

New York State Higher Education Loan Program (NYHELPS)

Default Avoidance and Claim Manual



October 2, 2013

Version Number 6

New York State Higher Education Services Corporation

99 Washington Avenue, Albany, NY 12255
1-888-NYS-HESC · 1-888-636-6401(TDD)

Table of Contents:

I.	Delinquency	Page 3
II.	Holder Due Diligence Requirements	Page 3
III.	Holder Telephone Skip Tracing Requirements	Page 5
IV.	Holder Address Skip Tracing Requirements	Page 6
V.	Corporation Due Diligence Activities	Page 7
VI.	Modified Payment Plan (MPP)	Page 8
VII.	Forbearance	Page 8
VIII.	Military Deferment	Page 9
IX.	Discharges	Page 10
X.	Bankruptcy, Death, and Disability Claims	Page 10
XI.	Default	Page 12
XII.	Claim Filing Requirements	Page 12
XIII.	Violations and Penalties	Page 15
XIV.	Purchase and Collection Activities	Page 16

The terms borrower, Corporation, holder, non-student borrower and Program loan as used in this Default Avoidance and Claim Manual (Manual) shall have the same meaning as defined in 8 NYCRR Section 2213.1. All references to a "borrower" in this Manual shall be deemed applicable to the borrower and any cosigner on the Program loan unless otherwise directed by the Corporation. All references to a "loan" in this Manual shall mean a "Program loan." All references to the "holder" shall include any servicing entity servicing the loan on behalf of the holder, if applicable. All references to "purchase" in this Manual shall mean the assignment of legal title of a Program loan to the Corporation for collection purposes for the benefit of the State of New York Mortgage Agency (SONYMA) Default Reserve Fund.

I. Delinquency – A borrower is considered to be delinquent the day after the due date of a required scheduled payment not made on a loan. The scheduled payment may be for interest only or for principal and interest. On the 181st day of delinquency, the borrower shall be deemed to be in default.

II. Holder Due Diligence Requirements – The following are minimum requirements. The Corporation reserves the right to expand the scope of required activities in the due diligence of Program loans.

1. A holder shall implement procedures to satisfactorily resolve a delinquency and prevent a default in accordance with the Regulations and the Manual, which has been incorporated by reference in the Regulations. A holder shall document the performance of due diligence activities.

2. A holder must perform the due diligence activities as described below against the borrower unless determined otherwise by HESC. A holder shall provide the minimum number of written contacts and diligent efforts, as prescribed, such that no gap of greater than 45 days in activity occurs through the 180th day of delinquency. A diligent effort is defined as two telephone attempts or one telephone contact.

(a) A holder must perform required due diligence on a borrower after the borrower becomes delinquent with the sending of one written notice to the borrower by the 15th day of delinquency.

(b) (i) Between the 16th and 150th day of delinquency, the holder must engage in at least four diligent efforts to contact the borrower by telephone. One of these diligent efforts must occur between the 16th and 30th day of delinquency and another prior to the 90th day of delinquency. In addition to the four diligent efforts to contact the borrower by telephone, the holder must send at least four due diligence letters urging the borrower to make the required payments on the loan. Each successive letter must be stronger than the previous letter. The due diligence letters used by a holder must be approved by the Corporation. Due diligence letters sent during this period must include, at a minimum, information for the borrower regarding deferments,

forbearance, and any modified payment plan as offered by the Corporation as authorized in the Program Regulations.

(ii) At least two of the due diligence letters required under paragraph (b)(i) must warn the borrower that if the loan is not paid, the holder will sell the loan to the Corporation. The Corporation will institute collection activities against the borrower, which may include proceedings to offset the borrower's State income tax refunds, garnish the borrower's wages or take other action deemed necessary to collect the debt.

