHEAA has failed to comply with section 7.06 Financial and Other Information of the Servicing Agreement.
16. Section 7.06 Financial and Other Information of the Servicing Agreement requires PHEAA to provide VCG, within 120 days after the close of each fiscal year, a copy of an annual report as to PHEAA's obligations and activities during such fiscal year, and financial statements for such fiscal year. The annual report shall be

accompanied by an Independent Auditor's Report stating that the financial statements present fairly, in all material respects, PHEAA's net assets as of the years stated, and its changes in net assets and cash flows for the years then ended

- PHEAA stated these reports have not been sent to VCG. VCG confirmed it has not received these reports.
- PHEAA has failed to comply with section 7.06 Financial and Other Information of the Servicing Agreement.

17. Section 7.07 Annual Statement of Compliance of the Servicing Agreement requires PHEAA to send to VCG an annual report, signed by PHEAA's Chief Executive Officer ("CEO") or Executive Vice President ("EVP"), stating that (a) a review of PHEAA's activities, and PHEAA's Performance under the Servicing Agreement, for the previous twelve (12) months has been made under such CEO's or EVP's supervision and (b) to the best of such CEO's or EVP's knowledge, based on such review, PHEAA has or has caused to be performed all of its obligations under the Servicing Agreement throughout such year and that no default has occurred, or if such a default has occurred and is continuing, specifying each such event, the nature and status thereof and the steps necessary to remedy such affair.

- PHEAA stated these reports have not been sent to VCG. VCG confirmed it has not received these reports.
- PHEAA has failed to comply with section 7.07 Annual Statement of Compliance of the Servicing Agreement.

18. Section 7.08 Annual Independent Public Accountant's Servicing Reports of the Servicing Agreement requires PHEAA to send VCG an annual report regarding PHEAA's assessment of compliance with the its servicing criteria.

- PHEAA stated these reports have not been sent to VCG. VCG confirmed it has not received these reports.
- PHEAA has failed to comply with section 7.08 Annual Independent Public Accountant's Servicing Reports of the Servicing Agreement.

19. Section 11.01 Proprietary/Confidential Information of the Servicing Agreement requires PHEAA to keep all borrower information confidential, and not disclose, transfer, use, copy, or allow any employees or any third parties access to any such borrower information, except for those who have a need to know such borrower information in order for PHEAA to accomplish the requirements of the Servicing Agreement and who are individually bound by contractual obligations of confidentiality and limitation of use sufficient to give effect to this confidentiality provision.

- As discussed in paragraph 4, PHEAA has granted system access to more than 178 individuals without permission to do so by VCG. System access permits the user to receive and copy borrower information.
- As discussed in paragraphs 8 and 9, PHEAA routinely sends NCO borrower information for escalated and regulatory complaints. Such escalated and regulatory complaints are required to be sent to VCG, not NCO. Receipt of said complaints gives NCO unauthorized access to borrower information.
- PHEAA has failed to comply with section 11.01 Proprietary/Confidential Information of the Servicing Agreement.

20. Section 11.04 Security Breach of the Servicing Agreement requires PHEAA to, among other things, immediately notify VCG if there has been any unauthorized acquisition of or access to data that compromises the security, confidentiality, or integrity of “non-public personal information” maintained by or for PHEAA. PHEAA is further required to take measures to contain and control the incident to prevent further unauthorized access and remedy the circumstances that permitted such breach to occur.

- As described in paragraph 18, and further documented in paragraphs 4, 8, and 9, PHEAA has granted system access to more than 178 individuals without permission to do so by VCG, and PHEAA routinely sends NCO borrower information for escalated and regulatory complaints.
 - System access permits the user to receive and copy non-public personal information maintained by PHEAA.
 - Escalated and regulatory complaints contain non-public personal information maintained by PHEAA.
- PHEAA has failed to comply with section 11.04 Security Breach of the Servicing Agreement.

