SAF RESPONSE TO
INFORMATION REQUEST FROM SENATOR BAUCUS AND SENATOR TESTER
May 2008

SUBMITTED BY
STUDENT ASSISTANCE FOUNDATION OF MONTANA
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REFERENCED TERMINOLOGY AND ACRONYMS

Federal Family Education Loan Program (FFELP): A public-private partnership established by the United States Congress through the Higher Education Act of 1965 (Higher Education Act). The FFELP was created to allow private capital to be used for student loans through a guarantee provided by the federal government to "insure" the loan, and establish reasonable returns for lender participants through special allowance payments (SAP). FFELP currently provides for 84% of the annual volume of student lending in the United States and 100% in Montana.

Montana Higher Education Student Assistance Corporation (MHESAC): MHESAC is a private Montana nonprofit 501(c)(3) corporation organized in July, 1980. MHESAC is organized to comply with Section 150(d) of the Internal Revenue Code. Thus, its Articles of Incorporation provide, among other things, that MHESAC is organized solely for the purpose of lending and providing funds for the acquisition of student loan notes originated under the Higher Education Act, and to devote any income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or it must be paid to the United States government. MHESAC is governed by a seven voting and one ex-officio non-voting member Board of Directors.

Student Assistance Foundation of Montana (SAF): SAF is a private Montana nonprofit 501(c)(3) corporation organized in July, 1999 to provide support services to MHESAC and other FFELP industry participants, as well as to provide education and access oriented services to Montana citizens. SAF is governed by a nine voting and one ex-officio non-voting member Board of Directors.

Office of the Commissioner of Higher Education (OCHE): The OCHE reports to the Board of Regents and, in concert with the Board of Regents, provides direction and oversight for the Montana University System.

Montana Guaranteed Student Loan Program (MGSLP): Title 20, Chapter 26, Part 11 of the Montana Code Annotated (the GSLP Act) provides for the establishment of the MGSLP and the administration and operation thereof by the Board of Regents in accordance with applicable federal law. It is the role of MGSLP to act as a guarantor for eligible FFELP loans. As such, it is tasked by the Higher Education Act to: (1) act as an agent of the federal government in providing the federal guarantee for FFELP loans and ensure that program participants comply with all federal regulations; (2) approve lenders as eligible lenders under the FFELP; and (3) incur and discharge debts, including defaulted loans. MGSLP does not rely on the State of Montana for any of its revenues or expenses and none of the loans guaranteed by MGSLP are the obligation of the State of Montana.

Guarantee Agencies: Guarantee Agencies are tasked by the Higher Education Act to act as an agent of the federal government in providing the federal guarantee for FFELP loans and ensure that program participants comply with all federal regulations.

Montana Student Loan Funding LLC (MSLF): MSLF is a Delaware limited liability company and wholly owned subsidiary of SAF. MSLF is a disregarded entity for federal income tax purposes. MSLF was created to provide a vehicle for the temporary financing of non-Montana FFELP loans pending their sale to MHESAC.

Warehousing Indenture: The Indenture, entered into among MSLF, as borrower, certain financial institutions, as lenders and agent therefor, a trustee and SAF, as master servicer, pursuant to which MSLF borrows money, from time-to-time, to finance the purchase and origination of FFELP Loans.

BACKGROUND

OVERVIEW OF SAF

SAF is a private Montana nonprofit 501(c)(3) corporation that commenced operations in February, 2000 to provide support services to MHESAC and other FFELP participants and education and access-oriented services to Montana students. SAF is governed by a nine voting and one ex-officio non-voting member Board of Directors.

SAF was founded in the belief that a better education leads to better opportunities for Montana citizens and that effective operations and a national presence could lead to even more Montana benefits (viz., grants, scholarships and good paying jobs for Montanans). As a result of these efforts, to date, SAF has delivered over $13 million in public benefits (in the form of scholarships, assistance grants and outreach services to Montana students and families) to directly benefit Montana citizens. Furthermore, SAF provides 195 living wage, competitive benefit, jobs to Montana citizens in accomplishing its mission; jobs that would otherwise be housed out-of-state with no benefit to Montana. SAF's annual payroll is over $9 million, and Montana payroll tax, pension and health benefit contributions are approximately $2.2 million.

Operationally, SAF (1) provides management services to MHESAC, (2) services FFELP loans (i.e. processes payments, handles regulation compliance and provides personal customer service) for MHESAC and a number of other FFELP participants, (3) provides services in connection with the origination of student loans by MHESAC and other FFELP participants, (4) provides support services to the MGSLP and (5) provides public benefits to Montana citizens. During the existence of the Exceptional Performer Program, SAF was designated as an "Exceptional Performer" by the United States Department of Education for adherence by SAF to Higher Education Act regulations in its servicing of FFELP loans. It should be noted that a minority of FFELP servicers received this designation and, for a time, it entitled SAF to 100% loan default reimbursement. Congress eliminated the Exceptional Performer classification in July, 2007 as part of the College Cost Reduction Act (CCRA).