(c) The holder must mail a final demand letter to the borrower during the period when the loan is between 151 and 180 days of delinquency. The final demand letter must require the borrower to remit all past due payments in full and warn that if the borrower defaults on the loan, the default will be reported to all national consumer reporting agencies, or as otherwise directed by the Corporation, and the full amount of the loan will become immediately due for repayment. The holder must allow the borrower at least 30 days after the date the final demand letter is mailed to respond and avert default before filing a claim. The holder shall continue to engage in due diligence efforts until submission of the claim. These efforts shall urge the borrower to make the required payments on the program loan. At a minimum, these efforts shall provide the borrower with options to avoid default and advise the borrower of the consequences of defaulting on a program loan. The due diligence efforts performed after the final demand letter is mailed shall be consistent with the final demand letter. If a payment is made after the 181st day of delinquency but prior to filing a default claim, which must be filed with the Corporation by the 240th day of delinquency as set forth in this Manual, the payment must be applied to the borrower's account and any necessary adjustments must be made to the claim. If the payment is sufficient to bring the delinquency below the claim filing period a claim cannot be filed and required due diligence activities will resume. If a payment is received after the claim is filed, the payment must be sent to the Corporation.

(d) A holder may use electronic means, including but not limited to electronic mail, to satisfy due diligence letter requirements. In the event one delivery method does not result in delivery of the communication as evidenced by an error message or other such message indicating delivery was unsuccessful, the holder shall use another delivery method.

(e) No gap of greater than 45 days shall occur between due diligence activities. Violations shall result in a partial or total loss of reimbursement as more fully described in Section XIII of this Manual.

(f) If a holder determines that it has an invalid telephone number and/or address for the borrower or cosigner(s), the holder shall follow the procedures for skip tracing set forth in this Manual.

(g) Payments made by, or on behalf of, a borrower on a Program loan shall first be applied to any outstanding fees, then to any interest, and then to principal. Payments made in excess of outstanding fees and interest shall be applied to the principal balance, unless application to subsequent monthly payments has been requested by the payor prior to the reduction of the principal balance. Borrowers may prepay on their Program loan balance without penalty.

(h) The holder shall report information in accordance with industry standards at least monthly to all national consumer reporting agencies, or as otherwise directed by the Corporation.

(i) During any administrative forbearance period, the holder is not required to perform any due diligence activities as set forth in Section VII of this Manual.

III. Holder Telephone Skip Tracing Requirements – The following are minimum requirements. The Corporation reserves the right to expand the scope of required activities in the due diligence of Program loans.

1. If a holder has a valid address for a borrower but does not have his or her valid telephone number, the holder must comply with these skip tracing requirements to obtain a telephone number and continue to fulfill other due diligence requirements, such as sending letters or notices. All telephone skip tracing activities must be documented in the borrower's file or in the servicing history of the Program loan for that borrower.

2. A holder must attempt to obtain the borrower's telephone number using all available resources, including the following:

(a) Inquiring of directory assistance or a comparable service to obtain the borrower's telephone number;

(b) Sending a letter to, or making a diligent effort (as defined in Section II(2) above) to contact by telephone: the borrower, cosigner, reference, relative, and/or any other individual identified on the most recent loan record or college certification for that borrower to the extent necessary to obtain the borrower's telephone number;

(c) Contacting, either in writing or by telephone, the college identified on the most recent loan application. This contact should be with the financial aid administrator or other college official who may reasonably be expected to know the borrower's telephone number or address. This requirement does not apply to cosigners; and

- (d) Ensuring that there is no gap greater than 45 days between telephone skip tracing activities.

IV. Holder Address Skip Tracing Requirements – The following are minimum requirements. The Corporation reserves the right to expand the scope of required activities in the due diligence of Program loans.

