

**CONTRACT #10**  
**RFS # 332.05-036**  
**FA # 06-16570**

**Tennessee Student Assistance  
Corporation (TSAC)**

**VENDOR:**  
**Nelnet Guarantor Solutions**  
**(NGS)**



STATE OF TENNESSEE  
**TENNESSEE STUDENT ASSISTANCE CORPORATION**  
SUITE 1510, PARKWAY TOWERS  
404 JAMES ROBERTSON PARKWAY  
NASHVILLE, TENNESSEE 37243-0820  
(615) 741-1346 • 1-800-342-1663 • FAX (615) 741-6101

**MEMORANDUM**

**RECEIVED**

FEB 13 2009

**FISCAL REVIEW**

**TO:** Leni Chick, Fiscal Review Committee  
**FROM:** Marcie Mills, Paralegal  
**DATE:** February 13, 2009  
**SUBJECT:** Non-Competitive Amendment Summary  
Nelnet Guarantor Solutions Amendment Three

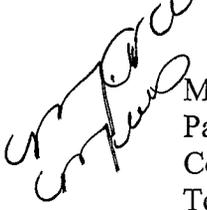
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The Tennessee Student Assistance Corporation (TSAC) proposes to submit a non-competitive Amendment to its Contract with Nelnet Guarantor Solutions (NGS) for the purpose of changing the frequency of an SAS70 (Statement on Auditing Standards) or a SysTrust review audit from quarterly to annually.

I have provided the following documentation as per FRC guidelines:

- Amendment Three
  - Contract Amendment signed by Contractor and Agency Head Contract Summary Sheet
  - Supplemental Documentation Required for Fiscal Review Committee
  - Fiscal Review Summary Letter
  - REQUEST:NON-COMPETITIVE CONTRACT AMENDMENT
- Amendment Two
  - One Fully Executed Contract Amendment
  - Contract Summary Sheet
  - Approved Summary Memorandum – Fiscal Review Committee 8/14/08
  - Fiscal Review Committee Non-Competitive Amendment Summary
  - Approved REQUEST:NON-COMPETITIVE CONTRACT AMENDMENT
  - OIR Procurement Endorsement
- Amendment One
  - One Fully Executed Contract Amendment
  - Contract Summary Sheet
  - Approved Summary Memorandum – Fiscal Review Committee 3/28/08
  - Fiscal Review Committee Non-Competitive Amendment Summary
  - Approved REQUEST:NON-COMPETITIVE CONTRACT AMENDMENT
  - OIR Procurement Endorsement
- Original Contract
  - Contract Summary Sheet

Should you have any questions, or additional documentation is need, please do not hesitate to contact me at the contact information below.



Marcie Reece Mills  
Paralegal  
Compliance and Legal Affairs  
Tennessee Student Assistance Corp.  
Suite 1510, Parkway Towers  
404 James Robertson Parkway  
Nashville, TN 37243  
615-532-3500 - Direct  
615-741-3000 ext. 101  
615-741-5555 - Fax  
[Marcie.Mills@state.tn.us](mailto:Marcie.Mills@state.tn.us)



STATE OF TENNESSEE  
**TENNESSEE STUDENT ASSISTANCE CORPORATION**  
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(615) 741-1346 • 1-800-342-1663 • FAX (615) 741-6101

**MEMORANDUM**

**TO:** Leni Chick, Fiscal Review Committee  
**FROM:** Marcie Mills, Paralegal  
**DATE:** February 12, 2009  
**SUBJECT:** Non-Competitive Amendment Summary  
Nelnet Guarantor Solutions Amendment Three

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The Tennessee Student Assistance Corporation (TSAC) proposes to submit a non-competitive Amendment to its Contract with Nelnet Guarantor Solutions (NGS) for the purpose of changing the frequency of an SAS70 (Statement on Auditing Standards) or a SysTrust review audit from quarterly to annually.

Pursuant to Chapter 413, Public Acts of 2003, TSAC is providing the information below for the review of the Fiscal Review Committee.

**Summary of the Terms of the Original Contract**

The Contract between the State of Tennessee, Tennessee Student Assistance Corporation (TSAC), and Nelnet Guarantor Solutions (NGS), is for the provision for the full servicing of TSAC's Federal Family Education Loan Program (FFELP) and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, and the TSAC General Ledger System.

The Contractor provides an Internet-based system for TSAC that is accessible by students, student borrowers, parent borrowers, high schools, postsecondary schools, lenders, lender servicers, vocational rehabilitation counselors, and workforce investment case managers; processes requests for FFELP loan guarantees; and produces comprehensive management reports.

The Contract is in effect January 1, 2006 through December 31, 2010, with the maximum expenditure not to exceed seventy-five million dollars (\$75,000,000.00).

**Justification for the Proposed Non-Competitive Amendment:**

The SAS70 or SysTrust Review audit tests and evaluates as to whether a particular system is reliable when evaluated against three most essential principles of availability, integrity, and security. This audit is currently performed on a quarterly basis by a third party, contracted by the Contractor. Due to the frequency of the audit, the audit has proven to be redundant in substance. Additionally, TSAC is currently the only guarantee agency requiring this audit on a quarterly basis.

As such, TSAC submits this Amendment Three to change the review schedule from quarterly to annually.

**Justification for the Non-competitive Procurement:**

There are no reasonable and competitive procurement alternatives to the proposed amendment. There is an existing Contract with the Contractor.

**C O N T R A C T   A M E N D M E N T   C O V E R**

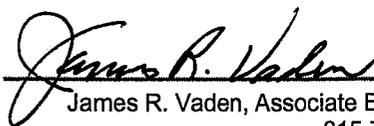
<b>RFS Tracking #</b>	<b>Edison Contract ID #</b>	<b>Amendment #</b>
<b>332.05-036-09</b>	<b>FA-06-16570-02</b>	<b>3</b>

<b>Amendment Purpose</b>	<b>Delegated Authority Requisition ID # (ONLY if applicable)</b>
Changes the frequency of an SAS70 or a SysTrust review audit from quarterly to annually.	<b>RECEIVED</b>

<b>Contractor/Grantee</b>	<b>Contractor/Grantee FEIN or SSN</b>
<b>NELNET GUARANTOR SOLUTIONS (NGS)</b>	<b>59340715000</b> FEB 13 2009

<b>Begin Date</b>	<b>End Date</b>	<b>Subrecipient or Vendor</b>	<b>CFDA #(s)</b>
1/01/06	12/31/10	<input type="checkbox"/> Subrecipient <input checked="" type="checkbox"/> Vendor	

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2006		\$7,000,000.00			\$7,000,000.00
2007		\$9,600,000.00			\$9,600,000.00
2008		\$15,662,730.00			\$15,662,730.00
2009		\$23,068,635.00			\$23,068,635.00
2010		\$19,668,635.00			\$19,668,635.00
<b>TOTAL:</b>					<b>\$75,000,000.00</b>

— COMPLETE FOR AMENDMENTS —			<b>Procuring Agency Contact &amp; Telephone #</b>
FY	Base Contract & Prior Amendments	THIS Amendment ONLY	
2006	\$7,000,000.00	0.00	Peter Abernathy, Senior Associate Executive Director and Staff Attorney 615.532.6065
2007	\$9,600,000.00	0.00	<b>Procuring Agency Budget Officer Approval</b> (there is a balance in the appropriation from which this obligation is required to be paid that is not otherwise encumbered to pay obligations previously incurred.)   James R. Vaden, Associate Executive Director of Fiscal Affairs 615.741.7575
2008	\$15,662,730.00	0.00	
2009	\$23,068,635.00	0.00	
2010	\$19,668,635.00	0.00	
2006	\$7,000,000.00	0.00	<b>Speed Code</b> <b>Account Code</b>
<b>TOTAL:</b>	<b>\$75,000,000.00</b>	<b>0.00</b>	

— OCR Use —	<b>Procurement Process Summary (FA or ED-type only)</b>
	RFP (Standard State RFP Process, adhering to all State mandates)

# REQUEST: NON-COMPETITIVE AMENDMENT

APPROVED

Commissioner of Finance & Administration  
Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS #	332-05-036-09		
2) State Agency Name :	TENNESSEE STUDENT ASSISTANCE CORPORATION (TSAC)		
<b>EXISTING CONTRACT INFORMATION</b>			
3) Service Caption :	Service Support for Agency		
4) Contractor :	NELNET GUARANTOR SOLUTIONS (NGS)		
5) Contract #	FA-06-16570-02		
6) Contract Start Date :	January 1, 2006		
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2010		
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$75,000,000.00		
<b>PROPOSED AMENDMENT INFORMATION</b>			
9) <u>Proposed</u> Amendment #	THREE		
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt) (ATTACHED)	April 16, 2009		
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2010		
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$75,000,000.00		
13) Approval Criteria : (select one)	<input checked="" type="checkbox"/>	use of Non-Competitive Negotiation is in the best interest of the state	
	<input checked="" type="checkbox"/>	only one uniquely qualified service provider able to provide the service	
14) Description of the Proposed Amendment Effects & Any Additional Service :			
The proposed Amendment changes the frequency of an SAS70 or a SysTrust review, performed by a third party arranged by the Contractor, from quarterly to annually.			
15) Explanation of Need for the Proposed Amendment :			

The purpose of this Amendment is to change the requirement for quarterly SAS70 or a SysTrust review audits to an annual audits.

**16) Name & Address of Contractor's Current Principal Owner(s) :**  
(not required if proposed contractor is a state education institution)

NELN, Inc.  
121 S. 13th Street, Suite 201  
Lincoln, NE 68508  
Primary contact: Mike Dunlap

**17) Documentation of Office for Information Resources Endorsement :**  
(required only if the subject service involves information technology; N/A to THDA requests)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

**18) Documentation of Department of Personnel Endorsement :**  
(required only if the subject service involves training for state employees)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

**19) Documentation of State Architect Endorsement :**  
(required only if the subject service involves construction or real property related services)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

**20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :**

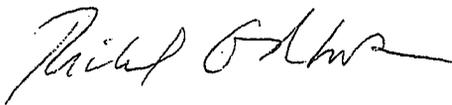
There are no reasonable and competitive procurement alternatives to the proposed Amendment. There is an existing Contract with the Contractor that provides TSAC with the full servicing of TSAC's Federal Family Education Loan Program and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, the TSAC General Ledger System, and the automated proprietary system e\*GRandS used in the administration of TSAC's loan and scholarship programs.

**21) Justification for the Proposed Non-Competitive Amendment :**

As stated, the SAS70 or a SysTrust review is performed on a quarterly basis by a third party, contracted by the Contractor. The review of the audit has proven to be redundant in substance. As such, TSAC submits this Amendment Three to change the review schedule from quarterly to annually. Additionally, TSAC is currently the only guarantee agency requiring this audit on a quarterly basis.

**REQUESTING AGENCY HEAD SIGNATURE & DATE :**

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR—signature by an authorized signatory will be accepted only in documented exigent circumstances)



2.10.09

RICHARD G. RHODA, INTERIM EXECUTIVE DIRECTOR

Date

Supplemental Documentation Required for  
Fiscal Review Committee

*Contact Name:	Peter Abernathy, Senior Associate Executive Director and Staff Attorney	*Contact Phone:	615-532-6065		
*Contract Number:	FA-06-16570-02	*RFS Number:	332.05-036-09		
*Original Contract Begin Date:	January 1, 2006	*Current End Date:	December 31, 2010		
Current Request Amendment Number: <i>(if applicable)</i>	Three				
Proposed Amendment Effective Date: <i>(if applicable)</i>	April 16, 2009				
*Department Submitting:	Tennessee Student Assistance Corporation (TSAC)				
*Division:	Legal Affairs				
*Date Submitted:	February 12, 2009				
*Submitted Within Sixty (60) days: <i>If not, explain:</i>	Yes				
*Contract Vendor Name:	Nelnet Guarantor Solutions (NGS)				
*Current Maximum Liability:	\$75,000,000.00				
<b>*Current Contract Allocation by Fiscal Year:</b> <i>(as Shown on Most Current Fully Executed Contract Summary Sheet)</i>					
FY: 2006	FY: 2007	FY: 2008	FY: 2009	FY: 2010	FY
\$7,000,000	\$9,600,000	\$15,662,730	\$23,068,635	\$19,668,635	\$
<b>*Current Total Expenditures by Fiscal Year of Contract:</b> <i>(attach backup documentation from STARS or FDAS report)</i>					
FY: 2006	FY: 2007	FY: 2008	FY: 2009	FY: 2010	FY
\$7,000,000	\$9,600,000	\$15,662,730	\$23,068,635	\$19,668,635	\$
IF Contract Allocation has been greater than Contract Expenditures, please give the reasons and explain where surplus funds were spent:		N/A			
IF surplus funds have been carried forward, please give the reasons and provide the authority for the carry forward provision:		N/A			
IF Contract Expenditures exceeded Contract Allocation, please give the reasons and explain how funding was acquired to pay the overage:		N/A			
*Contract Funding Source/Amount:	State:		Federal:	100%	

Supplemental Documentation Required for  
Fiscal Review Committee

Interdepartmental:		<i>Other:</i>	
If "other" please define:			
Dates of All Previous Amendments or Revisions: <i>(if applicable)</i>		Brief Description of Actions in Previous Amendments or Revisions: <i>(if applicable)</i>	
February 1, 2008		Amendment One was for the addition of the GEAR-UP TN Bridge Incentive scholarship awards program into the Contractor's on-line database e*GRandS to eliminate manual administrative processing of the program	
August 1, 2008		Amendment Two was required to facilitate the conciliation of contract disputes to ensure that there was no disruption of services provided by NGS/TSAC to the students, student borrowers, parent borrowers, high schools, TSAC participating postsecondary schools, lenders, lender servicers, in the administration of the FFELP loan program and the grants, scholarships, and loan forgiveness programs. The Amendment also addressed findings, issues, and concerns expressed in TSAC's Performance Audit and the Financial and Compliance Audit, and to cure ambiguity in the cost structure of the original Contract.	
Method of Original Award: Competitive (RFP)			

**AMENDMENT THREE  
TO FA-06-16570-02**

This Contract Amendment is made and entered by and between the State of Tennessee, TENNESSEE STUDENT ASSISTANCE CORPORATION, hereinafter referred to as the "State" OR "TSAC" and NELNET GUARANTOR SOLUTIONS, hereinafter referred to as the "Contractor." It is mutually understood and agreed by and between said, undersigned contracting parties that the subject Contract is hereby amended as follows:

1. The text of Contract Section A.12.c Internal Controls (Security) Audit Functions is deleted in its entirety and replaced with the following:

A.12.c. Internal Controls (Security) Audit Functions.