SAF's student loan ownership and financing is done through its wholly-owned, subsidiary, MSLF. MSLF was created to provide a vehicle for the temporary financing of non-Montana FFELP loans pending their sale to MHESAC. MSLF has entered into the Warehousing Indenture and other related agreements pursuant to which it borrows moneys to purchase or originate FFELP loans.

MSLF has no substantial assets other than those pledged under the Warehousing Indenture to secure repayment of its borrowings thereunder. MSLF has no full-time employees. Certain responsibilities of MSLF are performed by SAF pursuant to an agreement between SAF and MSLF.

Additional information about SAF is available at www.safmt.org.

References

SAF Articles of Incorporation
SAF 2007 Annual Report

OVERVIEW OF THE MHESAC/SAF RELATIONSHIP

MHESAC and SAF are two separate and distinct private nonprofit corporations.

MHESAC's mission is to provide capital to allow students to finance their pursuit of post-secondary education and to help lower the cost of such financing. MHESAC's sole business is the purchase and origination of FFELP loans, the capital for which is raised through the issuance of bonds. MHESAC's core service area focus has been Montana citizens and residents. In an effort to gain enhanced cost efficiency and to generate additional monies for Montana borrower benefits, MHESAC has purchased FFELP loans made to non-Montanans from 2000-2006 (mostly through the warehousing facility provided by SAF through its subsidiary, MSLF).

As noted above, SAF is MHESAC's management company, as well as the servicer of MHESAC's loan portfolio. These relationships are defined under the terms of two types of agreements—a Management Agreement (relating to the management and administrative services provided by SAF) and a Servicing Agreement (providing for the servicing of MHESAC's FFELP loans). Each entity has a separate Board of Directors (although a minority (three) of SAF's Board positions are reserved for members of the MHESAC Board of Directors.) MHESAC has no employees, and all of its day-to-day business activities are performed by SAF pursuant to the Management Agreement. The price for SAF's services was determined using IRS guidelines and information provided by an independent consultant and is reviewed and renewed every three years.

SAF came into existence as a result of a restructuring of MHESAC's business. The restructuring included the sale to SAF of essentially all of MHESAC's non-cash and non-FFELP loan related assets, as well as the hiring by SAF of substantially all of the employees of MHESAC. This left MHESAC free to focus solely on the acquisition of FFELP loans and the financing thereof. This restructuring also resulted in a separate and distinct corporation in the form of SAF, which, in addition to providing management and administrative services and loan servicing to MHESAC as noted above, had the ability to (i) enter into servicing and origination agreements with other FFELP participants outside the State of Montana, thereby lowering the servicing costs payable by MHESAC (through increased efficiencies and economies of scale), and (ii) apply net revenues derived from its operations to making benefits available to Montana students and educational institutions in the forms of grants and education-related programs and assistance. MHESAC, as a 150(d) corporation, is precluded from participating in such activities. MHESAC's first and foremost public purpose has been, and remains, assuring that FFELP loans are available to Montana students to pursue post-secondary education. Since the restructuring, MHESAC and its Montana lending partners have increased the amount of FFELP loans annually provided to Montana student loan borrowers from approximately $114 million (for fiscal year ending June 30, 2001) to approximately $323 million (for recent fiscal year ending June 30, 2007).

Additionally, it was projected that the restructuring of MHESAC and the subsequent operations of SAF would generate $61.7 million in other public benefits for Montana citizens. These other public benefits would be in the form of borrower benefits delivered by MHESAC and grants and education finance outreach services provided by SAF. Since the restructuring, as of March 31, 2008, MHESAC has delivered $37.8 million in borrower benefits to Montanans, and SAF has delivered $13.4 million in public benefits to Montanans, including $6.1 million in grants to students. In addition to the combined total of $51.2 million in public benefits already delivered by MHESAC and SAF, an additional $11.6 million in borrower benefits will be granted to borrowers by MHESAC in the future under existing borrower benefit programs. Thus, to date, these organizations have delivered or committed to deliver $62.8 million in public benefits to Montanans since the restructuring.