1. A holder may develop its own address skip tracing processes, but must meet the minimum standards listed below. Address skip tracing and telephone number skip tracing are separate processes. The holder must satisfy skip tracing requirements each time the borrower is considered a “skip.” If a borrower moves after he or she is located and the holder is unable to locate the borrower again, the holder must repeat its skip tracing activities. All attempts to locate the borrower must be documented in the borrower’s file or in the servicing history of the Program loan for that borrower.
2. (a) When a holder determines that it does not know the current address of a borrower whose loan is delinquent (for example, as a result of a telephone conversation with a borrower, cosigner, or reference, or through receipt of returned mail), the holder must initiate the following activities within the specified time frames:
 - (i) Within 10 days of making the determination, the holder must begin attempting to obtain the address of the borrower using effective commercial skip tracing techniques; and
 - (ii) If the holder has already begun telephone skip tracing activities for the borrower and makes a determination that it does not have a valid current address, the holder must initiate additional address skip tracing activities within 10 days of making such determination, but need not repeat any activities already completed when performing remaining address skip tracing activities. A holder’s address skip tracing efforts must include, but shall not be limited to, sending a letter to, or making a diligent effort, as defined in Section II(2) above, to contact by telephone, each of the following:
 - (A) Each borrower, cosigner, relative, reference, individual, and entity (any prior holders of the loan) identified in the borrower’s loan file;
 - (B) Each college in the borrower’s loan file. This contact should be with the financial aid administrator or other college official who may reasonably be expected to know the borrower’s address; and
 - (C) Other commercial skip tracing activities used in pursuit of information on other loans in its consumer loan portfolio.

(b) When a holder determines that it does not know the current address of the cosigner whose loan is delinquent (for example, as a result of a telephone conversation with a borrower, or reference, or through receipt of returned mail), the holder must initiate the following activities within the specified time frames:

- (i) Within 10 days of making the determination, the holder must begin attempting to obtain the address of the cosigner using effective commercial skip tracing techniques; and
- (ii) If the holder has already begun telephone skip tracing activities for the cosigner and makes a determination that it does not have a valid current address, the holder must initiate additional address skip tracing activities within 10 days of making such determination, but need not repeat any activities already completed when performing remaining address skip tracing activities. A holder's address skip tracing efforts must include, but shall not be limited to, sending a letter to, or making a diligent effort, as defined in Section II(2) above, to contact by telephone, each of the following:
 - (A) Each borrower or cosigner's reference identified in the borrower's loan file for which this individual was the cosigner; and
 - (B) Other commercial skip tracing activities used in pursuit of information on other loans in its consumer loan portfolio.

(c) If the holder chooses to perform skip tracing activities during a period of grace, deferment, forbearance, or current repayment, no violations or gaps will be monitored. However, if the holder completes some, but not all, required skip tracing activities during such periods, remaining skip tracing activities must be performed if the account becomes delinquent. The next skip tracing activity must occur within 45 days of the borrower's first day of delinquency, and the remaining skip tracing activity must be completed with no gap greater than 45 days between activities.

(d) Holders must perform at least two additional effective commercial skip tracing activities but are encouraged to pursue all available sources of information to obtain a valid address. All skip tracing activities must be completed by the date of default, with no gaps greater than 45 days between due diligence activities.

V. Corporation Due Diligence Activities

After a borrower becomes delinquent, the Corporation will undertake activities, which complement the due diligence activities performed by the holder, to satisfactorily resolve a delinquency and prevent a default in accordance with NYS Education Law and the Regulations, including this Manual.

Such activities include, but are not limited to: (i) locating the borrower through appropriate skip tracing activities; (ii) contacting the borrower in writing and by telephone, including the use of agentless autodialer campaigns throughout the delinquency period as needed, regarding the delinquent status of their loan; (iii)

explaining the account history and clarifying any discrepancies; (iv) counseling the borrower regarding available repayment options, including deferments and any public assistance available to them; (v) providing the borrower with documentation in connection with their loan(s); (vi) informing the borrower of the consequences of default; and (vii) any other assistance that would prevent a default by a borrower.