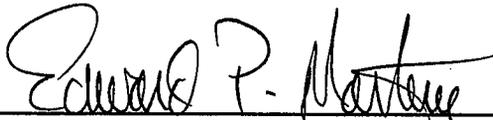
The Contractor shall define the parameters of a comprehensive internal controls (security) audit. These reviews shall be sufficient to reflect an SAS70 or a SysTrust review. TSAC shall review and must approve the comprehensiveness of the proposed internal controls (security) audit. The Contractor shall ensure that the internal controls (security) audit is performed on an annual basis. The Contractor shall arrange to have this audit conducted by an unbiased third party at no additional cost to TSAC. The Contractor shall submit for approval, the name and background of the third party auditor. The Contractor must provide TSAC their plan for correcting or remedying any audit exceptions identified as a result of the security audit within sixty (60) days of completion of the audit.

The Contractor shall describe their plan for independent security audits and provide technical specifics relative to those audits. The Contractor will assist TSAC in support of external security assessments and other externally performed internal controls (security) audits. The Contractor shall provide the physical and logical access reasonably required for authorized representatives to satisfy assessment and audit risks.

The revisions set forth herein shall be effective April 16, 2009. All other terms and conditions not expressly amended herein shall remain in full force and effect.

IN WITNESS WHEREOF,

NELNET GUARANTOR SOLUTIONS:



EDWARD P. MARTINEZ, EXECUTIVE DIRECTOR

2-11-09

DATE



PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)

TENNESSEE STUDENT ASSISTANCE CORPORATION:



RICHARD G. RHODA, INTERIM EXECUTIVE DIRECTOR

2.15.09

DATE

**APPROVED:**

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**M. D. GOETZ, JR., COMMISSIONER OF FINANCE & ADMINISTRATION      DATE**

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**JUSTIN P. WILSON, COMPTROLLER OF THE TREASURY                      DATE**



GENERAL ASSEMBLY OF THE STATE OF TENNESSEE  
FISCAL REVIEW COMMITTEE

320 Sixth Avenue, North – 8<sup>th</sup> Floor  
NASHVILLE, TENNESSEE 37243-0057  
615-741-2564

Rep. Charles Curtiss, Chairman  
Representatives

Curt Cobb Donna Rowland  
Curtis Johnson David Shepard  
Gerald McCormick Curry Todd  
Mary Pruitt Eddie Yokley  
Craig Fitzhugh, *ex officio*  
Speaker Jimmy Naifeh, *ex officio*

Sen. Douglas Henry, Vice-Chairman  
Senators

Bill Ketron Reginald Tate  
Doug Jackson Jamie Woodson  
Paul Stanley  
Randy McNally, *ex officio*  
Lt. Governor Ron Ramsey, *ex officio*

MEMORANDUM

TO: The Honorable Dave Goetz, Commissioner  
Department of Finance and Administration

FROM: Charles Curtiss, Chairman, Fiscal Review Committee  
Bill Ketron, Chairman, Contract Services Subcommittee

DATE: August 14, 2008

SUBJECT: Contract Comments  
(Contract Services Subcommittee Meeting 8/12)

cc  
BK

RFS# 332.05-036

Department: Tennessee Student Assistance Corporation (TSAC)

Contractor: Nelnet Guarantor Solutions (formerly Guarantec, LLP)

Summary: The original contract was for the provision of the full servicing of TSAC's Federal Family Education Loan Program, servicing of grants, scholarships, loan forgiveness programs, and the General Ledger System. The proposed amendment makes various revisions to the scope of services and increases the maximum liability by \$26,937,270. The term of the contract remains the same.

Maximum liability: \$48,062,730

Maximum liability w/amendment: \$75,000,000

After review, the Fiscal Review Committee voted to recommend approval of the contract amendment.

cc: Dr. Richard Rhoda, Interim Executive Director, TSAC  
Mr. Robert Barlow, Director, Office of Contracts Review



STATE OF TENNESSEE  
**TENNESSEE STUDENT ASSISTANCE CORPORATION**  
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404 JAMES ROBERTSON PARKWAY  
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(615) 741-1346 • 1-800-342-1663 • FAX (615) 741-6101

**RECEIVED**

AUG 05 2008

**FISCAL REVIEW**

**MEMORANDUM**

**TO:** Leni Chick, Fiscal Review Committee  
**FROM:** Marcie Mills, Paralegal  
**DATE:** August 1, 2008  
**SUBJECT:** Non-Competitive Amendment Summary

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The Tennessee Student Assistance Corporation (TSAC) proposes to submit a non-competitive amendment to its Contract with Nelnet Guarantor Solutions (NGS) for the purpose of facilitating the conciliation of contract disputes to ensure that there is no disruption of services to the students, student borrowers, parent borrowers, high schools, TSAC participating postsecondary schools and the servicing and administration of the FFELP loan program and the grants, scholarships, and loan forgiveness programs. This contract Amendment is also required to address issues and concerns expressed in both the Performance Audit and Financial and Compliance audit and to cure ambiguity in the cost structure of the original Contract.

Pursuant to Chapter 413, Public Acts of 2003, TSAC is providing the information below for the review of the Fiscal Review Committee.

**Summary of the Terms of the Original Contract**

The Contract between the State of Tennessee, Tennessee Student Assistance Corporation (TSAC), and Guarantec, LLP, is for the provision for the full servicing of TSAC's Federal Family Education Loan Program (FFELP) and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, and the TSAC General Ledger System.

The Contractor provides an Internet-based system for TSAC that is accessible by students, student borrowers, parent borrowers, high schools, TSAC participating postsecondary schools, lenders, lender servicers, vocational rehabilitation counselors, and workforce investment case managers; processes requests for loan guarantees for FFELP loans; and produces comprehensive management reports.

The Contract is in effect January 1, 2006 through December 31, 2010, with the maximum expenditure not to exceed forty-eight million dollars (\$48,000,000.00).

**Justification for the Proposed Non-Competitive Amendment:**

This Contract Amendment is an integral piece in our efforts at conciliation with the Contractor over Contract disputes that had escalated to the magnitude of TSAC having received notification of imminent suit for Breach of Contract, a ninety-day notice of

cancellation of the \$10 million Performance Bond, and a cessation of all but the bare minimum of services by the Contractor. These issues have been collectively addressed by NGS, TSAC, TSAC's Board of Directors and its Executive Committee, the Attorney General's office, and OCR personnel. This Amendment is a reflection of the collaboration of the aforementioned personnel and the mutual agreement that these matters are negotiable and conciliation is in the best interest of all parties.

The Amendment addresses commission rates due the Contractor. The Contract dispute initially arose from the decrease in revenue that the Contractor experienced as a result of statutory reduction in federal collection rates allowed by the U.S. Department of Education in which commission rates paid to NGS were decreased. In addition to lost revenue created by statutory changes, there has been a steady decrease in TSAC's loan volume decreasing the Contractor's revenue realization. (Due to the decline of the credit market and the volatility of the economy, TSAC recently respected the termination of a Contract for the purchase of rehabilitated loans, and amended the the commission structure with another lender.)

The Amendment provides TSAC the opportunity for enhanced services including, default prevention, an electronic claims process, a "Second Chance" Treasury Offset Program, electronic file transfers, enhanced collection efforts, enhanced sales and marketing support for increasing loan volume, "data warehousing", and reduced cohort default rate incentive.

This Amendment is needed to cure an ambiguity that exists in the Contract (Paragraph C.6) that established a \$48 million dollar cap on the amount that can be paid by TSAC. However, this figure addressed projected Service Rates as provided in Section C.3 of the Contract, and did not include the commission rates as provided for in Paragraphs C.4, C.5, and C6.

And lastly, TSAC is taking this opportunity to address Contract issues and concerns as expressed in both the 2008 Performance Audit and the 2007 Financial and Compliance Audit including the initiation of a comprehensive Contract oversight; the decreased share of guaranteed loans in Tennessee; the proprietary software "source code" not being in escrow; the federal Type II SAS70 Audit not being performed by the Contractor, and services as delineated in the Contract either not being provided or no longer required by TSAC.

**Justification for the Non-competitive Procurement:**

There are no reasonable and competitive procurement alternatives to the proposed amendment. There is an existing Contract with the Contractor.

**Background Information and Explanation (Required if date of Proposed Amendment Effective Date is less than sixty (60) days after F&A receipt)**

The Contract is for the provision of the full servicing of TSAC's Federal Family Education Loan Program and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, and the TSAC General Ledger System.

As previously noted, this Contract Amendment is an integral piece in our efforts at conciliation with the Contractor, and that these matters are negotiable and conciliation is in the best interest of all parties.

Due to the magnitude of issues addressed, and the many people involved in this process, it has taken several months to come to this mutually acceptable agreement. However, due to the length of time it took to arrive at an agreement, the Amendment must be in place and effective August 1, 2008, therefore, not allowing TSAC to provide a sixty-day notice as required.

While negotiations were in progress, NGS had stopped all but the basic services. With the acceptance of this Amendment, NGS will resume full services, and enhancements as addressed in the Amendment. A priority for TSAC is for NGS to develop the software analysis for the programs passed by the legislature, including changes to the Tennessee Education Lottery Scholarship (TELS) program, and the addition of the new Tennessee Rural Health Loan Forgiveness Program, and the Helping Heroes Grant. To ensure that there is no impact on the students of Tennessee enrolling in the 2008-2009 academic school year this work must begin immediately.

As such, TSAC respectfully requests that the sixty-day requirement be waived.

# REQUEST: NON-COMPETITIVE AMENDMENT

APPROVED

Commissioner of Finance & Administration

Date:

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

RECEIVED

AUG 05 2008

FISCAL REVIEW

1) RFS #	332-05-036-09	
2) State Agency Name :	TENNESSEE STUDENT ASSISTANCE CORPORATION	
<b>EXISTING CONTRACT INFORMATION</b>		
3) Service Caption :	Service Support for Agency	
4) Contractor :	NELNET GUARANTOR SOLUTIONS (NGS)	
5) Contract #	FA-06-16570-00	
6) Contract Start Date :	January 1, 2006	
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2010	
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$48,062,730.00	
<b>PROPOSED AMENDMENT INFORMATION</b>		
9) <u>Proposed</u> Amendment #	TWO	
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt) (ATTACHED)	August 1, 2008	
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2010	
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$75,000,000.00	
13) Approval Criteria : (select one)	<input checked="" type="checkbox"/>	use of Non-Competitive Negotiation is in the best interest of the state
	<input checked="" type="checkbox"/>	only one uniquely qualified service provider able to provide the service
14) Description of the Proposed Amendment Effects & Any Additional Service :		
<p>1) This Amendment has added the following language, "The performance bond shall not be cancelled by the Contractor until full termination of the Contract is in effect either through termination for convenience or cause."</p> <p>2) This Amendment will set new commission rates due the Contractor on payments on defaulted loans and successfully rehabilitated loans.</p>		

3) This Amendment will provide for enhanced services including, but not limited to: the development of Default Prevention Services that shall include website design and maintenance, multimedia materials, statistical analysis, and assistance with its Default Prevention Advisory Committee; an incentive provision that will compensate the Contractor to assist TSAC in realizing a reduced default cohort rate; the development and implementation of an electronic claims processing module; the development and implementation of a "Second Chance" Treasury Offset Program to encourage borrowers to make payments as either rehabilitation payments or administrative wage garnishment (AWG) payments resulting in suspension of their treasury offset; the development and implementation of an electronic file transfer of all loans that are eligible for rehabilitation in each rehabilitation cycle; enhanced collection efforts through the Loan Assignment (subrogation) process that shall focus on rehabilitation payments, traditional payments, AWG payments, and loan consolidation; the development and implementation of enhanced sales and marketing support for increasing TSAC's loan volume; the development of an alternative to hard copy reports for TSAC and TSAC's participating postsecondary schools, lenders, and lender servicers, including email and web-based capabilities; the development and hosting of a "Data Warehouse" of TSAC's database enabling TSAC the functionality of performing queries for reporting, exporting, and retrieving of data; the implementation of the Lender of Last Resort (LLR) Program including origination, disbursement, service, entrance/exit counseling, and/or transfer of loans to the DOE should TSAC become a LLR due to loss of conventional sources for student loans; and the expansion of services provided to students, student borrowers, parent borrowers, high schools, TSAC participating postsecondary schools, lenders, lender servicers, vocational rehabilitation counselors, and workforce investment case managers at a new costing schedule that is mutually beneficial to both TSAC and the Contractor.

