Jack,

CRS is meeting with you in June for a business review and we are planning on discussing the topics you brought up on the attached document. As a preview to our June meeting, the "not so short" answers to your questions are below.

Question #2) ED COLLECTION STRATEGY?

The Vision for CRS and the ED servicing business has not changed from what we presented to you in December. We want to put ourselves (CRS) out of businesses by driving borrowers to self-serve and use automation via email, text, web, letters, dialer, IVR etc. We recognize that this is a thin margin business, therefore, our goal is to drive down unit cost while maximizing fee revenue and winning the default scorecard. As of today, CRS, IT, and Channel strategies, "we", have been unsuccessful in getting low-cost, self-service channels operationalized. Email is up and running but the other channels are still in development.

We view Borrower Education as another key component of our mission. There are numerous programs in addition to FORB that allow students to resolve their delinquency. We need to point them to the optimal solution based on their unique circumstances (optimal solution for the student and the firm).

Desk Loads and Bucket Segmentation Strategies - CRS pools the entire 60+ delinquent ED borrower base and calls it on the dialer about 2.5 times daily with about 110 agents. Account loads are in the neighborhood of 1,800. We have targeted strategies to maximize servicing fee revenue in the early stages. In the 1-30 and 31-60 day buckets we use models to determine who is likely to self-cure, we then dial and email everyone who is not likely to cure in order to "throw them over the fence" to the higher fee tier (example = ~$1.44 average delinquent borrower fee flipped to the ~$2.11 up to date borrower fee). Team Tomko built the models and will be validating the effectiveness.

The only other "bucket segmentation" strategy that we have in CRS involves a team of 20 collectors who are working in a pre-charge-off capacity, 270+. This is not a fee revenue strategy but an effort to prevent defaults on borrowers who landed in severely delinquent buckets as part of the PUT process and ECASLA. We implemented the pre-charge-off strategy in the short term to get out of the gate strong on the scorecard; whether it makes sense long-term is TBD.

Forbearance - Our battle cry remains *"forbear them, forebear them, make them relinquish the ball."* Said another way, we are very liberal with the use of forbearance once it is determined that a borrower cannot pay cash or utilize other entitlement programs. Generally speaking, out of every 10 resolved ED borrowers, 7 will forbear, 1 will pay cash, and 2 will use a deferment or some other entitlement. That mix is likely to change over time as we improve our ability to communicate the benefits of and fulfill other programs such as "Income Based Repayment."

Dollars Collected – In CRS alone, we are collecting about $150mm per month and resolving about 40,000 borrowers - these are not meaningful metrics by themselves. A more useful perspective would be the default rate trend. Our ED default rate is trending towards 12% - 15% versus FFELP historical default rates of roughly 10% (See Chart 1 below for a comparison of ED and FFELP collection rates). This performance gap should be expected given the adversely selected portfolio in ED. Proprietary school borrowers make up over 60% of the 1+ delinquent ED portfolio versus about 40% of the 1+ delinquent FFELP portfolio (Prop school delinquency runs nearly double non-prop). Driving the performance variance to a lesser degree are the staffing / dialer issues that we faced in Q1 due to the fact that the delinquent borrower count was more than five times the budgeted / planned volumes. Although ED is lagging in default prevention performance when compared to FFELP, we should not assume that we are lagging behind our three competitors in the ED Servicing contract. To state the obvious, we won't really know where we stand relative to the competition until the scorecard results are published on a quarterly basis.

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Questions #3 and #4) COMBINING SERVICING, COLLECTIONS, AND SALES INTO A SINGLE P&L UNIT

Yes. We don't believe the current structure is optimal and we would support evaluating a re-org. Although combining Servicing and Collections makes sense, we need to include the P&L Manager and the Dept. of Ed relationship folks all under one organization. This appears to be what you are proposing.

Chart 1: CRS Collection Rates in ED and FFELP.

Cummulative Collection Rates - Comparing ED and FFELP

Delinquency Cycle	60-90	91-120	121-150	151-180	181-210	211-240	241-270	271-300	301-330	331-360	361-390
	ACTUAL							FORECAST			
ED Public	13.88%	41.26%	57.79%	67.63%	74.42%	78.55%	80.43%	82%	83%	83%	83%
ED Proprietary	[redacted]										
ED Private	19.92%	57.05%	69.53%	75.14%	80.12%	83.42%	85.09%	87%	88%	88%	88%
ED TOTAL	14.31%	44.40%	56.75%	63.81%	70.13%	74.69%	77.23%	82%	83%	84%	85%
	ACTUAL										
FFELP Historical	36.51%	64.47%	72.69%	77.95%	81.30%	85.48%	87.95%	90.22%	90.81%	90.82%	90.86%

PROP schools perform worse and make up over 60% of the delinquent ED inventory versus about 40% in FFELP.

By the time a "batch" of 1-day delinquent FFELP accounts rolls to charge-off (claim filed), we will have collected 90.86% of those dollars, for a default rate of about 10%. The trend for the ED portfolio suggests that we will collect roughly 85% for a default rate of 15%.