VI. Modified Payment Plan (MPP) – The Corporation, in its sole discretion, may provide a borrower, not in default, with a temporary reduction in monthly payments (modified payment plan) as permitted by 8 NYCRR 2213.20(a)(6). The offer of any modified payment plan shall be based on a determination by the Corporation that both the borrower and the cosigner(s), if applicable, are experiencing a temporary change in their financial circumstances for a determined length of time necessitating that the borrower make modified payments to avoid default. In extenuating circumstances, the Corporation may approve a modified payment plan if the borrower or cosigner is experiencing a temporary change in his or her financial circumstances for a determined length of time necessitating a modified payment plan in order to avoid default. To be eligible, a borrower must provide the holder with all documentation as required by the Corporation. Modified payments are available, up to one year per incident, only to borrowers whom the Corporation determines will be able to resume regular payments. These modified payments will be mutually agreed upon by the Corporation and the borrower. The Corporation must inform the borrower that the approval of a modified payment plan does not extend the term of the loan, interest will continue to accrue, and the borrower’s monthly payment will be recalculated, with capitalized interest, at the conclusion of the modified payment plan period.

VII. Forbearance – 1. Economic Hardship Forbearance (EHF). The Corporation, in its sole discretion, may provide a borrower who is not in default, a temporary cessation of the required monthly payment for no more than one year, over the life of the loan, based on the approved economic hardship, for a determined length of time, of both the borrower and the cosigner(s), if applicable, as permitted by 8 NYCRR 2213.20(b)(2). In extenuating circumstances, the Corporation may grant EHF if the borrower or cosigner is experiencing a temporary change in his or her financial circumstances for a determined length of time necessitating EHF in order to avoid default. To be eligible, a borrower must provide the holder with all documentation as required by the Corporation. The holder must inform the borrower that the granting of the economic hardship forbearance does not extend the term of the loan, interest will continue to accrue, and the borrower’s monthly payment will be recalculated, with capitalized interest, at the conclusion of the economic hardship forbearance period. An economic hardship forbearance is available only to borrowers whom the Corporation determines will be able to resume regular payments.

2. Administrative Forbearance. An administrative forbearance may be granted for the period of prior delinquency, if any, and up to an additional 60 days due to extenuating circumstances of the borrower and/or cosigner(s), or in connection with the processing

of a program loan, a deferment, a re-establishment of a repayment due date for the borrower, a discharge, a modified payment plan, or an economic hardship forbearance, as determined by the corporation. An administrative forbearance shall only be granted once for each incident resulting in a request for a discharge, modified payment plan, or economic hardship forbearance. If subsequent applications are based on the continuation of the same incident, an administrative forbearance shall not be granted. An administrative forbearance does not extend the term of the loan, interest will continue to accrue, and the borrower's monthly payment will be recalculated, with capitalized interest, at the conclusion of the administrative forbearance.

Once the account is placed on administrative forbearance, the account will reflect a current status and interest will be capitalized at the end of the administrative forbearance. If the benefit is granted, interest will be capitalized at the end of the MPP/EHF period, and the outstanding principal and interest balance payments will be recalculated to satisfy the debt within the original repayment term. During the administrative forbearance period, the holder is not required to perform any due diligence activities.

If an administrative forbearance is not granted, the account will reflect a delinquency status and due diligence activities will continue until the date an approval for MPP or EHF is granted. Upon approval of an MPP/EHF, the account will reflect a current status.

3. Disaster Relief. In a federally declared major disaster, as defined by 42 U.S.C. §5122(2), the Corporation may grant certain relief for borrowers and cosigners within a federally declared disaster area, including the cessation of due diligence and collection activities for up to three months and suspension of required payments under certain repayment plans. Prior to granting disaster relief, the Corporation shall perform an impact assessment subject to SONYMA approval.