21. The read and agreed letter dated November 5, 2008 of the Servicing Guidelines states that all questions, inquiries, documents, claim packages of all kinds or other material relating to such Student Loans shall be sent directly to FMER, including but not limited to: a. Pre-claim files; b. Cosigner release requests; c. Forbearance extension requests; d. Administrative forbearance requests; e. Default claims; f. Bankruptcy claims; and g. Death claims.

- PHEAA stated that when FMER resigned all questions, inquiries, documents, claim packages of all kinds or other material relating to such Loans were sent, and still continue to be sent, to NCO.

- PHEAA has failed to comply with the read and agreed letter dated November 5, 2008 of the Servicing Guidelines.
22. The Fraud, Forgery, and Identity Theft Section of the Servicing Guidelines, as amended by the May 14, 2010 read and agreed letter, states that the Servicer must notify the Program Administrator's fraud department within 3 business days of receipt of any fraud claims, forgery, or identity theft claims, including trade line deletions.
- PHEAA stated fraud claims, forgery, or identity theft claims, including trade line deletions are sent to NCO. NCO is not the Program Administrator.
 - PHEAA has failed to comply with the Fraud, Forgery, and Identity Theft Section of the Servicing Guidelines, as amended by the May 14, 2010 read and agreed letter.
23. The Default Notifications Section of the Servicing Guidelines, as amended by the July 27, 2009 read and agreed letter, states that default notifications must be submitted to FMER between the 180th and 210th day of delinquency, and that PHEAA shall submit a daily roster of all defaulted loans (the "Defaulted Loan Roster").
- PHEAA stated that when FMER resigned all default notices and claim packages were sent, and still continue to be sent, to NCO.
 - PHEAA has failed to comply with the Default Notifications Section of the Servicing Guidelines, as amended by the July 27, 2009 read and agreed letter.
24. The Default Prevention Activities Section of the Servicing Guidelines, as amended by the July 27, 2009 read and agreed letter, states that PHEAA will send delinquency notifications to borrowers and co-borrowers via email, if it has been provided with such emails, at specified delinquency dates.
- As demonstrated in the Loan Review Results, PHEAA failed to send the required emails on multiple occasions.
 - PHEAA has failed to comply with the Default Prevention Activities Section of the Servicing Guidelines, as amended by the July 27, 2009 read and agreed letter.
25. The Default Prevention Activities Section of the Servicing Guidelines, as amended by the July 27, 2009 read and agreed letter, states that PHEAA will mail delinquency notifications to borrowers and co-borrowers specified delinquency dates.
- As demonstrated in the Loan Review Results, PHEAA failed to mail the required letters on multiple occasions.

Compliance Standards Under Review

There are 34 of the 61 standards requiring additional information from PHEAA to determine compliance. The details of each compliance standard that is under review and the information that is being requested from PHEAA to determine compliance include:

1. Section 4.03(a) Product Setup and Conversion - Credit Agreements of the Servicing Agreement states that PHEAA shall promptly review promissory note or credit agreement forms that are proposed by FMC and/or Program Lender and accept such forms for purposes of product set-up and conversion.
 - To determine compliance with this standard, PHEAA has been asked to provide a sample of the promissory note or credit agreement forms that PHEAA received from FMC or program lender.
2. Section 4.04 Custody Procedures of the Servicing Agreement states that PHEAA shall maintain all Original Credit Agreements that have an original, wet signature in a fire resistant vault equipped with a fire suppression system which is connected to an alarm and a security locking system.
 - To determine compliance with this standard, PHEAA has been asked to provide a report identifying the active and charged off loans that have wet signatures on the Original Credit Agreements.
 - Once this report is provided, an on-site inspection of a sample of the wet signature agreements should be performed to determine
 - The accuracy of PHEAA's report
 - That the documents are stored in a fire resistant vault equipped with a fire suppression system which is connected to an alarm and a security locking system.
3. Section 4.04 Custody Procedures of the Servicing Agreement states that PHEAA shall maintain microfilm or electronic records onsite at Servicer's Servicing Center in Harrisburg, PA and at an off-site facility in a fire resistant vault equipped with (a) a fire suppression system which is connected to an alarm and (b) with a security locking system at least 100 miles away from the on-site facility used to house the Original Credit Agreements and related documents
 - To determine compliance with this standard, an inspection should take place of the onsite storage vault and off-site facility to verify maintenance and existence of files. While at each location, a sample of files should be reviewed to verify accuracy.