4) This Amendment will address necessary services that have not been provided by the Contractor, and extraneous services that are no longer required, nor provided by the Contractor.

5) This Amendment will set a new Maximum Liability.

- Base Contract at Current Servicing rate for Non-Collections \$28.0M
- Base Contract at Current Collections Rate Ambiguity/Accounting change – COLLECTIONS \$40.5M

**ADDITIONS:**

- Collection adjustment/Loan enhancements \$ 4.3M
- Grants and Scholarship breakout/enhancements \$ 2.2M
- **New Contract Total \$75.0M**

**15) Explanation of Need for the Proposed Amendment :**

The need for this Contract Amendment is multi-faceted:

1) This Contract Amendment is an integral piece in our efforts at conciliation with the Contractor over Contract disputes that had escalated to the magnitude of a TSAC having received notification of imminent suit for Breach of Contract, a ninety-day notice of cancellation of the \$10 million Performance Bond, and a cessation of all but the bare minimum of services by the Contractor. These issues have been collectively addressed by NGS, TSAC, TSAC's Board of Directors and its Executive Committee, Assistant Attorney General Kevin Steiling, and OCR personnel. This Amendment is a reflection of the collaboration of the aforementioned personnel and the mutual agreement that these matters are negotiable and conciliation is in the best interest of all parties.

2) The Amendment addresses commission rates due the Contractor. The Contract dispute initially arose from the decrease in revenue that the Contractor experienced as a result of statutory reduction in federal collection rates allowed by the U.S. Department of Education, the first of which occurred October 2006 when guarantor retention on consolidated loans was reduced from 18.5 % (of which TSAC retained 5% and NGS was paid 13.5%) to 10%, of which TSAC retained 2.7% and NGS was paid 7.3% (a reduction of 6.2% for NGS), and a second statutory mandate (CCRAA) in October 2007 for payments received on traditional loans at which time the guarantor retention was 23%, of which TSAC retained 6% and NGS received payment of 17%, to 16%, of which TSAC retained 6% and NGS's payment was reduced to 10% (a reduction of 6% for NGS). In addition to lost revenue created by statutory changes, there has been a steady decrease in TSAC's loan volume decreasing the Contractor's revenue realization. (Due to the decline of the credit market and the volatility of the economy, TSAC recently respected the termination of a Contract for the purchase of rehabilitated loans, and amended the commission structure with another lender.)

3) This Amendment provides TSAC the opportunity for enhanced services including, default prevention, an electronic claims process, a "Second Chance" Treasury Offset Program, electronic file transfers, enhanced collection efforts, enhanced sales and marketing support for increasing loan volume, "data warehousing", and reduced cohort default rate incentive.

4) TSAC is addressing Contract issues and concerns as expressed in both the 2008 Performance Audit and the 2007 Financial and Compliance Audit including the initiation of a comprehensive Contract oversight; the decreased share of guaranteed loans in Tennessee; the proprietary software "source code" not being in escrow; the federal Type II SAS70 Audit not being performed by the Contractor, and services as delineated in the Contract either not being provided or no longer required by TSAC.

5) This Amendment is needed to cure an ambiguity that exists in the Contract (Paragraph C.6) that established a \$48 million dollar cap on the amount that can be paid by TSAC. However, this figure addressed projected Service Rates as provided in Section C.3 of the Contract, and did not include the commission rates as provided for in Paragraphs C.4, C.5, and C.6. For the fiscal year 2008, due to a shortfall of funding, it was necessary for Business Affairs to transfer six million (\$6,000,000.00) from the 2010 funding.

**16) Name & Address of Contractor's Current Principal Owner(s) :**  
(not required if proposed contractor is a state education institution)

NELN, Inc.  
121 S. 13th Street, Suite 201  
Lincoln, NE 68508  
Primary contact: Mike Dunlap

**17) Documentation of Office for Information Resources Endorsement :**  
(required only if the subject service involves information technology; N/A to THDA requests)

**select one:**  Documentation Not Applicable to this Request  Documentation Attached to this Request

**18) Documentation of Department of Personnel Endorsement :**  
(required only if the subject service involves training for state employees)

**select one:**  Documentation Not Applicable to this Request  Documentation Attached to this Request

**19) Documentation of State Architect Endorsement :**  
(required only if the subject service involves construction or real property related services)

**select one:**  Documentation Not Applicable to this Request  Documentation Attached to this Request

**20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :**

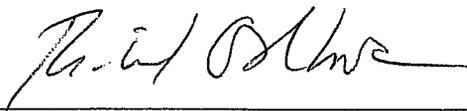
There are no reasonable and competitive procurement alternatives to the proposed Amendment. There is an existing Contract with the Contractor that provides TSAC with the full servicing of TSAC's Federal Family Education Loan Program and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, the TSAC General Ledger System, and the automated proprietary system e\*GRandS used in the administration of TSAC's loan and scholarship programs.

**21) Justification for the Proposed Non-Competitive Amendment :**

The Contract Amendment is required to facilitate the conciliation of contract disputes to ensure that there is no disruption of services to the students, student borrowers, parent borrowers, high schools, TSAC participating postsecondary schools, lenders, lender servicers, vocational rehabilitation counselors, and workforce investment case managers of Tennessee in the servicing and administration of the FFELP loan program and the grants, scholarships, and loan forgiveness programs. This Contract Amendment is also required to address issues and concerns expressed in both the Performance Audit and Financial and Compliance Audit and to cure ambiguity in the cost structure of the original Contract.

**REQUESTING AGENCY HEAD SIGNATURE & DATE :**

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)



2.5.02

Agency Head Signature

Date

**REQUEST: NON-COMPETITIVE AMENDMENT**  
ATTACHMENT

**ITEM 10) PROPOSED AMENDMENT EFFECTIVE DATE**

(Required if date of Proposed Amendment Effective Date is less than sixty (60) days after F&A receipt)

**Background Information and Explanation**

The original Contract is for the provision for the full servicing of TSAC's Federal Family Education Loan Program and loan portfolio, servicing of TSAC's grants, scholarships, loan forgiveness programs, and the TSAC General Ledger System.

This Contract Amendment is an integral piece in our efforts at conciliation with the Contractor over Contract disputes that had escalated to the magnitude of a TSAC having received notification of imminent suit for Breach of Contract, a ninety-day notice of cancellation of the \$10 million Performance Bond, and a cessation of all but the bare minimum of services by the Contractor. These issues have been collectively addressed by NGS, TSAC, TSAC's Board of Directors and its Executive Committee, the Office of the Attorney General, and OCR personnel. This Amendment is a reflection of the collaboration of the aforementioned personnel and the mutual agreement that these matters are negotiable and conciliation is in the best interest of all parties.

Due to the magnitude of issues addressed, and the many people involved in this process, it has taken several months to come to this mutually acceptable agreement. However, due to the length of time it took to arrive at an agreement, the Amendment must be in place and effective August 1, 2008, therefore, not allowing TSAC to provide a sixty-day notice as required by F&A per Item #10.

While negotiations were in progress, NGS had stopped all but the basic services. With the acceptance of this Amendment, NGS will resume full services, and enhancements as addressed in the Amendment. A priority for TSAC is for NGS to develop the software analysis for the programs passed by the legislature, including changes to the Tennessee Education Lottery Scholarship (TELS) program, and the addition of the new Tennessee Rural Health Loan Forgiveness Program, and the Helping Heroes Grant. To ensure that there is no impact on the students of Tennessee enrolling in the 2008-2009 academic school year this work must begin immediately.

As such, TSAC respectfully requests that the sixty-day requirement be waived and the REQUEST: NON-COMPETITIVE AMENDMENT be approved.

# CONTRACT SUMMARY SHEET

021406

<b>RFS #</b>	<b>Contract #</b>
332.05-036-09	FA-06-16570-02
<b>State Agency</b>	<b>State Agency Division</b>
Tennessee Student Assistance Corporation	Fiscal Office
<b>Contractor Name</b>	<b>Contractor ID # (FEIN or SSN)</b>
Nelnet Guarantor Solutions	593407160-00

RECEIVED

AUG 05 2008

FISCAL REVIEW

<b>Service Description</b>			
Service Support for Agency			
<b>Contract BEGIN Date</b>	<b>Contract END Date</b>	<b>Subrecipient or Vendor?</b>	<b>CFDA #</b>
1-Jan-06	31-Dec-10	Vendor	

**Mark Each TRUE Statement**

<input checked="" type="checkbox"/> Contractor is on STARS	<input checked="" type="checkbox"/> Contractor's Form W-9 is on file in Accounts
--	--

Allotment Code	Cost Center	Object Code	Fund	Funding Grant Code	Funding Subgrant Code
332.05	6006	083	25		
FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2006		\$ 7,000,000.00			\$ 7,000,000.00
2007		\$ 9,600,000.00			\$ 9,600,000.00
2008		\$ 15,662,730.00			\$ 15,662,730.00
2009		\$ 23,068,635.00			\$ 23,068,635.00
2010		\$ 19,668,635.00			\$ 19,668,635.00
					\$ -
<b>TOTAL:</b>	\$ -	\$ 75,000,000.00	\$ -	\$ -	\$ 75,000,000.00

<b>— COMPLETE FOR AMENDMENTS ONLY —</b>			<b>State Agency Fiscal Contact &amp; Telephone #</b>
FY	Base Contract & Prior Amendments	THIS Amendment ONLY	Mason Ball, 404 James Robertson Parkway, 17th Floor . Ph : 253-7467  <b>State Agency Budget Officer Approval</b>  <i>Mason Ball</i>  <b>Funding Certification</b> (certification, required by T.C.A. § 9-4-5113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
2009	\$ 9,600,000.00	\$ 13,468,635.00	
2010	\$ 6,200,000.00	\$ 13,468,635.00	
<b>TOTAL:</b>	\$ 15,800,000.00	\$ 26,937,270.00	
<b>End Date</b>	31-Dec-10	31-Dec-10	

**Contractor Ownership** (complete only for base contracts with contract # prefix: FA or GR)

<input type="checkbox"/> African American	<input type="checkbox"/> Person w/ Disability	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input type="checkbox"/> NOT disadvantaged
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input type="checkbox"/> OTHER minority/disadvantaged—	

**Contractor Selection Method** (complete for ALL base contracts— N/A to amendments or delegated authorities)

<input checked="" type="checkbox"/> RFP	<input type="checkbox"/> Competitive Negotiation	<input type="checkbox"/> Alternative Competitive Method
<input type="checkbox"/> Non-Competitive Negotiation	<input type="checkbox"/> Negotiation w/ Government(eg, ID, GG, GU)	<input type="checkbox"/> Other

**Procurement Process Summary** (complete for Alternative Method, Competitive Negotiation, Non-Competitive Negotiation, OR Other)

Standard State RFP Process (Adhering to all State mandates)

**AMENDMENT TWO  
TO FA-06-16570-00**

This Contract Amendment is made and entered by and between the State of Tennessee, TENNESSEE STUDENT ASSISTANCE CORPORATION (TSAC), hereinafter referred to as the "State" and NELNET GUARANTOR SOLUTIONS (NGS), hereinafter referred to as the "Contractor." It is mutually understood and agreed by and between said, undersigned contracting parties that the subject Contract is hereby amended as follows:

1. **The text of Contract Section A.1.o. Lender of Last Resort Program. is deleted in its entirety and replaced with the following:**

A.1.o. Lender of Last Resort Program.

The Contractor shall provide TSAC and TSAC participating postsecondary schools, lenders, and lender servicers a process for Lender of Last Resort Program (LLR) loan requests and guarantees. The Contractor must agree to comply with all applicable statutes, regulations, directives, and procedures pertaining to the Lender of Last Resort Program. Any and all loans guaranteed under the Lender of Last Resort Program shall be tracked individually on the loan origination system. The Contractor's system shall handle all operations of this program, including, at a minimum, loan processing, loan disbursements, loan transfers, and full loan servicing during the life of the loan if a participating TSAC lender or lender servicer is not available.

The Contractor must be prepared to perform lending servicing for an LLR program as determined by the Department of Education (DOE), in conjunction with TSAC's determinations. In the event that TSAC should enact an LLR program, TSAC shall define the program services that will be required within specified timeframes. As requested by TSAC, the Contractor shall originate, disburse, service, and/or transfer those loans to the DOE.