VIII. Military Deferment – A deferment for military service shall be unlimited for borrowers who are members of the military and in active duty status, and shall be limited to the period of a student borrower's in-school and grace period for cosigners who are members of the military and in active duty status. Such deferment for borrowers who are members of the military and in active duty status may extend the term of the loan, however, such deferment for cosigners who are members of the military and in active duty status shall not extend the term of the loan. The Corporation shall request and receive documentation to verify active duty status in order to qualify a borrower or cosigner for this deferment. A borrower's or cosigner's continued eligibility for the military deferment shall be reviewed by the holder, servicer or Corporation as applicable prior to the expiration date specified in the borrower's military orders or other government documentation. If available, a Program loan may also be eligible for a deferment based on the death of the borrower while on active military duty.

IX. Discharges - A borrower's obligation to repay a loan shall, if approved, be discharged based on the death or the total and permanent disability of the student for whom the loan was taken, while the student was enrolled or accepted for enrollment at least half-time at the time of either occurrence. Loans are non-dischargeable in bankruptcy unless the borrower properly documents that the loan was discharged by a bankruptcy court as a result of an adversary proceeding. If available, a borrower's, and his or her cosigner's, obligation to repay a Program loan may be discharged based on the death of the borrower while on active military duty.

X. Bankruptcy, Death, and Disability Claims- 1. Bankruptcy Petition Claim –

A holder must suspend due diligence activities against a borrower who has filed a bankruptcy petition upon receipt of official notice of such filing from the court, or otherwise becomes aware of the bankruptcy filing. The holder must immediately forward a copy of the bankruptcy notification, proof of claim, Chapter 13 plan, summons and complaint in an adversary proceeding, motions, and all other pertinent documents sent to or received from the bankruptcy court as directed by the Corporation.

Program loans are not dischargeable in bankruptcy except pursuant to 11 U.S.C. Section 523(a)(8). A holder shall vigorously defend and oppose all adversary proceedings, motions, plan provisions, and any other attempts by the debtor to discharge a Program loan. However, if a borrower is granted a discharge of a Program loan, the holder will be reimbursed for the unpaid principal and interest on the borrower's loan(s) upon receipt by the Corporation of an acceptable claim.

A holder may be advised of a borrower's bankruptcy by the borrower, but may only file a claim with the Corporation based upon the receipt of a court order discharging the Program loan(s).

If the holder is notified that a borrower has filed a petition for relief under the bankruptcy code, the holder must immediately suspend any due diligence efforts against the borrower that are outside the bankruptcy proceeding. If either the borrower or the cosigner filed a Chapter 12 or 13 bankruptcy petition, the holder must suspend any due diligence efforts against both parties, while the case remains pending under Chapter 12 or 13 as applicable. However, if either the borrower or cosigner filed a Chapter 7 or 11 bankruptcy petition, or a case under Chapter 12 or 13 is converted to a case under Chapter 7 or 11, due diligence efforts against the non-filing party shall continue.

A holder must file a proof of claim with the bankruptcy court prior to the deadline date contained in the Notice, but no later than 30 days after it receives the Notice, or otherwise becomes aware of the bankruptcy filing, whichever comes first, unless the Notice specifically states that a proof of claim is not required. If required, the proof of

claim must be filed, even if a default claim has already been filed on the loan but the holder has not yet received payment from the Corporation.

If the holder has filed a default claim with the Corporation and is advised of a borrower's bankruptcy filing while the default claim payment is pending, the holder must file all pertinent documents as directed by the Corporation.

If a borrower or cosigner is granted a discharge of a Program loan by the bankruptcy court, the non-filing party remains obligated to repay the loan.

2. Death Claim - If a student dies while in college, the loan taken on behalf of the student shall be discharged. If a non-student borrower or cosigner dies, or the student dies when he or she is not enrolled at an eligible college at least half-time, the loan is not dischargeable. If the borrower dies while on active military duty, the loan may be discharged.