References

Excerpt from Kohne O'Neill Evaluation of MHESAC Strategic Alternatives (Revised), dated November 27, 1998
MHESAC Borrower Benefits Delivered Summary
SAF Public Benefit Programs Delivered Summary

RESPONSES TO SPECIFIC INFORMATION REQUESTS THAT APPLY TO SAF

1. INFORMATION ON SAF'S ASSETS

As of the date of SAF's latest audited financial statements (June 30, 2007), SAF's assets consisted of two types: General Fund Assets (which are available for general corporate use) and Restricted Assets (which are held by SAF through its wholly-owned subsidiary, MSLF, and pledged under the Warehousing Indenture and restricted to use for repayment of the loans made under the Warehousing Indenture and other purposes permitted thereunder).

GENERAL FUND

The following are SAF's General Fund Assets as of June 30, 2007:

Cash and Investments (cash, certificate of deposit and bonds)	$4,142,073
Accounts Receivable (trade receivables due from clients)	2,221,316
Advances to Subsidiary (operating advances to MSLF)	233,993
Property, Equipment and Furniture (capital assets, net of depreciation)	4,825,729
Construction in Progress (preliminary work on building project)	1,247,552
Prepaid Costs (prepaid operating costs)	636,816
TOTAL GENERAL FUND ASSETS	**$13,307,479**

The following are SAF's General Fund Liabilities as of June 30, 2007:

Accounts Payable and Accrued Expenses (operating payables and accrued payroll)	$1,707,209
Funds Held for Clients (borrower payments in transit to clients)	3,071,486
Deferred Compensation Liability	108,969
Compensated Absence Liability (accrued employee leave balances)	893,722
Notes and Loans Payable (operating line of credit, mortgage, equipment notes)	4,254,274
Grants Program Liability (grants awarded for future disbursement)	1,235,292
TOTAL GENERAL FUND LIABILITIES	**$11,270,952**
TOTAL GF FUND BALANCE	**$2,036,527**
TOTAL GF LIABILITIES AND FUND BALANCE	**$13,307,479**

RESTRICTED FUND ASSETS

The following are Assets pledged under the Warehousing Indenture as of June 30, 2007:

Cash and Investments (cash, government funds)	$2,640,093
Accounts Receivable	124,209
Accrued Interest Receivable (income earned and receivable on student loans and investments)	2,445,295
Education Loans Receivable (FFELP loans, including market appreciation)	143,072,218
Prepaid Costs (unamortized prepaid borrower and loan fees)	2,471,817
Payments in Transit (payments in transit from servicer)	100,916
TOTAL RESTRICTED FUND ASSETS	**$150,854,548**

The following are Liabilities with respect to the Warehousing Indenture as of June 30, 2007:

Accounts Payable and Accrued Expenses (operating payables)	$1,596,788
Interest Payable (interest due on line of credit)	631,226
Advances from SAF	233,993
Line of Credit Payable (line of credit to finance student loans)	147,201,977
TOTAL RESTRICTED FUND LIABILITIES	**$149,663,984**
TOTAL RESTRICTED FUND BALANCE	**$1,190,564**
TOTAL RESTRICTED FUND LIABILITIES AND FUND BALANCE	**$150,854,548**

References

June 30, 2007 SAF Audited Financial Statements

2. DESCRIPTION OF CURRENT RISK MANAGEMENT PRACTICES

SAF is a private corporation organized under the nonprofit corporation laws of the State of Montana and recognized by the IRS as an organization described under Section 501(c)(3) of the Internal Revenue Code. As such, SAF is not an agency or instrumentality of the State of Montana. Consequently, any obligations incurred by SAF are the same as any other private corporation, and do not constitute a debt, a liability or a legal or moral obligation of the State of Montana or any agency or political subdivision thereof.

SAF, like many private entities, utilizes sound practice in making business decisions, such as: (1) the selection of an independent Board of Directors consisting of professionals with years of experience in education, banking, securities, investing and education policy; (2) a regular and rigorous audit schedule that consists of 13 annual financial, performance and compliance audits; (3) consultation with some of the most trusted financial advisors nationally, including Dorsey and Whitney LLP, Citigroup Global Markets Inc. and Liscarnan Solutions; (4) partnerships with clients who have high ethical standards and excellent regulatory compliance records; and, most importantly, (5) a single-minded focus on the best interests of our student borrowers, including referring them to the competition in cases where SAF cannot provide the best product.

SAF's business risks can be categorized as follows:

> (1) the financing of student loans, (2) maintaining loan guarantees through quality of servicing; (3) political risks associated with federal laws and regulations (relating primarily to the reauthorization of federal laws governing student loan programs and related tax and corporate implications); and (4) managing the daily business of only one major client and issues related to their growth and performance (including the implications of lack of growth). Other challenges for SAF relate to physical space needs and staffing.