2. **The text of Contract Section A.5. Default Aversion Assistance for the Federal Family Education Loan Program. is deleted in its entirety and replaced with the following:**

A.5. Default Management - Default Aversion Assistance and Default Prevention Services for the Federal Family Education Loan Program.

The Contractor shall provide TSAC as part of the Internet-based system the capability to collect, edit, process, track, and report student borrower and parent borrower demographic and delinquent loan information from TSAC and TSAC participating lenders and lender servicers for FFELP loans, including, and without limitation, Federal Stafford Loans, Federal PLUS Loans, and Federal Consolidation Loans.

The Contractor shall also be able to coordinate with a default aversion assistance professional counseling service as approved by TSAC. Any requests to subcontract for these services shall be made in accordance with Section D.5. of this Contract. The Contractor's operations shall enable TSAC to take full advantage of the Default Aversion Fee enacted in the Higher Education Amendments of 1998. The Contractor shall also comply with all applicable statutes, regulations, directives, and initiatives for Default Aversion Assistance and be fully committed to this process.

The Contractor shall develop default prevention activities as detailed in Section A.5.n., for FFELP loans, including, and without limitation, Federal Stafford Loans, Federal PLUS Loans, and Federal Consolidation Loans. The Contractor may coordinate with a professional counseling service in accordance with Section D.5 of this Contract. These services shall be directed toward actual and potential borrowers, participating postsecondary schools, lenders, and lender servicers. This shall enable TSAC to benefit from increased loan volume based on these services. The Contractor shall be fully committed to these services.

3. The text of Contract Section A.5.g. Reports. is deleted in its entirety and replaced with the following:

A.5.g. Reports.

The Contractor shall provide TSAC with comprehensive management reports in summary and detailed formats for FFELP loans, including, and without limitation, Federal Stafford Loans, Federal PLUS Loans, and Federal Consolidation Loans. The Contractor shall provide TSAC with the capability to run reports selected according to the following criteria: daily, weekly, monthly, quarterly, fiscal years, and annual basis. The Contractor shall provide the capability for TSAC to print all reports on-line.

The management reports shall include, at a minimum:

- Lender or lender servicer name and OPEID,
- Postsecondary school name and OPEID,
- Number of student borrowers and parent borrowers,
- Social security number,
- Loan type,
- Guarantee date,
- Insurance number,
- Loan amount,
- Date default aversion assistance request received,
- Default aversion assistance professional counseling servicer,
- Number and dollar value of default aversion assistance requests received,
- Number and dollar value of accounts placed with the default aversion assistance professional counseling servicer, and
- Number of default aversion notifications sent to postsecondary schools.

The Contractor shall also provide a report to TSAC that fully supports TSAC's evaluations of its default aversion assistance professional counseling servicer, and fully supports TSAC's accounting for allocating Default Prevention Fees from TSAC's Federal Fund to its Agency Operating Fund.

This report shall include, at minimum:

- Lender or lender servicer name and OPEID,
- Postsecondary school name and OPEID,
- Loan type,
- Loan amount,
- Date default aversion assistance request received,
- Default aversion assistance professional counseling servicer,
- Date default aversion assistance request update received,
- Number and dollar value of default aversion assistance requests received,
- Number of lender update received,
- Number and dollar value of accounts placed,
- Number, dollar value, and percentages of accounts cured,
- Number, dollar value, and percentages of skipped accounts resolved,
- Number and dollar value of Default Aversion Fees earned,
- Number and dollar value of default claims received,
- Number and dollar value of default aversion assistance requests received within eighteen (18) months of a prior cure, and
- Number of default aversion assistance rosters sent to TSAC participating postsecondary schools.

The Contractor shall be paid to assist TSAC in maintaining a cohort default rate within a range of National Cohort Default Rate, as reported by the Department of Education, as detailed in Section C.14. As prescribed by TSAC the Contractor shall provide TSAC a

report reflecting the cohort default rate by school or lender on the same basis used by the Department of Education by the Contractor, for a specified reporting timeframe, within the timeframe as requested by TSAC.

4. **The following provision is added as Contract Section A.5.n. Default Prevention Services for the Federal Family Education Loan Program.**

A.5.n. Default Prevention Services for the Federal Family Education Loan Program.

The Contractor shall provide for the default prevention services that are fully compliant with all applicable statutes, regulations, directives, and initiatives for the Federal Family Education Loan Program.

The default prevention services may include, but not limited to, the following:

- Develop Performance Standards and Measurements,
- Student/Borrower Surveys,
- Partnerships with Schools (as requested by TSAC),
- School visits (as requested by TSAC),
- Website Design and Maintenance (either existing products, or on TSAC's website),
- Multimedia Materials and Presentations,
- Financial Literacy Materials and Presentations, and
- Statistical Analysis.

The Contractor shall assist TSAC with its Default Prevention Advisory Committee to include, but not limited to, the following:

- Coordination of Committee Calls,
- Layout and Design of Brochures and other Materials,
- Follow-up to Operational Areas for Plan Implementations, and
- Tracking of Project Status.

5. **The text of Contract Section A.6. Claim Filing for the Federal Family Education Loan Program. is deleted in its entirety and replaced with the following:**

A.6. Claim Filing for the Federal Family Education Loan Program.

The Contractor shall provide TSAC as part of the Internet-based system the capability of processing the receipt of all claim types for FFELP loans, including, and without limitation, Federal Stafford Loans, Federal PLUS Loans, and Federal Consolidation Loans. Upon TSAC's request, the Contractor shall develop and implement an electronic claims processing module.

6. **The text of Contract Section A.6.a. Common Claim Initiative. is deleted in its entirety and replaced with the following:**

A.6.a. Common Claim Initiative.

The Contractor shall provide TSAC and TSAC participating lenders and lender servicers with the capability to utilize a Common Claim Initiative process for FFELP loans, including, and without limitation, Federal Stafford Loans, Federal PLUS Loans, and Federal Consolidation Loans. The Contractor shall provide for the receipt, editing, tracking, resolution, and reporting of all claim types that are fully compliant with all applicable statutes, regulations, directives, and initiatives for the Federal Family Education Loan Program developed by the Common Claim Initiative work group or other similar committees or groups for the standardization of claim receipt, review and processing.

Upon TSAC's request, the Contractor shall develop an electronic claims process whereby claims can be submitted electronically by TSAC lenders. Additionally, TSAC desires that the claim review process can, to the maximum extent possible, be implemented in an automated fashion to ensure the maximum processing efficiency and review.

7. **The text of Contract Section A.7.f. Collection Agencies. is deleted in its entirety and replaced with the following:**

A.7.f. Collection Agencies.

The Contractor shall provide TSAC with post-claims recovery assistance and coordinate with professional collection agencies as approved by TSAC. Any requests to subcontract for these services shall be made in accordance with D.5. of this Contract.

The Contractor shall assign accounts using a competitive performance basis methodology approved by TSAC and as defined by federal regulations. This methodology shall establish a monthly placement percentage for each collection agency based upon their performance.

The Contractor shall also assign any newly defaulted account to a collection agency that is actively pursuing recovery of another defaulted debt for the same borrower. TSAC's objectives for the use of competing collection agencies are to maximize default recoveries and to avail itself of the alternative collection procedures for defaulted loans allowed under federal regulations. The Contractor's monitoring of collection agencies, therefore, must assure that the requirements of the federal regulations are being met. The Contractor shall assume full responsibility for the accuracy, timeliness, and legal compliance of all collection, payment processing, and reporting activities of the collection agencies.

The Contractor shall require all collection agencies to submit payments received to the payment lockbox within forty-eight (48) hours of receipt. Each collection agency's system must allocate borrower payments in the same manner as the TSAC's system, and must account for collection charges according to federal regulatory requirements. Each collection agency's system must be able to handle multiple interest rates within a single account.

The Contractor shall assign new accounts to the collection agencies, no less frequently than weekly, through an electronic transmission. Each collection agency shall be required to send the Contractor a report acknowledging placements received within a week of their receipt. The Contractor shall compare this report to its placement file to the agency to assure that all accounts were successfully received and loaded to the collection agency's system.

On a monthly basis, the Contractor shall send each agency an electronic transmission of all accounts actively placed with the agency, and shall require the agency to reconcile any discrepancies in account status (e.g., active, closed) and to adjust its balances for principal, interest, unpaid collection charges, and other charges to the figures provided by the Contractor.

Upon TSAC's request, the Contractor shall provide a duplicate of each file that is provided to a collection agency to afford TSAC with both the data and the mechanism with which to assist with Administrative Wage Garnishment (AWG) and License Suspension activities. In this connection, TSAC agrees to collaborate with the Contractor and the collection agency so as not to subvert their collection efforts. The files shall be available to TSAC for electronic transmission within one day of being made available to Collection Agencies.

8. **The text of Contract Section A.7.f.1. Performance Tracking. is deleted in its entirety and replaced with the following:**

A.7.f.1. Performance Tracking.

Each month, the Contractor shall select at random thirty (30) active accounts from each collection agency to audit the agency's compliance with federal due diligence and contractual standards. The Contractor shall promptly report any findings to the agency and require the agency to confirm all corrective actions taken. The Contractor shall immediately report to TSAC any and all egregious or systematic errors discovered in such an audit, and shall immediately take any corrective or disciplinary action with the agency recommended by TSAC, including termination of the collection agency's contract.

Once a year, the Contractor shall conduct an on-site audit of each collection agency. The Contractor's audit procedures must cover, at minimum, reviews of procedural and systematic controls for regulatory compliance, fiscal integrity, accuracy and timeliness of payment processing, system capacity, adequacy of personnel, and physical and information security. The audit should include monitoring of collection calls placed on TSAC accounts.

The results of such audits shall be one component of a comprehensive monthly report from the Contractor to TSAC analyzing the overall recovery effectiveness of all collection agencies and of the Contractor. In addition to audit results, the report will provide, at minimum, for each entity:

- The number and percentage of accounts in repayment,
- Gross and net recoveries expressed in dollars and as percentages of placed accounts broken out by traditional collections, rehabilitation payoffs, consolidation payoffs, suspended treasury offsets, and the "Second Chance" Treasury Offset Program.
- The number and dollar value, and percentages for each, of accounts assigned to the U.S. Department of Education.

The Contractor shall also provide a Default Collections Reconciliation Report or its equivalent developed in consultation with TSAC's management. The report shall report collection activity for each month and shall be delivered by the fifth (5th) of the following month.

9. **The text of Contract Section A.7.g. Treasury Offset. is deleted in its entirety and replaced with the following:**

A.7.g. Treasury Offset.

The Contractor shall be fully committed to this process and be able to provide procedures and documentation needed to initiate and process a Treasury offset.

The system shall fully support the certification of borrowers to the U.S. Treasury's Financial Management Service for the purpose of intercepting federal payments (including tax refunds) to offset defaulted debts.

The Contractor shall conduct all Federal Offset activities on behalf of TSAC, including, and without limitation:

- Sending initial notices to defaulted borrowers of the intent to offset and notifying them of their rights to enter repayment agreements or oppose offsets,
- Automatically post offset payments and refunds from electronic files received from the U.S. Treasury,
- Prepare offset refund requests for borrowers and spouses for TSAC's approval and payment, and
- Update borrowers' accounts with all offset activities.

The Contractor shall comply with all of the requirements set forth by the U.S. Department of Education and U.S. Treasury for the Treasury Offset program.

The Contractor shall implement a "Second Chance" Treasury Offset Program to encourage borrowers to make payments as either rehabilitation payments or AWG payments resulting in suspension of their treasury offset.

10. The text of Contract Section A.7.j. Rehabilitation. is deleted in its entirety and replaced with the following:

A.7.j. Rehabilitation.

The Contractor shall ensure the forms, form layouts, formats, programs, procedures, and documentation needed for the TSAC Rehabilitation Loan Program that meets TSAC, the State of Tennessee, and the U.S. Department of Education statutory and regulatory requirements, and complies with all applicable statutes, regulations, directives, and initiatives for the Federal Family Education Loan Program.

The system shall automatically identify borrowers who qualify for Loan Rehabilitation according to federal statutory and regulatory requirements. As frequently as monthly, the Contractor shall send system-generated notices to qualifying borrowers asking for permission to rehabilitate their accounts. The Contractor shall record borrowers' permission to rehabilitate on the system, and then prepare rosters of rehabilitation accounts to be purchased by a lender or lenders designated by TSAC.

The Contractor shall apply rehabilitation payoffs as a separate payment type on the individual accounts to ensure that such recoveries are correctly reported in TSAC's Forms 2000 reporting.

The Contractor shall delete all successfully rehabilitated loans from its reporting to national credit bureaus at least once monthly.

Upon TSAC's request, the Contractor shall provide a report in an electronic format to facilitate electronic file transfer of all loans that are eligible for rehabilitation in each rehabilitation cycle to TSAC. The report shall include, at a minimum:

- Borrower Social Security Number,
- Borrower Full Name,
- Borrower Address,
- Borrower Phone Number,
- Borrower DOB,
- Student Social Security Number, if PLUS loan,
- Student full Name, if a PLUS loan,
- Student Address, if a PLUS loan,
- Student Phone Number, if a PLUS loan,
- Student DOB, if a PLUS loan,
- Loan Type,
- Guarantor ID,
- Guarantee Date,
- Guarantee Amount,
- Interest Rate,
- Principal Outstanding,
- Collection Costs,
- Total Loan Balance,
- Next Due Date,
- Effective Purchase Date, and

- Number and Dollar volume of loans to be rehabilitated.