If a holder receives reliable but unofficial notification of the death of a student or borrower that might result in a discharge of the Program loan, the holder must suspend due diligence activity on the loan(s) for up to 60 days and diligently attempt to obtain an original or certified copy of the death certificate. In the event of an exceptional circumstance, and on a case-by-case basis, the President of the Corporation may approve a discharge based on other reliable documentation. If additional time is needed to obtain such other documentation, due diligence activity may be suspended for up to an additional 60 days, for a total suspension of up to 120 days, however interest will continue to accrue up to the date of claim payment. If other reliable documentation is not received, the loan must be returned to the level of delinquency prior to the suspension of due diligence activity. The holder must resume due diligence activity immediately at the level of delinquency at which it was suspended.

Payments received from any source after the date of death must be returned to the appropriate party.

3. Total and Permanent Disability Claim - If a student is determined to be totally and permanently disabled while in college, the loan taken on behalf of such student shall be discharged. If a non-student borrower or cosigner is determined to be totally and permanently disabled, or the student is determined to be totally and permanently disabled when he or she is not enrolled at an eligible college at least half-time, the loan is not dischargeable.

If a holder receives reliable but unofficial notification of a student's total and permanent disability, the holder must suspend due diligence activity on the loan(s) for up to 60 days and diligently attempt to obtain an original or certified copy of the completed total and permanent disability documentation signed by a licensed physician, however interest will continue to accrue up to the date of claim payment. If the documentation is

not received, the delinquency status, if any, that existed on the loan(s) before the holder suspended its due diligence activity remains. The holder must resume due diligence activity immediately at the level of delinquency at which it was suspended.

Payments received from any source after the date the student is determined to be totally and permanently disabled, as certified by a licensed physician, must be returned to the appropriate parties. The holder may capitalize the outstanding accrued interest for the period represented by payments that were made but subsequently returned.

XI. Default – A borrower is considered in default on the 181st day of delinquency. A holder shall use the NYHELPS Claim form to report a default.

XII. Claim Filing Requirements – A holder must adhere to the following requirements for all claims. Failure to comply with these requirements may result in the cancellation of the loan’s eligibility for payment by the Corporation for the applicable claim.

1. Default Claim Filing Requirements:

a) Default Claim - The holder must file a timely and accurate default claim with the Corporation to collect payment on a defaulted loan(s).

b) Default Claim Requirements - A holder must file a default claim on or after the 181st day of delinquency and is not permitted to file a default claim before the 181st day of delinquency. A holder must file a default claim by the 240th day of delinquency. Failure to provide the default claim before the 241st day of delinquency will result in a cancellation of the loan’s eligibility for payment by the Corporation.

At the time the claim is filed, the holder must submit a certification attesting that, at the time of the disbursement of the loan(s), the borrower met all the underwriting requirements for the loan(s) and certify compliance with all servicing and due diligence requirements.

The holder must submit a complete NYHELPS Claim form, providing all of the information required for the filing of a default claim. The holder must also provide an original or certified copy of the promissory note for each loan included on the NYHELPS Claim form, unless the promissory note is held by the Corporation.

c) Return of the Default Claim - The Corporation will return a claim to the holder for one or more of the following reasons:

- (i) The holder incurs a violation(s), as defined in this Manual, that results in a loss of the loan's eligibility for payment by the Corporation;
- (ii) The claim package contains inadequate and/or incomplete documentation; or
- (iii) The borrower is found not to be in a default status.

d) Re-filing of the Default Claim - If a claim is returned to the holder by the Corporation for any error(s), the holder will be granted one thirty (30) day resubmission period to correct the error(s). A holder may re-file a returned claim if it satisfies all requirements for re-filing the claim, and determines that the claim is still eligible for claim purchase. Failure to re-file in a manner deemed to be acceptable by the Corporation within the thirty (30) day resubmission period for the error(s) identified shall result in a loss of the loan's eligibility for payment by the Corporation for the applicable claim.

2. Bankruptcy, Death, and Disability Claim Filing Requirements

a) Bankruptcy Claim Requirements – *(i) Initial Filing of a Bankruptcy Claim.* For a bankruptcy claim, the holder must submit, in addition to the documents satisfying the general default claim requirements, the court order discharging the Program loan(s).