The primary way in which SAF deals with risks associated with its financing of student loans is by arranging for such financing and the ownership of the student loans to be done through its wholly-owned subsidiary, MSLF. MSLF is a Delaware limited liability company intended to be bankruptcy-remote (i.e., MSLF's governing documents, contracts with third-parties and relationships with affiliates are structured to minimize the possibility that MSLF could be the subject of a bankruptcy proceeding). Bankruptcy remoteness is of considerable importance to the lenders under the Warehousing Indenture. MSLF was created to provide a vehicle for the temporary financing of student loans pending their sale to MHESAC. MSLF has entered into the Warehousing Indenture and other related agreements pursuant to which it borrows moneys to purchase or originate student loans. MSLF has no substantial assets other than those pledged under the Warehousing Indenture to secure repayment of its borrowings thereunder.

Among the risk mitigation strategies of MSLF are the following:

(a) MSLF looks to obtain a sound matching of the funding nature of its assets to its liabilities. The yield to lenders on FFELP loans is variable in nature. As a result, MSLF looks to finance these assets using variable rate financing through the Warehousing Indenture. MSLF invests only in FFELP loans guaranteed to at least 97 percent of unpaid principal and interest.

(b) MSLF’s debt is non-recourse. All of MSLF’s debt incurred to finance the acquisition of FFELP loans is in the form of loans made to it pursuant to the Warehousing Indenture. Such loans are secured by and payable solely from the assets pledged under the Warehousing Indenture (which includes those FFELP loans financed under the Warehousing Indenture).

(c) MSLF deals with highly rated lenders under the Warehousing Indenture. The Warehousing Indenture limits investment of funds only to high quality investments. The loans made under the Warehousing Indenture are structured to provide strong asset/liability match and with the repayment flexibility to respond to changing student loan repayment behavior.

(d) MSLF’s FFELP loans are serviced by SAF and other servicers who were achieved “Exceptional Performer” status from the U.S. Secretary of Education.

SAF follows an extensive set of risk mitigation management and operating practices to ensure that the financial and management risks inherent in the operation of their student loan operations are minimized. The strategies utilized by SAF include: the retention of top consultants; on-going education of Board members relative to industry issues and strategies; interest in and careful overall attention to market trends, products and options in the student loan business; and extensive daily review (human and software based) of compliance with due diligence regulations required under the Higher Education Act in connection with the servicing of FFELP loans.

Additional risk mitigation steps include: numerous independent audits and reviews (financial, performance and compliance) performed on both MSLF and SAF; steps taken and to be taken by SAF in order to improve its financial performance and strengthen its overall competitiveness in the marketplace; and a valuation of every loan purchase and servicing opportunity to ensure that its return will satisfy the thresholds established by the SAF Board.

SAF also manages the risks associated with its business by having diversified revenue streams, including revenue from its management contract with MHESAC, revenue from its servicing contracts with MHESAC and other FFELP participants and net earnings from the FFELP loans financed by MSLF.

References

SAF Risk Management Practices

3. INFORMATION RELATED TO CAPITAL ASSET REQUIREMENTS AND CAPITAL MANAGEMENT PRACTICES OF SAF

SAF’s general fund has no capital asset requirement.

SAF student loan ownership and financing is done through MSLF. As previously described, MSLF was created to provide a vehicle for the temporary financing of non- Montana FFELP loans pending their sale to MHESAC. MSLF has entered into the Warehousing Indenture and other related agreements pursuant to which it borrows moneys to purchase or originate FFELP loans.

MSLF has no substantial assets other than those pledged under the Warehousing Indenture to secure repayment of its borrowings thereunder.

MSLF's borrowings under the Warehousing Indenture are in the form of loans (MSLF Borrowings) which are non-recourse debt payable solely from MSLF's assets (including FFELP loans financed with the proceeds of MSLF Borrowings) pledged to the payment of the MSLF Borrowings pursuant to the Warehousing Indenture. The Warehousing Indenture establishes the provisions for MSLF Borrowings made thereunder and the payment and security therefor. Thus, the Warehousing Indenture: sets forth various covenants and agreements of MSLF; makes provision for defaults and available remedies upon the occurrence thereof; and establishes the various funds and accounts into which revenues pledged to the payment of the MSLF Borrowings are deposited and utilized.

MSLF's financing strategy involves the use of a variable rate line of credit made available pursuant to the Warehousing Indenture to acquire FFELP loans which have a variable rate return. The return on the FFELP loans is based on a commercial paper rate as is interest on the MSLF Borrowings. The intent is to match the mechanism for the return on the asset as closely as possible to the obligation on the debt. As of March 31, 2008, the aggregate principal amount of MSLF Borrowings outstanding under the Warehousing Indenture was $235,251,598. The maximum amount of credit available to MSLF under the Warehousing Indenture is currently $250 million.