11. **The following provision is added as Contract Section A.7.m. Enhanced Collection Efforts: Loan Assignment (Subrogation):**

A.7.m. Enhanced Collection Efforts: Loan Assignment (Subrogation).

The Contractor may contract with a separate Collection Agency to provide enhanced collection efforts through the Loan Assignment process for those loans that are in danger of being assigned to the Department of Education. Those collection efforts shall focus on, in order of priority: 1) rehabilitation payments, 2) traditional payments, 3) AWG payments, and 4) loan consolidation, unless otherwise specified by TSAC.

12. **The following provision is added as Contract Section A.8.k. Enhanced Sales and Marketing Support for Increasing Loan Volume:**

A.8.k. Enhanced Sales and Marketing Support for Increasing Loan Volume.

The Contractor shall assist TSAC in the preparation, development and execution of their marketing plan and provide a sales representative(s) and/or contractor(s) to assist in their loan volume market expansion. The contractor shall be compensated as detailed in Section C.15 of this Contract. In the event TSAC becomes dissatisfied with the Contractor's sales and/or marketing support, it shall submit to the Contractor written notice thereof, showing reasonable cause why a substitution of either the marketing plan or the marketing personnel should be made, with the contractor's assurances that reasonable efforts shall be made to resolve the issue(s).

13. **The following provision is added as Contract Section A.8.l. Reports for TSAC and TSAC Participating Postsecondary Schools, Lenders, and Lender Servicers:**

A.8.l. Reports for TSAC and TSAC Participating Postsecondary Schools, Lenders, and Lender Servicers:

Upon TSAC's request, the Contractor shall provide TSAC and TSAC participating postsecondary schools, lenders, and lender servicers alternative formats for the transmittal and retrieval of reports, including, but not limited to, web-based, spreadsheet, .pdf, and email.

14. **The following provision is added as Contract Section A.8.m. Data Warehousing:**

A.8.m. Data Warehousing.

Upon TSAC's request, the Contractor shall assist TSAC in the development of a "Data Warehouse" of TSAC's database, enabling TSAC the functionality of performing queries for reporting, comparing, exporting, and retrieving of data at a time deemed appropriate by TSAC. The Contractor shall provide data as requested by TSAC.

15. **The following provision is added as Contract Section A.8.n. Forms:**

A.8.n. Forms.

The Contractor shall ensure the forms, form layouts, formats, programs, procedures, and documentation needed for, but not limited to, the processing and adding/changing/deleting/updating, of a manual default aversion assistance; transmitting and receiving default aversion assistance; requesting a claim for payment; recording the receipt of claim files; and programs and initiatives as they are developed and implemented by the Contractor shall meet TSAC, State of Tennessee, and the U.S. Department of Education statutory and regulatory requirements, and comply with all

applicable statutes, regulations, directives and initiatives for the Federal Family Education Loan Program.

16. The following provision is added as Contract Section A.8.o. GAFR/NSLDS Reasonability Rate.

A.8.o. GAFR/NSLDS Reasonability Rate.

The Contractor shall be compensated as detailed in Section C.3., to improve its GAFR/NSLDS reasonability rate as provided by the Department of Education.

17. The text of Contract Section A.11.a. Enhancements. is deleted in its entirety and replaced with the following:

A.11.a. Enhancements.

TSAC may request, at any time, additional work from the Contractor. The additional work may involve enhancements or changes other than regulatory and statutory changes as set forth in Section A.11.b. Requested changes may include modifications to the functional requirements and processing procedures or other modifications according to a priority schedule as provided by TSAC. Upon receipt of a signed and finalized functional design document from TSAC, the Contractor shall provide a summary analysis of the change, to include an estimated scope of change, an estimated number of hours to complete the change, an estimated date for User Acceptance Testing and an estimated date for Implementation.

Enhancements shall be billed at an Hourly Rate as detailed in Section C. of this Contract.

18. The text of Contract Section A.11.b. Statutory Changes. is deleted in its entirety and replaced with the following:

A.11.b. Statutory Changes.

TSAC may request, at any time, additional work from the Contractor as required by statutory and regulatory changes, and the Contractor shall be compensated as detailed in Section C.3.

19. The following provision is added as Contract Section A.11.b.1. Statutory and Regulatory Changes – Loans.

A.11.b.1. Statutory and Regulatory Changes – Loans.

TSAC may request changes to the functional requirements and processing procedures or other modifications required by the U.S. Department of Education statutory and regulatory requirements for the Federal Family Education Loan Program and shall be made at no additional cost to TSAC. Within fifteen (15) business days of receiving a signed and finalized functional design document from TSAC, the Contractor shall provide a summary analysis of the change, to include an estimated scope of change, an estimated number of hours to complete the change, an estimated date for User Acceptance Testing and an estimated date for Implementation. If the Contractor fails to deliver the agreed upon change by the agreed upon date, TSAC shall at the discretion of the Executive Director impose liquidated damages, as described in Attachment D.

20. The following provision is added as Contract Section A.11.b.2. Statutory and Regulatory Changes – Grants, Scholarships, and Loan Forgiveness Programs.

A.11.b.2. Statutory and Regulatory Changes – Grants, Scholarships, and Loan Forgiveness Programs.

TSAC may request, and the contractor shall provide, changes to e\*GRandS that are required by the State of Tennessee statutory and regulatory requirements for the TSAA, TELS, Scholarships, and Loan Forgiveness Programs. Requested changes may include modifications to the functional requirements and processing procedures or other modifications. Within ten (10) business days of receiving a signed and finalized software requirements specification document (SRS) from TSAC, the Contractor shall provide a summary analysis of the change, to include an estimated scope of change, an estimated number of hours to complete the change, an estimated date for User Acceptance Testing and an estimated date for Implementation. If the Contractor fails to deliver the agreed upon change by the agreed upon date, TSAC shall at the discretion of the Executive Director impose liquidated damages, as described in Attachment D. Statutory Changes for the TSAA, TELS, Scholarships, and Loan Forgiveness Program shall be billed at an Hourly Rate as detailed in Section C.3 of this Contract.

21. The text of Contract Section A.22. Technical Support. is deleted in its entirety.
22. The text of Contract Section C.1. Maximum Liability. is deleted in its entirety and replaced with the following:

C.1. Maximum Liability.

In no event shall the maximum liability of the State under this Contract exceed Seventy-five Million Dollars (\$75,000,000.00). The Rates in Section C.3, C.4, C.5, C.6, C.14, and C.15 shall constitute the entire compensation due the Contractor for the Contractor's obligations hereunder regardless of the difficulty, materials or equipment required. The Rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

The Contractor is not entitled to be paid the maximum liability for any period under the Contract or any extensions of the Contract for work not requested by the State. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this Contract unless the State requests work and the Contractor performs said work. In which case, the Contractor shall be paid in accordance with the Rates detailed in Section C. 3. and the Rates detailed in Sections C.4, C.5, C.6, C.14, and C.15.

The State is under no obligation to request work from the Contractor in any specific dollar amounts or to request any work at all from the Contractor during any period of this Contract.

23. The text of Contract Section C.3. Payment Methodology. is deleted in its entirety and replaced with the following:

C.3. Payment Methodology.

For any federal legislative mandates which affect loan yields, the item reflected in Section C.3 and the resulting percentage of change in loan yields shall be applied in a pro rata fashion to the existing rate item in Section C.3. as a percentage to determine the new rate.

Adjustments to billing rates can be adjusted only under strict TSAC guidelines and with initial approval by TSAC. TSAC's approval will be based on sound business practice and will be primarily a reflection of legislative changes that result in significant revenue cuts and will be shared on a pro rata basis where TSAC has final approval. Notice to the Contractor for final approval shall be in writing after TSAC and the State of Tennessee processes are complete.

TSAC shall make no guarantee as to the volume of rehabilitated loans, payments on defaulted loans, and/or consolidated loans to be received by the Contractor.

The Contractor shall be compensated based on the Service Rates herein for units of service authorized by the State in a total amount not to exceed the Contract Maximum Liability established in Section C.1.

The Contractor's compensation shall be contingent upon the satisfactory completion of units of service or project milestones defined in Section A and Commission Rates as defined in Section C. PAYMENT TERMS AND CONDITIONS and related subsections of this Contract. The Contractor shall be compensated based upon the following Service Rates:

**SERVICE RATES – YEAR 1**

**DEVELOPMENT AND SERVICING FEES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO** **AMOUNT**

Stafford Loans Guaranteed (Per Loan)	\$3.94
PLUS Loans Guaranteed (Per Loan)	\$3.94
Consolidation Loans Guaranteed (Per Loan)	\$3.94
Loans Outstanding – Interim Status (Per Loan)	\$2.23
Loans Outstanding – Repayment Status (Per Loan)	\$4.87
Loans Outstanding – Default Status (Per Loan)	\$0.00
Default Aversion Assistance (Per Loan)	\$28.13
Claims Purchased (Per Claim)	\$0.00
Supplemental Claims Purchased (Per Claim)	\$0.00
Lender of Last Resort – New Loans Guaranteed (Per Loan)	\$3.94
Hourly Payment Rate for Additional Work *	\$85.00

**DEVELOPMENT AND MONTHLY PROCESSING RATES FOR TSAA, TELS, SCHOLARSHIPS, AND LOAN FORGIVENESS PROGRAMS** **AMOUNT**

January 1, 2006 – December 31, 2006 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work *	\$85.00

**DEVELOPMENT AND MONTHLY PROCESSING RATES FOR GENERAL LEDGER SYSTEM** **AMOUNT**

January 1, 2006 – December 31, 2006 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work *	\$85.00

**SERVICE UNIT – YEAR 2**

**SERVICE RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO** **AMOUNT**

Stafford Loans Guaranteed (Per Loan)	\$3.55
PLUS Loans Guaranteed (Per Loan)	\$3.55
Consolidation Loans Guaranteed (Per Loan)	\$3.55
Loans Outstanding – Interim Status (Per Loan)	\$2.09
Loans Outstanding – Repayment Status (Per Loan)	\$4.56
Loans Outstanding – Default Status (Per Loan)	\$0.00
Default Aversion Assistance (Per Loan)	\$27.61
Claim Purchased (Per Claim)	\$0.00
Supplemental Claims Purchased (Per Claim)	\$0.00
Lender of Last Resort – New Loans Guaranteed (Per Loan)	\$3.55
Hourly Payment Rate for Additional Work *	\$88.00

MONTHLY PROCESSING RATES FOR TSAA, TELS, SCHOLARSHIPS, AND LOAN FORGIVENESS PROGRAMS AMOUNT

January 1, 2007 – December 31, 2007 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work *	\$88.00

MONTHLY PROCESSING RATES FOR GENERAL LEDGER SYSTEM AMOUNT

January 1, 2007 – December 31, 2007 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work *	\$88.00

SERVICE RATES – YEAR 3

SERVICING RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO AMOUNT

Stafford Loan Guaranteed (Per Loan)	\$3.27
PLUS Loans Guaranteed (Per Loan)	\$3.27
Consolidation Loans Guaranteed (Per Loan)	\$3.27
Loans Outstanding – Interim Status (Per Loan)	\$1.99
Loans Outstanding – Repayment Status (Per Loan)	\$4.35
Loans Outstanding – Default Status (Per Loan)	\$0.00
Default Aversion Assistance (Per Loan)	\$27.12
Claims Purchased (Per Claim)	\$0.00
Supplemental Claims Purchased (Per Claim)	\$0.00
Treasury Offset Program (TOP) “Second Chance” (Annually)	\$7,500
Data Warehousing – Data Transmission (Monthly - Upon Delivery)	\$2,500

DEVELOPMENT AND SUPPORT ENHANCEMENT RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO

Hourly Payment Rate (Including, but not limited to: Electronic Reports, Data Warehousing, Electronic File Transfer, GAFR/NSLDS Reasonability Rate, and Electronic File Transfer Rehabilitation Loan Report)	\$90.00
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DEVELOPMENT AND SUPPORT ENHANCEMENT RATES FOR THE DEFAULT PREVENTION INITIATIVE

Hourly Payment Rate	\$75.00
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SERVICED LENDER OF LAST RESORT (LLR) (PER LOAN) – TIME AND MATERIAL RATES

Originating (Per Application – Stafford, PLUS, GradPlus only)	\$25.00
Servicing (monthly per Social Security Number (SSN) – which shall mean the combined loans for a borrower under the same Lender ID):	
In School/Grace	\$2.25
Repayment (Other than In School or Grace)	\$4.50
Delinquency Surcharge	\$3.75
Deconversion Fee (Per Loan)	\$60.00

COMMISSION RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO

Federal Consolidation Loans	7.3%
Payments on Defaulted Loans	15.0%
Rehabilitation Loans	13.5%
Enhanced Collections – Subrogation	11.0%