4. Section 4.04 Custody Procedures of the Servicing Agreement states that PHEAA shall provide FMC (VCG) 60 days advance notice of any change in the physical location of the Original Credit Agreements and related documents or any relocation of the PHEAA's servicing center.
 - To determine compliance with this standard, PHEAA has been asked to provide the address of the off-site storage facility, including all previous addresses since March 2009 and the dates of occupancy.
5. Section 4.05 Lost or Damaged Records of the Servicing Agreement states in the event that records or other data submitted to PHEAA for Servicing should be lost or damaged while in the possession, control, or custody of PHEAA or its agents, PHEAA shall pay the Owner's (VCG) expenses associated with such lost or damaged record or data, including but not limited to reasonable attorney's fees.
 - To determine compliance with this standard, PHEAA has been asked to provide
 - Policies and procedures regarding inbound document recording process and inventory management procedures for maintaining documents. A report illustrating the documents on file and the documents that are missing for each active and charged off loan
 - The Loan Review Sample has revealed that documents are missing from the loan files, but further review is needed to determine if those records were lost or damaged while in the possession of PHEAA or its agent.
6. Section 4.05 Lost or Damaged Records of the Servicing Agreement states that in the event that a Student Loan becomes uncollectible or unenforceable due to the loss or destruction of records or data in the possession, control, or custody of PHEAA or its agent then PHEAA shall, on demand, pay to the Owner (VCG) the principal balance (plus capitalized interest) and any unpaid interest due on any such Student Loan.
 - To determine compliance with this standard, PHEAA has been asked to provide policies and procedures regarding inbound document recording process and inventory management procedures for maintaining documents.
 - PHEAA has also been asked to provide a report listing active and charged off loans missing Original Credit Agreements.
 - Upon receipt of this report from PHEAA, a visit to the storage facility may be necessary to confirm accuracy.
7. Section 4.07 System Access of the Servicing Agreement states that PHEAA shall review the individual user access rights of PHEAA employees and other users no less frequently than every ninety (90) days.

- To determine compliance with this standard, PHEAA has been asked to confirm and provide
 - The frequency user access rights of PHEAA's employees are reviewed
 - The frequency reports are generated which memorialize PHEAA's review of the user access rights
 - To whom these reports are sent
 - Copies of the three most recent reports
8. Section 4.09 Operations Meeting; Procedures Manual of the Servicing Agreement states that PHEAA and FMC (VCG) shall create and maintain a procedures manual for all aspects of servicing which shall comply fully with the terms of the Servicing Agreement, the Service Level Agreement, the Servicing Guidelines, the terms and conditions of the Credit Agreements, and all applicable federal and state laws ("Program Manual").
- To determine compliance with this standard, PHEAA has been asked to provide a copy of the Program Manual and all amendments.
9. Section 4.09 Operations Meeting; Procedures Manual of the Servicing Agreement states that the Program Manual shall be subject to the provisions of Section 11.01 confidentiality.
- To determine compliance with this standard, PHEAA has been asked to provide a list of all entities to whom the Program Manual has been provided.
10. Section 1. Call Monitoring of the Customer Service Schedule states that PHEAA shall monitor on a monthly basis a minimum of 1% of the calls received per customer service representative for quality.
- To determine compliance with this standard, PHEAA has been asked to provide three most recent reports PHEAA created memorializing its monitoring of the customer service representative calls.
11. Section 4.13 Collections of the Servicing Agreement states that all sums received by PHEAA with respect to any Student Loans, whether attributable to principal or interest shall be received in trust for the benefit of the Owner (VCG).
- To determine compliance with this standard, PHEAA has been asked to provide a transaction level listing of all payments and reversals in a two month period and the related trustee report for these deposits. The information should include a summarized deposit and deduction report.