At the time the claim is filed, the holder must also submit a certification attesting that at the time of the disbursement of the loan(s) the borrower continued to meet all the underwriting requirements for the loan(s) and certify compliance with all servicing and due diligence requirements.

(ii) Return and Re-filing of Bankruptcy Claim. Guidelines for the return and/or re-filing of a bankruptcy claim shall be the same as provided for the return and/or re-filing of a default claim.

b) Death Claim Requirements – *(i) Initial Filing of a Death Claim.* For a death claim, the holder must submit, in addition to the documents satisfying the general default claim requirements, an original or a certified copy of the death certificate. The use of a fax or electronic version of the death certificate is not permitted. In the event of an exceptional circumstance, the holder may submit other reliable documentation approved by the President of the Corporation.

In the absence of a Certified Death Certificate (CDC), the holder must attempt to obtain such other reliable documents that provide confirmation of

the borrower's death, as determined by the Corporation. Other reliable documentation may include, but is not limited to:

- A photocopy of the death certificate;
- A copy of the obituary;
- A funeral card; or
- Credit bureau, Lexis Nexis database record or Roots Web database record listing the borrower as deceased.

At the time the claim is filed, the holder must also submit a certification attesting that at the time of the disbursement of the loan(s) the borrower continued to meet all of the underwriting requirements for the loan(s) and certify compliance with all servicing and due diligence requirements.

(ii) Return and Refiling of a Death Claim. Guidelines for the return and/or re-filing of a death claim shall be the same as provided for the return and/or re-filing of a default claim.

c) Total and Permanent Disability Claim Requirements – (i) Initial Filing of a Total and Permanent Disability Claim. For a total and permanent disability claim, the loan holder must submit, in addition to the documents satisfying the general default claim requirements, an original or a certified copy of the completed total and permanent disability documentation signed by a licensed physician.

At the time the claim is filed, the holder must also submit a certification attesting that at the time of the disbursement of the loan(s) the borrower continued to meet all of the underwriting requirements for the loan(s) and certify compliance with all servicing and due diligence requirements.

(ii) Return and Re-filing of a Total and Permanent Disability Claim. Guidelines for the return and/or re-filing of a total and permanent disability claim shall be the same as provided for the return and/or re-filing of a default claim.

3. Claim Purchase Payment – All loans deemed acceptable by the Corporation will be reimbursed at one hundred percent of outstanding principal and of the capitalized and unpaid accrued interest. Interest will be calculated from the last paid-through-interest date to the purchase date of the claim. A claim payment will be made to the holder within 60 days of the acceptance of the claim.

XIII. Violations and Penalties

The Corporation will deem all violations of due diligence requirements to be the responsibility of the holder's servicer (the "Servicer") and reserves the right to seek penalties directly from the Servicer. The Servicer will be given 60 days to demonstrate to the Corporation's satisfaction that the holder or the Corporation is directly responsible for any violations.

1. Violations

If the Servicer fails to perform a required due diligence activity as set forth in this Manual, such failure shall be considered a violation. Due diligence activities include, but are not limited to:

- (i) Make a diligent effort, as defined in Section II(2) above, to contact the borrower;
- (ii) Send a required due diligence letter;
- (iii) Send a final demand letter;
- (iv) Conduct a skip tracing activity within the prescribed time frame;
- (v) Establish a first payment due date; or
- (vi) Timely file a claim with the Corporation.

The Corporation, at its discretion, may permit the Servicer to cure any violation in exceptional cases.

2. Penalties

For purposes of assessing penalties for due diligence violations, penalties will only be assessed if required due diligence activities occurred within 180 days of actual delinquency, resulting in a default, or if the loan at no time following the due diligence violation returned to non-delinquent status.

The Servicer will be required to pay the interest on the applicable loan(s) from the date of default through the date the claim is paid for each of the first two violations.