MONTHLY MAINTENANCE AND STATUTORY AND REGULATORY CHANGE RATES FOR TSAA, TELS, SCHOLARSHIPS, AND LOAN FORGIVENESS PROGRAMS **AMOUNT**

July 1, 2008 – December 31, 2008	
Hourly Payment Rate up to 700 Hours	\$60.00
Hourly Payment Rate in excess of 700 Hours	\$90.00

ENHANCEMENT RATES FOR TSAA, TELS, SCHOLARSHIPS AND LOAN FORGIVENESS PROGRAMS

Hourly Payment Rate	\$90.00
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MONTHLY PROCESSING RATES FOR GENERAL LEDGER SYSTEM **AMOUNT**

January 1, 2008 – December 31, 2008 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work	\$90.00

SERVICE RATES – YEAR 4

SERVICING RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO **AMOUNT**

Stafford Loan Guaranteed (Per Loan)	\$3.19
PLUS Loans Guaranteed (Per Loan)	\$3.19
Consolidation Loans Guaranteed (Per Loan)	\$3.19
Loans Outstanding – Interim Status (Per Loan)	\$2.02
Loans Outstanding – Repayment Status (Per Loan)	\$4.42
Loans Outstanding – Default Status (Per Loan)	\$0.00
Default Aversion Assistance (Per Loan)	\$26.64
Claims Purchased (Per Claim)	\$0.00
Supplemental Claims Purchased (Per Claim)	\$0.00
Treasury Offset Program (TOP) “Second Chance” (Annually)	\$7,500
Data Warehousing – Data Transmission (Monthly - Upon Delivery)	\$2,500

DEVELOPMENT AND SUPPORT ENHANCEMENT RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO

Hourly Payment Rate (Including, but not limited to: Electronic Reports, Data Warehousing, Electronic File Transfer, GAFR/NSLDS Reasonability Rate, and Electronic File Transfer Rehabilitation Loan Report)	\$93.00
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DEVELOPMENT AND SUPPORT ENHANCEMENT RATES FOR THE DEFAULT PREVENTION INITIATIVE

Hourly Payment Rate	\$78.00
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SERVICED LENDER OF LAST RESORT (LLR) (PER LOAN) – TIME AND MATERIAL RATES

Originating (Per Application – Stafford, PLUS, GradPlus only)	\$25.00
Servicing (monthly per Social Security Number (SSN) – which shall mean the combined loans for a borrower under the same Lender ID):	
In School/Grace	\$2.25
Repayment (Other than In School or Grace)	\$4.50
Delinquency Surcharge	\$3.75
Deconversion Fee (Per Loan)	\$60.00

COMMISSION RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO

Federal Consolidation Loans	7.3%
Payments on Defaulted Loans	15.0%
Rehabilitation Loans	13.5%
Enhanced Collections – Subrogation	11.0%

MONTHLY MAINTENANCE AND STATUTORY AND REGULATORY CHANGE RATES FOR TSAA, TELS, SCHOLARSHIPS, AND LOAN FORGIVENESS PROGRAMS **AMOUNT**

January 1, 2009 – December 31, 2009	
Hourly Payment Rate up to 700 Hours	\$63.00
Hourly Payment Rate in excess of 700 Hours	\$93.00

ENHANCEMENT RATES FOR TSAA, TELS, SCHOLARSHIPS AND LOAN FORGIVENESS PROGRAMS

Hourly Payment Rate	\$93.00
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MONTHLY PROCESSING RATES FOR GENERAL LENDER SYSTEM **AMOUNT**

January 1, 2009 – December 31, 2009 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work	\$93.00

SERVICE RATES – YEAR 5

SERVICING RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO **AMOUNT**

Stafford Loan Guaranteed (Per Loan)	\$3.07
PLUS Loans Guaranteed (Per Loan)	\$3.07
Consolidation Loans Guaranteed (Per Loan)	\$3.07
Loans Outstanding – Interim Status (Per Loan)	\$2.02
Loans Outstanding – Repayment Status (Per Loan)	\$4.41
Loans Outstanding – Default Status (Per Loan)	\$0.00
Default Aversion Assistance (Per Loan)	\$26.14
Claims Purchased (Per Claim)	\$0.00
Supplemental Claims Purchased (Per Claim)	\$0.00
Treasury Offset Program (TOP) “Second Chance” (Annually)	\$7,500
Data Warehousing – Data Transmission (Monthly - Upon Delivery)	\$2,500

DEVELOPMENT AND SUPPORT ENHANCEMENT RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO

Hourly Payment Rate	\$96.00
(Including, but not limited to: Electronic Reports, Data Warehousing, Electronic File Transfer, GAFR/NSLDS Reasonability Rate, and Electronic File Transfer Rehabilitation Loan Report)	

DEVELOPMENT AND SUPPORT ENHANCEMENT RATES FOR THE DEFAULT PREVENTION INITIATIVE

Hourly Payment Rate	\$81.00
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SERVICED LENDER OF LAST RESORT (LLR) (PER LOAN) – TIME AND MATERIAL RATES

Originating (Per Application – Stafford, PLUS, GradPlus only)	\$25.00
Servicing (monthly per Social Security Number (SSN) – which shall mean the combined loans for a borrower under the same Lender ID):	
In School/Grace	\$2.25
Repayment (Other than In School or Grace)	\$4.50
Delinquency Surcharge	\$3.75
Deconversion Fee (Per Loan)	\$60.00
Originating (Per Application – Stafford, PLUS, GradPlus only)	\$25.00

COMMISSION RATES FOR THE FEDERAL FAMILY EDUCATION LOAN PROGRAM AND LOAN PORTFOLIO

Federal Consolidation Loans	7.3%
Payments on Defaulted Loans	15.0%
Rehabilitation Loans	13.5%
Enhanced Collections – Subrogation	11.0%

MONTHLY MAINTENANCE AND STATUTORY AND REGULATORY CHANGE RATES FOR TSAA, TELS, SCHOLARSHIPS, AND LOAN FORGIVENESS PROGRAMS **AMOUNT**

January 1, 2010 – December 31, 2010	
Hourly Payment Rate up to 700 Hours	\$66.00
Hourly Payment Rate in excess of 700 Hours	96.00

ENHANCEMENT RATES FOR TSAA, TELS, SCHOLARSHIPS AND LOAN FORGIVENESS PROGRAMS

Hourly Payment Rate	\$96.00
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MONTHLY PROCESSING RATES FOR GENERAL LEDGER SYSTEM **AMOUNT**

January 1, 2010 – December 31, 2010 (Per Month)	\$0.00
Hourly Payment Rate for Additional Work	\$96.00

The maximum for enhancements shall not exceed eight (8) percent of the Contract Maximum Liability.

The Contractor shall submit detailed and comprehensive monthly invoices, in form and substance as determined by the State with all of the necessary supporting documentation of each item listed on the invoice, prior to any payment.

Such monthly invoices shall be submitted for completed units of service or project milestones for the amount stipulated.

24. The text of Contract Section C.4. Federal Consolidation Loans. is deleted in its entirety and replaced with the following:

C.4. Federal Consolidation Loans.

The commission due the Contractor for the successful consolidation of a loan out of default shall be the rate allowable by the U.S. Department of Education (currently 10%) less two point seven percent 2.7%) which shall be retained by the State (for a current net commission rate of seven point three percent (7.3%) for the Contractor). Any and all enhancements and modifications to the commission due the Contractor shall be made within timeframes determined by the State, and shall be made at no additional cost to the State. Any and all enhancements and modifications are also subject to the State's prior approval.

25. The text of Contract Section C.5. Payments on Defaulted Loans. is deleted in its entirety and replaced with the following:

C.5. Payments on Defaulted Loans.

The commission due the Contractor on defaulted loan collections shall be the rate allowable by the U.S. Department of Education (currently 16%) less one percent (1%) which shall be retained by the State (for a current net commission rate of fifteen percent (15%) for the Contractor). The remainder shall be the fee received by the Contractor, less the amount retained by the subcontractor collection agencies, for providing defaulted loan collection activities. Any and all enhancements and modifications to the commission due the Contractor shall be made within timeframes determined by TSAC, and shall be made at no additional cost to TSAC. Any and all enhancements and modifications are also subject to TSAC's prior approval.

26. The following provision is added as Contract Section C.14. Default Cohort Rate:

C.14. Default Cohort Rate.

The payment rate due the Contractor when maintaining a cohort default rate within a range, as dictated below, of the National Cohort Default Rate (NCDR) as published by the Department of Education shall be:

<u>NATIONAL COHORT DEFAULT RATE</u>	<u>TSAC COHORT DEFAULT RATE</u>	<u>DRAFT RATE 1</u>	<u>ACTUAL RATE 2</u>
X	+ or - 1% (NCDR)	\$25,000	\$25,000
X	- 2% and below (NCDR)	\$50,000	\$50,000

27. The following provision is added as Contract Section C.15 Incremental Stafford and Plus Loan Guaranteed Loan Volume:

C.15 Incremental Stafford and Plus Loan Guaranteed Loan Volume.

The Contractor, in coordination with TSAC, shall assist TSAC in the preparation, development and execution of their marketing plan and provide an additional sales representative(s) and/or contractor(s) to assist in their market expansion (as per section A.8.k) and shall be compensated at a base annual price of \$175,000, prorated on a monthly basis of employment, per representative.

In addition, the contractor shall be compensated \$3.50 for every \$1,000 over \$700,000,000 in net loan guarantee volume on a calendar year basis, and \$3.50 for every \$1,000 over the previous year's base (over a minimum of \$700,000,000).

28. **The text of Contract Section E.2. Communications and Contacts. is deleted in its entirety and replaced with the following:**

E.2. Communications and Contacts.

All instructions, notices, consents, demands, or other communications required or contemplated by this Contract shall be in writing and shall be made by facsimile transmission, by overnight courier service, or by first class mail, postage prepaid, addressed to the respective party at the appropriate facsimile number or address as set forth below or to such other party, facsimile number, or address as may be hereafter specified by written notice.

The State:

Richard G. Rhoda, Interim Executive Director  
Tennessee Student Assistance Corporation  
Suite 1900 Parkway Towers  
404 James Robertson Parkway  
Nashville, TN 37243-0820  
Email: Richard.Rhoda@state.tn.us  
Telephone Number: 615.741.3605  
Fax Number: 615.741.6230

The Contractor: Edward P. Martinez, Executive Director  
Nelnet Guarantor Solutions, LLC  
Suite 400  
3015 South Parker Road  
Aurora, CO 80014-2306  
Email: Ed.Martinez@nelnet.net  
Telephone Number: 303.696.5411  
Fax Number: 303.696.5640

All instructions, notices, consents, demands, or other communications shall be considered effectively given as of the day of delivery; as of the date specified for overnight courier service delivery; as of three (3) business days after the date of mailing; or on the day the facsimile transmission is received mechanically by fax at the receiving location and receipt is verbally confirmed by the sender if prior to 4:30 p.m. CST. Any communication by facsimile transmission shall also be sent by United States mail on the same date of the facsimile transmission.

29. **The text of Contract Section E.5. Partial Takeover. is deleted in its entirety and replaced with the following:**

E.5. Partial Takeover.

The State may, at its convenience and without cause, exercise a partial takeover of any service which the Contractor is obligated to perform under this Contract, including but not limited to any service which is the subject of a subcontract between Contractor and a third party, although the Contractor is not in Breach (hereinafter referred to as "Partial Takeover"). Said Partial Takeover shall not be deemed a Breach of Contract by the State. Contractor shall be given at least thirty (30) days prior written notice of said Partial Takeover with said notice to specify the area(s) of service the State will assume and the date of said assumption. Any Partial Takeover by the State shall not alter in any way Contractor's other obligations under this Contract. As TSAC exercises said partial takeover, the pricing adjustments for the reduction of each service by the Contractor or

its subcontractors shall be adjusted in a pro rata share based upon the moved function as a reflection of the entire Contract price total at the time of the Partial Takeover. The State may withhold from amounts due the Contractor the amount the Contractor would have been paid to deliver the service as determined by the State. The amounts shall be withheld effective as of the date the State assumes the service. Upon Partial Takeover, the Contractor shall have no right to recover from the State any actual, general, special, incidental, consequential, or any other damages whatsoever of any description or amount. The Contractor shall provide TSAC with the means to ensure minimal impact or disruption to TSAC and TSAC participating postsecondary schools, lenders, and lender servicers.

30. **The text of Contract Section E.8. Performance Bond. is deleted in its entirety and replaced with the following:**

E.8. Performance Bond.

Upon approval of the Contract by all appropriate State officials in accordance with applicable State laws and regulations, the Contractor shall furnish a performance bond in the amount equal to Ten Million Dollars (\$10,000,000.00), guaranteeing full and faithful performance of all undertakings and obligations under this Contract for an initial one (1) year period and renewed each subsequent one (1) year period for the duration of the contract term and all extensions thereof. The bond shall be in the manner and form prescribed by the State and must be issued through a company licensed to issue such a bond in the State of Tennessee.