The terms of the Warehousing Indenture require that a capital requirement, in the form of a Coverage Condition Requirement, be met. Thus, at the end of each month, the Asset Coverage Ratio must be at least 100.1%. MSLF has never failed to meet the Coverage Condition Requirement, and, as of March 31, 2008, the Asset Coverage Ratio was 100.2%. SAF, on behalf of MSLF, monitors this ratio and provides reports to the lenders' agent under the Warehousing Indenture that allows it to monitor compliance with the Coverage Condition Requirement.

Additionally, the Warehousing Indenture requires that a reserve fund be established and funded in an amount equal to .01% of the maximum amount of credit available. As of March 31, 2008, the reserve fund was funded in the amount of $25,000 (.01% of $250 million).

The note representing MSLF's obligation to repay the MSLF Borrowings (the MSLF Note) is a 364-day obligation and can be renewed upon expiration for additional 364-day terms. The MSLF Note was originally issued on August 5, 2003 and has been renewed on an annual basis since then. The current MSLF Note will mature on July 22, 2008. SAF expects to request an extension on this note during the 45-day day period prior to the termination date.

The Warehousing Indenture allows release of funds from accounts thereunder only in conjunction with a transfer of Pledged Student Loans from the Warehousing Indenture upon receipt by the trustee of an amount equal to the principal balance of such Pledged Student Loans, plus accrued interest and special allowance payments thereon and any unamortized financed premium thereon, such amount to be used to pay amounts owing under the Warehousing Indenture, including principal of and interest on the MSLF Note.

The lender return on FFELP loans is established under the Higher Education Act and can vary depending upon when the loans were originated. Substantially all of the FFELP loans currently financed under the Warehousing Indenture were originated prior to October 1, 2007. The level of lender return on FFELP loans made on or after October 1, 2007 was reduced under the College Cost Reduction Act. SAF has undertaken extensive analyses of risks and returns with respect to post-October 1, 2007 FFELP loans. Given the lender yield levels on such FFELP loans, MSLF, in October, 2007, ceased acquiring or originating non-Montana loans other than those as to which it had already accepted an application.

4. DESCRIPTION OF PROCEDURES IN PLACE FOR ACCESSING CAPITAL

SAF accesses capital from numerous sources, including revenue from its management contract with MHESAC, revenue from its servicing contracts with MHESAC and other FFELP participants and net earnings from the student loans owned by MSLF. SAF has also obtained capital, in connection with its servicing and other operations, through an operating line of credit and various loans from local Montana lenders, as well as a note from the seller of real estate acquired. SAF's public benefit activity has also obtained capital through grants from SAF's public benefit partners.

MSLF accesses capital through MSLF Borrowings made under the Warehousing Indenture, and from the revenue generated by the FFELP loans (including interest and special allowance payments thereon) acquired with proceeds of these MSLF Borrowings and the investment of unexpended moneys held in the accounts under the Warehousing Indenture.

MSLF's financing strategy involves the use of MSLF Borrowings made under the Warehousing Indenture, which bear a variable rate of interest based on commercial paper rates, to finance the purchase and origination of FFELP loans, which have a variable rate of return likewise based on commercial paper rates.

The process MSLF has followed, and anticipates will continue to follow, in accessing capital involves:

- evaluating the amount of FFELP loan demand to be warehoused
- discussing the need for financing with the MSLF and SAF Boards
- obtaining direction from the MSLF Board of Managers to work on a warehousing financing
- engaging a financing team
- evaluating the revenue stream of the FFELP loans to be financed
- evaluating the merits of various warehousing financing structures and current market conditions
- selecting a financing structure and provider
- developing cashflows for the warehousing financing
- negotiating terms of the warehousing financing
- developing a warehousing indenture and other financing documents
- notifying interested parties of the financing plan
- presenting the formal financing plan to the MSLF Board of Managers and the SAF Board for their consideration and final approval
- closing the financing

5. DESCRIPTION OF THOSE ASSETS HELD IN A CREDIT WAREHOUSING FACILITY

MSLF has financed only FFELP loans, and has done so solely through the Warehousing Indenture.

Four types of loans are currently available under the FFELP: Stafford Loans; Unsubsidized Stafford Loans; PLUS Loans; and Consolidation Loans. These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies and special allowance payments. All of the terms of FFELP loans are established by the federal government. Some of these loan types have had other names in the past. References herein to the various loan types include, where appropriate, predecessors to such loan types.