12. Section 4.13 Collections of the Servicing Agreement states that all funds received on behalf of Borrowers shall be deposited in a PHEAA-owned and maintained account that is a separate account in which funds are not commingled with PHEAA's non-collection account funds.

- To determine compliance with this standard, PHEAA has been asked to provide three most recent monthly bank statements of the PHEAA-owned account in which borrower funds are deposited.

13. Section 4.13 Collections of the Servicing Agreement states that within two (2) Business Days, all available funds from Student Loans shall be electronically transmitted to an account designated by FMC (VCG).

- To determine compliance with this standard, PHEAA has been asked to provide appropriate documents and bank statements that will demonstrate PHEAA's compliance with Section 4.13 of the Servicing Agreement states that within two (2) Business Days, all available funds from Student Loans shall be electronically transmitted to a pre-designated account.

14. Section 4.14 Late Fees of the Servicing Agreement states that Late Fees shall not be included in the amount of a claim if a default claim is submitted to the insurer.

- To determine compliance with this standard, PHEAA has been asked to confirm whether late fees are
 - Currently included in the charge off amounts
 - Have ever been included in the charge off amounts

15. Section 4.17 Governmental Reporting of the Servicing Agreement states that PHEAA shall provide reports on form 1098E and 1099 to borrowers and the U.S. Internal Revenue Service.

- To determine compliance with this standard, PHEAA has been asked to provide a report of all issued 1098E's and 1099's from 2014. The report should include borrower and loan identification information, amount reported to the IRS and outstanding balance on the account at the time the 1098E or 1099 was issued.

16. Section 4.18 Reporting to Consumer Reporting Agencies of the Servicing Agreement states that PHEAA shall correct any errors caused by the incorrect reporting of information to the Consumer Reporting Agencies, in a timely manner not to exceed thirty (30) days.

- To determine compliance with this standard, PHEAA has been asked to provide

- Policies and procedures on the process of reporting and correcting information sent to the credit bureaus
 - All resolved complaints from the three most recent months that PHEAA received from borrowers regarding credit report inaccuracies and the actions taken by PHEAA to resolve inaccuracy
17. Section 4.18 Reporting to Consumer Reporting Agencies of the Servicing Agreement states that PHEAA shall report to all national Consumer Reporting Agencies, which are currently Experian, Equifax, and TransUnion
- To determine compliance with this standard, further review of a sample population will be tested.
18. Section 5.07 OFAC Check of the Servicing Agreement states that all PHEAA employees performing Services or supporting PHEAA activities under the Servicing Agreement, regardless of their location, shall be validated by PHEAA to not be on any list published and maintained by the U.S. Government of persons or entities with whom any U.S. person or entity is prohibited from conducting business.
- To determine compliance with this standard, PHEAA has been asked to provide
 - Policies and procedures on checking employees on the prohibited list of persons or entities with whom business may be conducted in accordance with the Office of Foreign Assets Control
 - Executive acknowledgment or certification that the PHEAA's OFAC policies and procedures are being followed
19. Section 5.07 OFAC Check of the Servicing Agreement states that PHEAA shall conduct periodic reviews, no less frequently than quarterly, of its employees through the OFAC check.
- To determine compliance with this standard, PHEAA has been asked to provide copies of the three most recent quarterly reports confirming the OFAC check is completed.
20. Section 5.07 OFAC Check of the Servicing Agreement states that PHEAA shall report to FMC (VCG) immediately if the name of any PHEAA employee performing the Services matches with the name of any person listed on any list published by the Government of the U. S. of persons or entities with whom any U. S. person or entity is prohibited from doing business.
- To determine compliance with this standard, PHEAA has been asked to provide a list of employees' names that have matched OFAC's list of prohibited persons or entities which business may be conducted since March 2009.