A Servicer who commits three or more violations will be required to pay the principal and all accrued interest on the loan(s) through the date of default, and will become the holder of the loan(s).

The Corporation may, at its discretion, reduce the penalty.

XIV. Purchase and Collection Activities

1. Purchase of Defaulted Program Loan. The holder of a loan may submit a default claim, and if acceptable the Corporation shall purchase the loan, between the 181st and 240th day of delinquency as set forth in this Manual. All interest will be capitalized as of the purchase date and the Corporation shall establish an account in the name of the borrower. The purchase date will be the date SONYMA pays an approved claim from the Default Reserve Fund. Legal title of the applicable Program loan(s) shall be assigned to the Corporation as of this date.

2. Corporation Collection Activities for Borrowers in Default. (a) The Corporation will advise the borrower that his or her loan has been, or is subject to being, purchased and is now in default (the "Purchase Letter"). The Corporation will provide all required disclosures to the borrower and inform the borrower how to request an administrative review of his/her account, which shall not prohibit the Corporation from initiating or continuing collection activities. The Corporation will also inform the borrower of the possible consequences of default and subsequent purchase by the Corporation including, but not limited to:

- Assessing collection costs on or after the 61st day after purchase if no acceptable payment made;
- Notifying national consumer reporting agencies of the default;
- Filing a civil law suit to compel repayment;
- Notifying the borrower's college(s) of default status;
- Initiating New York State tax offset; and
- Initiating administrative wage garnishment.

Collection strategies may include, but are not limited to:

- Database matching with other State agencies, including the NYS Department of Taxation and Finance;
- Pulling the borrower's credit report; and
- Contacting the borrower to establish satisfactory repayment arrangements.

(b) If at any time in making calls or sending letters to the borrower, the Corporation becomes aware of a telephone and/or address skip, the appropriate skip tracing activities will be initiated. Appropriate skip tracing activities shall include, but are not limited to: directory assistance contact, college contact, lender contact, credit bureau contact, employment search and/or DMV contact.

3. Collection Costs. The Corporation shall assess collection costs on or after the 61st day after purchase, payable from payments made on defaulted loans, in an amount to be determined by the Corporation at least annually, on all defaulted loans under this Program. Collection costs shall be retained by the Corporation for the administration of

the Program. The aggregate annual revenue generated by such collection costs shall not exceed the actual costs incurred by the Corporation in the preceding year in collecting a defaulted loan under this Program on which the Corporation has paid a claim, except in the initial year for which such collection costs shall not exceed the collection costs charged by the Corporation for the collection of defaulted loans under the Federal Family Education Loan Program. Any amounts in excess of actual cost shall be used to reduce the collection costs charged in the subsequent year.

Collection costs will not be assessed to the borrower, if a borrower enters into a repayment agreement, and makes an acceptable payment, within sixty (60) days of the date of the Purchase Letter. Collection costs on such loan will be assessed if the borrower misses any two regular payments after the establishment of a repayment agreement. Collection costs will also be assessed to borrowers in default if payments are obtained through tax offset or administrative wage garnishment.

Collection costs may be reduced or waived in accordance with the Corporation's settlement and compromise procedures for the Program.

4. Administrative Wage Garnishment. The Corporation will initiate administrative wage garnishment if it remains unsuccessful in obtaining a satisfactory voluntary repayment schedule from a borrower who is employed.

5. Referral to Outside Collection Agencies. The Corporation may refer the account to an outside collection agency if it remains unsuccessful in obtaining a satisfactory repayment schedule from a borrower who is not employed.

6. Disaster Relief. In a federally declared major disaster, as defined by 42 U.S.C. §5122(2), the Corporation may grant certain relief for borrowers and cosigners within a federally declared disaster area, including the cessation of due diligence and collection activities for up to three months and suspension of required payments under certain repayment plans. Prior to granting disaster relief, the Corporation shall perform an impact assessment subject to SONYMA approval.