The primary loan under the FFELP is the Stafford Loan. Stafford Loans generally are made only to student borrowers who meet certain financial needs tests. The interest accruing on a Stafford Loan is paid by the federal government while the borrower is in-school and in certain deferred statuses. The borrower interest rate on Stafford Loans made since June 30, 2006 is 6.8%. The interest rate on new Stafford Loans made on or after July 1, 2008 will be 6.0%, and will drop for new loans made after on or each July 1 thereafter until July 1, 2011, on which date the rate will be 3.4% through June 30, 2012. Effective July 1, 2012, the borrower interest rate is scheduled to return to 6.8%. Earlier Stafford Loans had various borrower interest rates, including fixed rate loans at 7%, 8% and 9% and variable rate loans adjusted annually subject to 7%, 8%, 8.25%, 9% and 10% maximums.

Students who are not eligible for Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Stafford Loans. Unsubsidized Stafford Loans generally are made to student borrowers without regard to financial need. Unsubsidized Stafford Loans were not available before October 1, 1992. The borrower is responsible for all interest that accrues on Unsubsidized Stafford Loans. The borrower interest rate on Unsubsidized Stafford Loans made since June 30, 2006 is 6.8%. Earlier Unsubsidized Stafford Loans had various borrower interest rates, including fixed rate loans at 7%, 8% and 9 % and variable rate loans adjusted annually subject to 7%, 8%, 8.25%, 9% and 10% maximums.

A graduate or professional student (effective July 1, 2006) and the parents of a dependent student may be able to obtain PLUS Loans. PLUS Loans are made only to borrowers who are (a) graduate or professional students (effective July 1, 2006) or (b) parents (and, under certain circumstances, spouses of remarried parents) of dependent undergraduate students. For PLUS Loans made on or after July 1, 1993, the parent borrower must not have an adverse credit history (as determined pursuant to criteria established by the Department of Education). The borrower interest rate on PLUS Loans made since July 1, 2006 is 8.25%. Earlier PLUS Loans had various borrower interest rates including fixed rate loans at 9%, 12% and 14% and variable rate loans adjusted annually subject to 9%, 10% and 12% maximums.

Consolidation Loans are available to borrowers with existing loans made under the FFELP and certain other federal programs to consolidate repayment of such existing loans. To be eligible for a Consolidation Loan, a borrower must (a) have outstanding indebtedness on student loans made under the FFELP and/or certain other federal student loan programs, (b) be in repayment status or in a Grace Period, or be a defaulted borrower who has made arrangements to repay the defaulted loan(s) satisfactory to the holder of the defaulted loan(s), and (c) effective October 1, 1998, not be subject to a judgment secured through litigation with respect to certain Higher Education Act loans or certain wage garnishment orders. Various additional limitations on the amount and type of loans that could be consolidated applied to loans made prior to July 1, 1994. The borrower interest rate on Consolidation loans made since October 1, 1998, has been the weighted average of the interest rates of the loans being consolidated at the time of the consolidation rounded up to the nearest 1/8%, subject to a cap of 8.25%.

Each Guarantee Agency is responsible for depositing to its federal fund an amount equal to 1% of the loan amount on Stafford, Unsubsidized Stafford and PLUS loans as a guarantee fee upon each loan for which it issues a guarantee. This guarantee fee is normally charged to the borrower, unless it is paid on the borrower’s behalf by a lender. Additionally, the borrower is currently responsible for paying to the federal government an origination fee in an amount equal to 2% of the loan amount on Stafford, Unsubsidized Stafford and PLUS Loans (unless paid on the borrower’s behalf by a lender). Under current federal law, effective July 1, 2008, the origination fee charged to the borrower will be reduced to 1%, and thereafter will be reduced annually until its elimination with respect to all FFELP loans made on or after July 1, 2010.

MSLF's current loan type breakdown is as follow:

Stafford and Unsubsidized Stafford Loans	$21,987,145	9.8%
PLUS Loans	4,492,015	2.0%
Consolidation Loans	198,760,731	88.2%

It is important to note that MSLF provided more than $780 million of Consolidation Loans between 2003 and 2007 as existing Stafford, Unsubsidized Stafford and PLUS borrowers at that time took advantage of the low interest rate environment and locked their low variable interest rate Stafford, Unsubsidized Stafford and PLUS loans into long-term fixed rate Consolidation Loans based off their then-existing interest rate. For many borrowers this meant they were able to lock in interest rates as low as 2.85%.