21. Section 5.08 FACT Act, PATRIOT Act and OFAC Check of the Servicing Agreement states that PHEAA's performance of its Servicing obligations shall include compliance with the requirements imposed on Owner and Insurer as users and furnishers of consumer report information under the Fair and Accurate Credit Transactions Act of 2003 and all regulations issued pursuant thereto, including timely and lawful response to any identity theft report received from any borrower or consumer reporting agency and the obligation to respond to a credit report reinvestigation request in accordance with the Identity Theft Procedures.

- To determine compliance with this standard, PHEAA has been asked to provide
 - Policies and procedures on the process of reviewing and responding to identity theft claims
 - All resolved complaints from the three most recent months that PHEAA received from borrowers regarding identity theft and the resolution logs of actions taken by PHEAA to reach the resolution

22. Section 7.03 SAS 70 Audit of the Servicing Agreement states that PHEAA will engage, at its expense, an independent CPA firm that adheres to professional standards established by the American Institute of Certified Public Accountants (AICPA) to conduct reviews of PHEAA's general controls associated with PHEAA's facilities, as well as the controls associated with the Services and the programs used to provide the Services, including but not limited to controls over information technology and related processes. The independent CPA reviews shall be performed at such frequency and times as PHEAA shall determine, but shall be performed at least once annually.

- To determine compliance with this standard, PHEAA has been asked to provide copies of each annual CPA report completed since 2009.

23. Section 7.05 Regulatory Audit of the Servicing Agreement states that within thirty (30) days of its receipt, PHEAA shall provide FMC (VCG) with a summary of any audit results performed by a federal or state regulator concerning the Services provided under the Servicing Agreement.

- To determine compliance with this standard, PHEAA has been asked to confirm whether it has had any audits conducted by federal or state regulators concerning the Services provided under the Servicing Agreement. If yes,
 - Which entities conducted the audit(s)
 - When was/were the audit(s) conducted
 - Provide copies of the initial audit scope/notice sent to PHEAA by the entities
 - Provide copies of the final reports from the audit(s)

24. Section 7.08 Annual Independent Public Accountant's Servicing Reports of the Servicing Agreement states that PHEAA shall service and administer all Student Loans in accordance with all applicable requirements of the servicing criteria set forth in Item 1122(d) (the "Servicing Criteria") of Regulation AB (17 C.F.R. §§ 229.1100 - 229.1123) ("Regulation AB") promulgated by the Securities and Exchange Commission (the "SEC") under the Securities Act of 1934, as amended (the "Exchange Act").

- To determine compliance with this standard, PHEAA has been asked to provide policies, procedures, and appropriate documents, including reports of any outside party who conducted a review, demonstrating compliance with Section 7.08 Annual Independent Public Accountant's Servicing Reports of the Servicing Agreement.

25. Section 7.09 Cooperation with Audits; Follow-Up of the Servicing Agreement states that If any audit report establishes that PHEAA's performance of the Services is not in compliance with the terms of this Agreement, PHEAA shall submit to FMC (VCG) within thirty (30) days of its receipt of the relevant audit report a plan to improve PHEAA's performance to the level required by this Agreement.

- To determine compliance with this standard, PHEAA has been asked to confirm, since March 2009, whether any audit report established that PHEAA's performance of its Services under the terms of the Servicing Agreement to be non-compliant.

26. Section 11.02 Privacy of the Servicing Agreement states that PHEAA agrees that it will not sell, disclose, transfer, or rent any Confidential Information to any third party nor will it use any Confidential Information on behalf of any third party, without the express written permission of FMC (VCG) and the relevant Borrower.

- To determine compliance with this standard, PHEAA has been asked to provide PHEAA's privacy policy and a certificate of compliance to said policy.