An annual renewal notification must be sent to the State by the financial institution who issued the performance bond at by the Contractor's direction that the performance bond has been renewed or reissued and is still in effect. The performance bond shall not be cancelled by the Contractor until full termination of the Contract is in effect either through termination at the end of the term of the contract or earlier termination for convenience or cause.

The Contractor shall obtain the required performance bond in form and substance acceptable to the State and provide it to the State no later than August 2005. Failure to provide the performance bond prior to the deadline as required shall result in contract termination.

In lieu of a performance bond, a surety deposit, in the sum of Ten Million Dollar (\$10,000,000.00), may be substituted if approved by the State prior to its submittal.

E.12. Incorporation of Additional Documents.

Included in this Contract by reference are the following documents:

- a. The Contract document and its attachments;
- b. All Clarifications and addenda made to the Contractor's Proposal;
- c. The Request for Proposal and its associated amendments;
- d. Technical Specifications provided to the Contractor;
- e. The Contractor's Proposal.

In the event of a discrepancy or ambiguity regarding the Contractor's duties, responsibilities, and performance under this Contract, these documents shall govern in order of precedence detailed above.

31. **The text of Contract Section E.26. Non-Competition. is deleted in its entirety and replaced with the following:**

E.26. Non-Competition.

Neither the Contractor, nor any affiliate of the Contractor, nor their employees, nor ownership interests in or with the Contractor shall actively market against TSAC for loan guarantees within the State of Tennessee. The Contractor shall not compete with TSAC by guaranteeing loans or making loans without a TSAC guarantee to any students or parents residing in the State of Tennessee. The Contractor shall disclose the level of its current student loan business within the State of Tennessee in an annual report. An annual report displaying the Contractor's, or affiliate of





**GENERAL ASSEMBLY OF THE STATE OF TENNESSEE  
FISCAL REVIEW COMMITTEE**

320 Sixth Avenue, North – 8<sup>th</sup> Floor  
NASHVILLE, TENNESSEE 37243-0057  
615-741-2564

**Rep. Charles Curtiss, Chairman**  
Representatives

Curt Cobb  
Curtis Johnson  
Gerald McCormick  
Mary Pruitt  
Craig Fitzhugh, *ex officio*  
Speaker Jimmy Naifeh, *ex officio*

Donna Rowland  
David Shepard  
Curry Todd  
Eddie Yokley

**Sen. Douglas Henry, Vice-Chairman**  
Senators

Doug Jackson  
Bill Ketron  
Paul Stanley  
Randy McNally, *ex officio*  
Lt. Governor Ron Ramsey, *ex officio*

Reginald Tate  
Jamie Woodson

**M E M O R A N D U M**

**TO:** The Honorable Dave Goetz, Commissioner  
Department of Finance and Administration

**FROM:** Charles Curtiss, Chairman, Fiscal Review Committee  
Bill Ketron, Chairman, Contract Services Subcommittee

**DATE:** March 28, 2008

**SUBJECT:** **Contract Comments**  
(Contract Services Subcommittee Meeting 3/24/08)

**RFS# 332.05-002**

**Department:** Tennessee Student Assistance Corporation (TSAC)

**Contractor:** Nelnet Guarantor Solutions (formerly Guarantec, LLP)

**Summary:** The original contract was for the provision of the full servicing of TSAC's Federal Family Education Loan Program (FFELP) and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, and the TSAC General Ledger System. The proposed amendment seeks to reflect the name change of the vendor, and the addition of the student financial aid program GEAR-UP TN Bridge Incentive Awards, effective February 1, 2008.

**Maximum liability:** \$48,000,000

**Maximum liability w/amendment:** \$48,062,730

After review, the Fiscal Review Committee voted to recommend approval of the contract amendment.

cc: Mr. Robert W. Ruble, Executive Director  
Mr. Robert Barlow, Director, Office of Contracts Review

# CONTRACT SUMMARY SHEET

021406

REVISED

<b>RFS #</b>		<b>Contract #</b>	
332.05-002		FA-06-16570-00	
<b>State Agency</b>		<b>State Agency Division</b>	
Tennessee Student Assistance Corporation		Fiscal Office	
<b>Contractor Name</b>		<b>Contractor ID # (FEIN or SSN)</b>	
Nelnet Guarantor Solutions		<input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- 593407160-00	
<b>Service Description</b>			
Service Support for Agency			
<b>Contract BEGIN Date</b>	<b>Contract END Date</b>	<b>Subrecipient or Vendor?</b>	<b>CFDA #</b>
1-Jan-06	31-Dec-10	Vendor	

<b>Mark Each TRUE Statement</b>					
<input checked="" type="checkbox"/> Contractor is on STARS			<input checked="" type="checkbox"/> Contractor's Form W-9 is on file in Accounts		
<b>Allotment Code</b>	<b>Cost Center</b>	<b>Object Code</b>	<b>Fund</b>	<b>Funding Grant Code</b>	<b>Funding Subgrant Code</b>
332.05	6006	083	25		
<b>FY</b>	<b>State</b>	<b>Federal</b>	<b>Interdepartmental</b>	<b>Other</b>	<b>TOTAL Contract Amount</b>
2006		\$ 7,000,000.00			\$ 7,000,000.00
2007		\$ 9,600,000.00			\$ 9,600,000.00
2008		\$ 15,662,730.00			\$ 15,662,730.00
2009		\$ 9,600,000.00			\$ 9,600,000.00
2010		\$ 6,200,000.00			\$ 6,200,000.00
<b>TOTAL</b>		\$ 48,062,730.00			\$ 48,062,730.00

OCR RELEASED

JUN 03 2008

TO ACCOUNTS

<b>— COMPLETE FOR AMENDMENTS ONLY —</b>			<b>State Agency Fiscal Contact &amp; Telephone #</b>
<b>FY</b>	<b>Base Contract &amp; Prior Amendments</b>	<b>THIS Amendment ONLY</b>	Mason Ball, 404 James Robertson Parkway, 17th Floor . Ph : 253-7467
		\$ -	<b>State Agency Budget Officer Approval</b>
			<i>Mason Ball</i>
			<b>Funding Certification</b> (certification required by T.C.A. § 9-4-5113 that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
<b>TOTAL</b>		\$ -	
<b>End Date</b>	31-Dec-10	31-Dec-10	

<b>Contractor Ownership</b> (complete only for base contracts with contract # prefix FA or GR)					
<input type="checkbox"/> African American	<input type="checkbox"/> Person w/ Disability	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input type="checkbox"/> NOT disadvantaged	
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input type="checkbox"/> OTHER minority/disadvantaged—		
<b>Contractor Selection Method</b> (complete for ALL base contracts— N/A to amendments or delegated authorities)					
<input checked="" type="checkbox"/> RFP	<input type="checkbox"/> Competitive Negotiation		<input type="checkbox"/> Alternative Competitive Method		
<input type="checkbox"/> Non-Competitive Negotiation	<input type="checkbox"/> Negotiation w/ Government (eg, ID, GG, GU)		<input type="checkbox"/> Other		

**Procurement Process Summary** (complete for Alternative Method, Competitive Negotiation, Non-Competitive Negotiation, OR Other)

Standard State RFP Process (Adhering to all State mandates)

# CONTRACT SUMMARY SHEET

021406

<b>332.05-002</b>	<b>Contract #</b> <b>FA-06-16570-01</b>
-------------------	--

<b>State Agency</b> Tennessee Student Assistance Corporation	<b>State Agency Division</b> Fiscal Office
---	---

<b>Contractor Name</b> Nelnet Guarantor Solutions	<b>Contractor ID # (FEIN or SSN)</b> C- or <input checked="" type="checkbox"/> V- 593407160-00
--	---

**Service Description**  
Service Support for Agency

<b>Contract BEGIN Date</b> 1-Jan-06	<b>Contract END Date</b> 31-Dec-10	<b>Subrecipient or Vendor?</b> Vendor	<b>CFDA #</b>
--	---------------------------------------	--	---------------

**Mark Each TRUE Statement**

<input checked="" type="checkbox"/> Contractor is on STARS	<input checked="" type="checkbox"/> Contractor's Form W-9 is on file in Accounts
--	--

Allotment Code	Cost Center	Object Code	Fund	Funding Grant Code	Funding Subgrant Code
332.05	6006	083	25		

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2006		\$ 7,000,000.00	<b>OCR RELEASED</b>		\$ 7,000,000.00
2007		\$ 9,600,000.00			\$ 9,600,000.00
2008		\$ 9,662,730.00	MAY 07 2008		\$ 9,662,730.00
2009		\$ 9,600,000.00			\$ 9,600,000.00
2010		\$ 12,200,000.00	<b>TO ACCOUNTS</b>		\$ 12,200,000.00
					\$ -
<b>TOTAL:</b>	\$ -	\$ 48,062,730.00	\$ -	\$ -	\$ 48,062,730.00

**COMPLETE FOR AMENDMENTS ONLY** — State Agency Fiscal Contact & Telephone #

FY	Base Contract & Prior Amendments	THIS Amendment ONLY	State Agency Fiscal Contact & Telephone #
2008	\$ 48,000,000.00	\$ 62,730.00	Mason Ball, 404 James Robertson Parkway, 17th Floor . Ph : 253-7467

**State Agency Budget Officer Approval**

Mason Ball

**Funding Certification** (certification, required by T.C.A. § 9-4-6113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)

<b>TOTAL:</b>	\$ 48,000,000.00	\$ 62,730.00	
<b>End Date</b>	31-Dec-10	31-Dec-10	

**Contractor Ownership** (complete only for base contracts with contract # prefix FA or GR)

<input type="checkbox"/> African American	<input type="checkbox"/> Person w/ Disability	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input type="checkbox"/> NOT disadvantaged
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input type="checkbox"/> OTHER minority/disadvantaged—	

**Contractor Selection Method** (complete for ALL base contracts—N/A to amendments or delegated authorities)

<input checked="" type="checkbox"/> RFP	<input type="checkbox"/> Competitive Negotiation	<input type="checkbox"/> Alternative Competitive Method
<input type="checkbox"/> Non-Competitive Negotiation	<input type="checkbox"/> Negotiation w/ Government (eg D, GG, GU)	<input type="checkbox"/> Other

**Procurement Process Summary** (complete for Alternative Method, Competitive Negotiation, Non-Competitive Negotiation, OR Other)

Standard State RFP Process (Adhering to all State mandates)

APR 12 2008



STATE OF TENNESSEE  
**TENNESSEE STUDENT ASSISTANCE CORPORATION**  
SUITE 1510, PARKWAY TOWERS  
404 JAMES ROBERTSON PARKWAY  
NASHVILLE, TENNESSEE 37243-0820  
(615) 741-1346 • 1-800-342-1663 • FAX (615) 741-6101

**MEMORANDUM**

**TO:** Leni Chick, Fiscal Review Committee  
**FROM:** Marcie Mills, Paralegal *mc*  
**DATE:** March 14, 2008  
**SUBJECT:** Non-Competitive Amendment Summary

**RECEIVED**  
MAR 14 2008  
**FISCAL REVIEW**

---

Then Tennessee Student Assistance Corporation (TSAC) proposes to submit a non-competitive amendment to its Contract with Guarantec, LLP (now Nelnet Guarantor Solutions) for the addition of the GEAR-UP TN Bridge Incentive Awards financial aid program to the e\*GRandS proprietary software system to facilitate the administration of the GEAR-UP TN TN Bridge Incentive Awards program for TSAC and THEC.

Pursuant to Chapter 413, Public Acts of 2003, TSAC is providing the information below for the review of the Fiscal Review Committee.

**Summary of the Terms of the Original Contract**

The Contract between the State of Tennessee, Tennessee Student Assistance Corporation (TSAC), and Guarantec, LLP, is for the provision for the full servicing of TSAC's Federal Family Education Loan Program (FFELP) and loan portfolio, servicing of TSAC's grants, scholarships, and loan forgiveness programs, and the TSAC General Ledger System.

The Contractor provides an Internet-based system for TSAC that is accessible by students, student borrowers, parent borrowers, high schools, TSAC participating postsecondary schools, lenders, lender servicers, vocational rehabilitation counselors, and workforce investment case managers; processes requests for loan guarantees for FFELP loans; and produces comprehensive management reports.

The Contract is in effect January 1, 2006 through December 31, 2010, with the maximum expenditure not to exceed forty-eight million dollars (\$48,000,000.00).

**Justification for the Proposed Non-Competitive Amendment:**

The Contract must be amended to reflect the new name of the Contractor, Nelnet Guarantor Solutions (formerly Guarantec, LLP). The Contract Amendment is also needed to add the GEAR-UP TN Bridge Incentive Awards financial aid program to the e\*GRandS system to facilitate the administration of the GEAR-UP TN GEAR-UP TN Bridge Incentive Awards program for TSAC and THEC. TSAC is currently manually processing the distribution of GEAR-UP Tennessee Bridge Incentive award funds to the institutions; receipt of funds back from the institutions for students who chose not to attend their

institution; redistribution of funds for students who have changed schools; and all reports showing the individual students and which schools they attended. The addition of this program into the software system e\*GRandS would allow these processes to be processed electronically. Additionally, this will allow THEC and postsecondary institutions electronic access to student financial data for recipients of this award.