The return to the lender on FFELP loans is established by the Federal government. In addition to the interest paid by the borrower (and the interest paid by the federal government on the borrower's behalf on Stafford Loans and certain Consolidation Loans while the borrower is in-school, during their grace period and during certain deferment periods), the Higher Education Act provides for the payment by the Secretary of Education of additional subsidies, called special allowance payments, to holders of qualifying loans. The amount of the special allowance payments, which are made on a quarterly basis, is currently computed by reference to the average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) rates in effect for each of the days in the quarter. The quarterly rate for special allowance payments for FFELP loans is computed by subtracting the applicable interest rate on such loans from the commercial paper rate, then adding a percent specified by the Higher Education Act to the resulting percent, and dividing the resulting percent by four. The applicable percent varies based on the type of loan and when the loan was made (often determined by when the first disbursement was made). In general, for MSLF, as an eligible not-for-profit holder, the applicable percentage added to the difference between the borrower interest rate and the commercial paper rate for loans for which the first disbursement of principal is made on or after October 1, 2007, is as follows:

- Stafford or Unsubsidized Stafford Loan (prior to the time such loan enters repayment and during any deferment periods)	1.34%
- Stafford or Unsubsidized Stafford Loan (while such loan is in repayment)	1.94%
- PLUS Loan	1.94%
- Consolidation Loan	2.24%

The special allowance formulas for earlier loans are either based off the average of the bond equivalent rates of the 91-day Treasury bills or the average of the bond equivalent rates of the quotes of the three-month commercial paper depending upon the loans disbursement date. Depending upon the loan type and the disbursement date of the loan, the applicable percentage for pre-October 1, 2007 loans added to the difference between the borrower interest rate and the commercial paper rate varies from 3.5% - 1.74%

The loan return to a lender is reduced by certain fees it must pay to the federal government as follows:

> *Lender Loan Fee.* The lender of any loan under the FFELP for which the first disbursement is made on or after October 1, 2007 is required to pay to the Secretary of Education a loan fee equal to 1.0% of the principal amount of such loan made (or 0.5% for loans for which the first disbursement was made prior to October 1, 2007).
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> *Rebate Fee on Consolidation Loans.* The holder of any Consolidation Loan made on or after October 1, 1993 is required to pay to the Secretary of Education a monthly fee equal to .0875% (1.05% per annum) of the principal amount of, and accrued interest on, such Consolidation Loan; provided that, for Consolidation Loans based on applications received during the period from October 1, 1998 through January 31, 1999, the monthly fee shall equal .0517% (0.62% per annum).
>
> *Recapture of Excess Interest.* For loans for which the first disbursement of principal is made on or after April 1, 2006, if the applicable rate of interest for any three-month period exceeds the special allowance support level applicable to such loan for such period, then an adjustment is made by the lender by calculating the excess interest and by crediting such excess interest to the United States not less often than annually. The "excess interest" is an amount equal to the applicable interest rate minus the special allowance support level, multiplied by the average daily principal balance of the loan (not including unearned interest added to principal) during such calendar quarter, divided by four.

FFELP loans made on or after October 1, 1993 are guaranteed in the event of borrower death or default on the loan For loans covered by their respective guarantee programs under the FFELP, guarantee agencies such as the MGSLP are required to guarantee the payment of 98% (or 97% with respect to loans for which the first disbursement is made on or after July 1, 2006 but prior to October 1, 2012, and 95% with respect to loans made on or after October 1, 2012) of the principal amount of loans made on or after October 1, 1993. Earlier loans received 100% coverage of the principal amount of the loan. Prior to October 1, 2007, with respect to a lender or servicer that had received an Exceptional Performer designation, claims were paid up to 99% during the designation period. Guarantee Agencies are eligible to receive federal reimbursement at levels of 100%, 98% or 95% of the amounts it pays a lender if a guarantee payment is made to a lender.

References

Excerpt from MHESAC Offering Document, dated December 17, 2007, describing FFELP

6. INFORMATION ON POTENTIAL RISK OF CREDIT WAREHOUSING FACILITES AND AUCTION BOND FINANCINGS

SAF has never issued auction bonds.

MSLF, the wholly-owned subsidiary of SAF, does have a credit warehousing facility. The debt associated with this warehousing facility is a line of credit pursuant to the Warehousing Indenture. The return on the FFELP loans financed with MSLF Borrowings made under the Warehousing Indenture is based on commercial paper rates, as is the interest payable by MSLF on the MSLF Borrowings. The intent is to match the mechanism for the return on the asset as closely as possible to the obligation on the debt. A warehousing line of credit is a short-term financing that provides a short–term cost of funds using a periodic reset of the interest rate to be paid on the line.