27. Section 11.03 Security Program of the Servicing Agreement states that PHEAA shall implement and maintain an appropriate security program for Customer Information designed to meet the following Objectives, as defined below, of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information pursuant to the authority of Section 501(b) of the Gramm-Leach-Bliley Act of 1999 ("Information Security Program"). "Objectives" means a program designed to (i) ensure the security and confidentiality of Customer Information (as defined below); (ii) protect against any anticipated threats or hazards to the security or integrity to Customer Information, and (iii) protect against unauthorized access to or use of Customer Information that could result in substantial harm or inconvenience to any "Customer".

- To determine compliance with this standard, PHEAA has been asked to provide its policies and procedures on PHEAA's information security. Include a report showing the procedures have been tested, last test completion date and results.
28. Section 11.05 Business Continuity and Site Disaster Recovery Plans of the Servicing Agreement states that PHEAA shall maintain and shall test at least once annually plans to continue business in the event of an interruption to its business or unavailability of any site from which Services are being performed (the "Disaster Recovery and Business Continuity Plans").
- To determine compliance with this standard, PHEAA has been asked to provide annual report results on PHEAA's business continuity testing since 2009.
29. Section 11.05 Business Continuity and Site Disaster Recovery Plans of the Servicing Agreement states that PHEAA covenants and agrees that it shall create on a daily basis electronically stored backup data for all Student Loan data for the particular day.
- To determine compliance with this standard, PHEAA has been asked to provide policies, procedures, and documents demonstrating PHEAA's compliance with creating daily electronically stored backup data for all Student Loan data for the particular day. (See Servicing Agreement Section 11.05 Business Continuity and Site Disaster Recovery Plans of the Servicing Agreement)
30. Section 11.05 Business Continuity and Site Disaster Recovery Plans of the Servicing Agreement states that PHEAA shall test both its Disaster Recovery Plan and Business Continuity Plan on an annual basis and send its annual Overview of Business Recovery Exercise report to FMC (VCG).
- To determine compliance with this standard, PHEAA has been asked to provide
 - Annual report results on PHEAA's business continuity testing since 2009
 - Annual report results on PHEAA's disaster recovery plan testing since 2009
31. Section Default Notifications of the Servicing Guidelines states that all default notification packages require submission of the Application, Credit Agreement, and Disclosure Statement.
- To determine compliance with this standard, PHEAA has been asked to provide a report identifying the following

- A report illustrating the documents on file and the documents that are missing for each active and charged off loan For any missing Original Credit Agreement or disclosure statement, indicate whether the document was never received by PHEAA or the document was received but PHEAA currently does not have
- For any missing Original Credit Agreement or disclosure statement, indicate whether a request for the missing document was made, the date the request for the missing document was sent, to whom it was sent, and whether a response to the request was provided to PHEAA

Compliance Standards Under Review – Self Reporting

There are three standards under review that require PHEAA to self-report. These three standards do not initiate until PHEAA fails to comply with the terms of the Agreement. Until testing is completed, these standards cannot be determined as pass or fail.

1. Section 4.02 Failed Service Levels: Notice and Cure of the Servicing Agreement states that PHEAA shall notify FMC (VCG) through the reports required by the Service Level Agreement of any failure to meet any Servicing standard set forth in the Service Level Agreement
2. Section 4.02 Failed Service Levels: Notice and Cure of the Servicing Agreement states that in the event that PHEAA shall fail to perform the same Servicing standard for thirty (30) days, then the Owner (VCG) shall be entitled to a reduction (or rebate if already paid) of two and one-half percent (2.5%) of the Servicing Fees. The Owner (VCG) shall continue to be entitled to a Fee Reduction for each subsequent consecutive month in which PHEAA shall fail to perform the same standard.
3. Section 4.19 Data Error Correction; Account Adjustment of the Servicing Agreement states that in the event that any data file transmitted to FMC or any Owner or any account contains a material error, PHEAA shall, within one (1) calendar day of discovery of such error, notify FMC (VCG) or the affected Owners of such error. PHEAA shall use best efforts to provide a corrected file as soon as possible but no later than three (3) calendar days.