The most significant risk with the line of credit provided under the Warehousing Indenture centers around termination of the line. In the event the line expires and is not renewed, the total amount of the MSLF Borrowings would become due and payable. In order to repay the MSLF Borrowings thereunder, MSLF would need to find a replacement financing vehicle or sell the FFELP loans financed under the Warehousing Indenture. Failure to repay the MSLF Borrowings in full would permit the lenders under the Warehousing Indenture to realize on their security interest in the assets pledged (including the FFELP loans), in which event MSLF would be left only with any moneys left after the sale or other disposition by the lenders of such assets and the application of the proceeds to the payment of the MSLF Borrowings. Another risk under the Warehousing Indenture is the limitation imposed on costs that may be paid from moneys held thereunder. Thus, if servicing and other ongoing expenses exceed amounts available therefor under the Warehousing Indenture, MSLF must find another source to pay such expenses.

There are additional risks (such as retroactive federal regulatory changes, servicing failures and basis risk mismatches between the return on financed FFELP loans and the cost of funds), but these are not unique to lines of credit.

7. INFORMATION ON FINANCING IN PLACE FOR THE UPCOMING ACADEMIC YEAR

The origination of FFELP loans by MSLF has been limited. FFELP loan origination activity in the past was focused primarily on non-Montana

Consolidation Loans. MSLF's FFELP loan origination activity is currently suspended due to the economics of post-October 1, 2007 loans. MSLF has approximately $15 million in available credit under the Warehousing Indenture.

8. RELATIONSHIP BETWEEN MHESAC AND SAF, INCLUDING, BUT NOT LIMITED TO, CONTRACTS BETWEEN THE TWO ENTITIES

The relationship between MHESAC and SAF is described in the background information section of this response. Copies of the Management and Servicing Agreements between MHESAC and SAF are enclosed.

References

Management Agreement
Servicing Agreements

9. INFORMATION RELATING TO THE COSTS OF SAF

Costs incurred by SAF in the performance of its business management and student loan servicing business lines consist primarily of the following:

- allocable portion of executive salaries, travel and overhead costs
- direct salaries, travel and overhead of staff involved with these functions
- direct expenses incurred in providing these services (such as servicing software license fees, postage and sub-servicer fees)

Costs incurred by SAF in the performance of its general management of SAF consist primarily of the following:

- SAF Board costs, including meeting costs, travel, stipends and insurance
- allocable portion of executive salaries, travel and overhead costs

Costs incurred by SAF in the providing of its public benefits consist primarily of the following:

- allocable portion of executive salaries, travel and overhead costs
- direct salaries, travel and overhead of staff involved with these functions
- direct expenses incurred in providing these services (such as Access grants and outreach services)

Costs associated with MSLF's warehousing line of credit consist primarily of the following, which are obligations of MSLF (and not SAF) payable primarily from amounts available therefor under the Warehousing Indenture:

- interest costs and fees associated with the line of credit
- commitment fees on the line of credit
- fees of the trustee under the Warehousing Indenture

- loan origination fees payable to the federal government
- consolidation loan rebate fees payable to the federal government
- loan servicing fees
- loan acquisition fees
- audit fees

RESPONSES TO QUESTIONS THAT DO NOT APPLY TO SAF

10. DESCRIPTION OF THOSE ASSETS THAT HAVE BEEN SECURITIZED IN THE MARKET

SAF has never securitized any of its assets.

11. INFORMATION AS TO THE PERCENTAGE OF STUDENT LOAN BONDS THAT ARE SECURITIZED IN AUCTION RATE BONDS AS OPPOSED TO FIXED RATE BONDS, VARIABLE RATE BONDS, AND POTENTIAL RISK RELATED TO THIS RATIO OF AUCTION BONDS

SAF has never securitized any of its assets.

12. INFORMATION CONCERNING THE DECISIONS MADE IN SECURITIZING ASSETS

SAF has never securitized any of its assets.

13. LIST OF THOSE ENTITIES INVOLVED IN THE RATING OF SAF'S BONDS AND INFORMATION AS TO ANY CONCERNS WITH SUCH ENTITIES

SAF has never issued bonds and has no rated financings.

14. INFORMATION ON ANY CHANGES IN SAF'S BOND RATINGS IN THE LAST 6 MONTHS

SAF has never issued bonds and has no rated financings.

REFERENCES

SAF Articles of Incorporation
SAF 2007 Annual Report
Excerpt from Kohne O'Neill Evaluation of MHESAC Strategic Alternatives (Revised), dated November 27, 1998
MHESAC Borrower Benefits Delivered Summary
SAF Public Benefit Programs Delivered Summary
June 30, 2007 SAF Audited Financial Statements
SAF Risk Management Practices
Excerpt from MHESAC Offering Document, dated December 17, 2007, Describing FFELP
Management Agreement, including amendments
Servicing Agreements, including amendments