**Justification for the Non-competitive Procurement:**

There are no reasonable and competitive procurement alternatives to the proposed amendment. There is an existing Contract with the Contractor which provides TSAC with an automated proprietary system e\*GRandS used in the administration of TSAC's loan and scholarship programs. This amendment is for additional work required by the Contractor to add the GEAR-UP TN Bridge Incentive Awards program, currently administered manually by TSAC, to the proprietary software system e\*GRandS.

**Background Information and Explanation (Required if date of Proposed Amendment Effective Date is less than sixty (60) days after F&A receipt)**

The Tennessee Student Assistance Corporation (TSAC) is submitting an Amendment One to its Contract with Guarantec, LLP (now Nelnet Guarantor Solutions) for the addition of automating the student financial aid program GEAR-UP TN Bridge Incentive for processing financial aid payments through the e\*GRandS system that currently services TSAC's grants, scholarships loan forgiveness programs, and the TSAC General Ledger System. TSAC provides administration and processing of financial aid payments for the GEAR-UP TN Bridge Incentive program for the Tennessee Higher Education Commission (THEC). The Amendment proposed effective date is February 1, 2008.

The Executive Directors of THEC and TSAC signed the interdepartmental Memorandum of Understanding for the reimbursement of the cost of automating the financial aid processing for the financial aid program on October 4, 2007.

The draft of the proposed amendment was submitted to TSAC's OCR Examiner, Amanda Leigh, on November 1, 2007, for a preliminary review, as TSAC wanted to be assured of approval by OCR prior to circulating the document for signatures, as it had been a complicated agreement to negotiate between all interested parties. On November 7, Ms. Leigh advised TSAC of needed corrections to the amendment.

On November 20, 2007 TSAC submitted to Jane Chittenden, Director for Procurement and Contract Management, F&A, the REQUEST: OIR Procurement Endorsement; REQUEST: NON-COMPETITIVE AMENDMENT; Contract Amendment One (and attachments G, Software Requirements Specification, and H, GEAR-UP TN Release Outline); and the original Contract effective January 1, 2006 through December 31, 2010 (and Index). On November 21, 2007, Ms Chittenden advised TSAC that as the amendment was for an IT project, the proposal must be submitted to OIR Planning for review and approval.

Accordingly, TSAC submitted the aforementioned documents to Leighann Haynes, Finance and Administration, and was advised by Todd Regan of F&A OIR IT Planning, that TSAC would need to submit a Project Proposal; Risk Assessment; Operational Cost

The State of Tennessee is an equal opportunity, equal access, affirmative action employer.

Assessment; Initial Cost Assessment; and Summary of Cost Benefit Analysis. TSAC was surprised by this request for prior approval on a contract amendment totaling \$62 thousand dollars to a \$48M contract. Discussions were held with Ms. Haynes and Mr. Ragan by THEC's, O. W. Higley regarding the scope of our proposed project. On December 19, 2007, TSAC was advised that after reviewing our materials, and an understanding of our existing software proprietary database, this would not be a IT project requiring an IT-ABC review. (Documentation attached to the REQUEST: Non-Competitive Amendment)

Promptly, on December 20, 2007, TSAC sent the Amendment One to the Contractor for signature. Due to the Contractor's time constraints and issues that did not pertain to this agreement, it was not until January 28, 2008, that the documents were signed by the Contractor, and were not received by TSAC until January 30, 2008.

On January 31, 2008, TSAC Executive Director, Robert W. Ruble signed the documents. While preparing the package contract amendment for submission to OCR it was realized that the REQUEST: NON-COMPETITIVE AMENDMENT had not been submitted to OCR for approval. Unfortunately, due to the arduous process of this project this was inadvertently overlooked.

TSAC submitted the REQUEST: NON-COMPETITIVE AMENDMENT and the Amendment One to OCR for approval.

## REQUEST: NON-COMPETITIVE AMENDMENT

APPROVED

RECEIVED

MAR 14 2008

Commissioner of Finance &amp; Administration

Date:

FISCAL REVIEW

EACH REQUEST ITEM BELOW MUST BE DETAILED OR ADDRESSED AS REQUIRED.

1) RFS #	332.05-002	
2) State Agency Name :	Tennessee Student Assistance Corporation (TSAC)	
<b>EXISTING CONTRACT INFORMATION</b>		
3) Service Caption :	Service support for agency	
4) Contractor :	GuaranTec, LLP (now Nelnet Guarantor Solutions)	
5) Contract #	FA-06-16570-00	
6) Contract Start Date :	January 1, 2006	
7) <u>Current</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2010	
8) <u>Current</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$48,000,000.00	
<b>PROPOSED AMENDMENT INFORMATION</b>		
9) <u>Proposed</u> Amendment #	ONE	
10) <u>Proposed</u> Amendment Effective Date : (attached explanation required if date is < 60 days after F&A receipt) See Attachment	February 1, 2008	
11) <u>Proposed</u> Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	December 31, 2010	
12) <u>Proposed</u> Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$48,062,730.00	
13) Approval Criteria : (select one)	<input checked="" type="checkbox"/> use of Non-Competitive Negotiation is in the best interest of the state  <input type="checkbox"/> only one uniquely qualified service provider able to provide the service	
14) Description of the Proposed Amendment Effects & Any Additional Service :		
The Amendment reflects change in the name of the Contractor from GuaranTec, LLP to Nelnet Guarantor Services. (See Attachment A) Amendment also requires Contractor to add the student financial aid program GEAR-UP TN Bridge Incentive Awards to the e*GRandS proprietary software system.		
15) Explanation of Need for the Proposed Amendment: The Contract must be amended to reflect the new name of the Contractor, Nelnet Guarantor Solutions (formerly GuaranTec, LLP). The Contract Amendment is also needed to add the GEAR-UP TN Bridge		

Incentive Awards financial aid program to the existing e\*GRandS system to facilitate the administration of the GEAR-UP TN Bridge Incentive Awards financial aid program for TSAC and the Tennessee Higher Education Commission (THEC).

**16) Name & Address of Contractor's Current Principal Owner(s) :**  
(not required if proposed contractor is a state education institution)

NELN, Inc.  
121 S. 13th Street, Suite 201  
Lincoln, NE 68508  
Primary contact: Mike Dunlap

**17) Documentation of Office for Information Resources Endorsement :**  
(required only if the subject service involves information technology)

select one:  Documentation Not Applicable to this Request  Documentation Attached to this Request

**18) Documentation of Department of Personnel Endorsement :**  
(required only if the subject service involves training for state employees)

select one:  Documentation Not Applicable to this Request  Documentation Attached to this Request

**19) Documentation of State Architect Endorsement :**  
(required only if the subject service involves construction or real property related services)

select one:  Documentation Not Applicable to this Request  Documentation Attached to this Request

**20) Description of Procuring Agency Efforts to Identify Reasonable, Competitive, Procurement Alternatives :**

There are no reasonable and competitive procurement alternatives to the proposed amendment. There is an existing Contract with the Contractor which provides TSAC with an automated proprietary system e\*GRandS used in the administration of TSAC's loan and scholarship programs. This amendment is for additional work required by the Contractor to add the GEAR-UP TN Bridge Incentive Awards program, currently administered manually by TSAC, to the proprietary software system e\*GRandS.

**21) Justification for the Proposed Non-Competitive Amendment :**

The Contract must be amended to reflect the new name of the Contractor, Nelnet Guarantor Solutions (formerly Guarantec, LLP). The Contract Amendment is also needed to add the GEAR-UP TN Bridge Incentive Awards financial aid program to the e\*GRandS system to facilitate the administration of the GEAR-UP TN Bridge Incentive Awards program for TSAC and THEC. TSAC is currently manually processing the distribution of GEAR-UP Tennessee Bridge Incentive award funds to the institutions; receipt of funds back from the institutions for students who chose not to attend their institution; redistribution of funds for students who have changed schools; and all reports showing the individual students and which schools they attended. The addition of this program into the software system e\*GRandS would allow these processes to be processed electronically. Additionally, this will allow THEC and postsecondary institutions electronic access to student financial data for recipients of this award.

**REQUESTING AGENCY HEAD SIGNATURE & DATE :**

(must be signed & dated by the ACTUAL procuring agency head as detailed on the Signature Certification on file with OCR— signature by an authorized signatory will be accepted only in documented exigent circumstances)

*Robert W. Ruble*

*3-6-08*

**ROBERT W. RUBLE, EXECUTIVE DIRECTOR**

**March 6, 2008**

**Agency Head Signature**

**Date**

**REQUEST: NON-COMPETITIVE AMENDMENT  
ATTACHMENT**

**ITEM 10) PROPOSED AMENDMENT EFFECTIVE DATE**

(Required if date of Proposed Amendment Effective Date is less than sixty (60) days after F&A receipt)

**Background Information and Explanation**

The Tennessee Student Assistance Corporation (TSAC) is submitting an Amendment One to its Contract with Guarantec, LLP (now Nelnet Guarantor Solutions) for the addition of automating the student financial aid program GEAR-UP TN Bridge Incentive for processing financial aid payments through the e\*GRandS system that currently services TSAC's grants, scholarships loan forgiveness programs, and the TSAC General Ledger System. TSAC provides administration and processing of financial aid payments for the GEAR-UP TN Bridge Incentive program for the Tennessee Higher Education Commission (THEC). The Amendment proposed effective date is February 1, 2008.

The Executive Directors of THEC and TSAC signed the interdepartmental Memorandum of Understanding for the reimbursement of the cost of automating the financial aid processing for the financial aid program on October 4, 2007.

The draft of the proposed amendment was submitted to TSAC's OCR Examiner, Amanda Leigh, on November 1, 2007, for a preliminary review, as TSAC wanted to be assured of approval by OCR prior to circulating the document for signatures, as it had been a complicated agreement to negotiate between all interested parties. On November 7, Ms. Leigh advised TSAC of needed corrections to the amendment.

On November 20, 2007 TSAC submitted to Jane Chittenden, Director for Procurement and Contract Management, F&A, the **REQUEST: OIR PROCUREMENT ENDORSEMENT; REQUEST: NON-COMPETITIVE AMENDMENT;** Contract Amendment One (and attachments G, Software Requirements Specification, and H, GEAR-UP TN Release Outline); and the original Contract effective January 1, 2006 through December 31, 2010 (and Index). On November 21, 2007, Ms Chittenden advised TSAC that as the amendment was for an IT project, the proposal must be submitted to OIR Planning for review and approval.

Accordingly, TSAC submitted the aforementioned documents to Leighann Haynes, Finance and Administration, and was advised by Todd Regan of F&A OIR IT Planning, that TSAC would need to submit a Project Proposal; Risk Assessment; Operational Cost Assessment; Initial Cost Assessment; and Summary of Cost Benefit Analysis. TSAC was surprised by this request for prior approval on a contract amendment totaling \$62 thousand dollars to a \$48M contract. Discussions were held with Ms. Haynes and Mr. Ragan by THEC's, O. W. Higley regarding the scope of our proposed project. On December 19, 2007, TSAC was advised that after reviewing

**REQUEST: NON-COMPETITIVE AMENDMENT**

Attachment

Item 10) Proposed Amendment Effective Date

Page 2

our materials, and an understanding of our existing software proprietary database, this would not be a IT project requiring an IT-ABC review. (Attachment A) OIR signified approval by signing the OIR Procurement Endorsement on December 20, 2007. (Attachment B)

Promptly, on December 20, 2007, TSAC sent the Amendment One to the Contractor for signature. Due to the Contractor's time constraints and issues that did not pertain to this agreement, it was not until January 28, 2008, that the documents were signed by the Contractor, and were not received by TSAC until January 30, 2008.

On January 31, 2008, TSAC Executive Director, Robert W. Ruble signed the documents. While preparing the package contract amendment for submission to OCR it was realized that the REQUEST: NON-COMPETITIVE AMENDMENT had not been submitted to OCR for approval. Unfortunately, due to the arduous process of this project this was inadvertently overlooked.

TSAC respectfully submits the REQUEST: NON-COMPETITIVE AMENDMENT and the Amendment One to OCR for approval.

081607



# EMAIL TRANSMITTAL

## to Request OIR Procurement Endorsement

**TO :** Jane Chittenden, Director  
OIR Procurement & Contract Management **FAX # 741-6164**

**FROM :** Thomas R. Bain, Associate Executive  
Director for Compliance and Legal Affairs  
Tennessee Student Assistance Corporation **FAX # 741-5555**

**DATE :** DATE 12/19/07

**RFS #** 332.05-002

**RE :** Procurement Endorsement — GuaranTec, LLP (now Nelnet Guarantor Solutions) Contract

**INFORMATION SYSTEMS PLAN PROJECT: N/A**

**NUMBER OF FAX PAGES (including cover) : N/A**

The nature and scope of service detailed in the attached service procurement document(s) appears to require Office for Information Resources (OIR) review and support, because the procurement involves information technology or information systems services.

This communication seeks to ensure that OIR is aware of the procurement and has an opportunity to review the matter. Please determine whether OIR is supportive of the procurement. If you have any questions or concerns about this matter, please call Tom Bain at 615-253-7476

**Please indicate below your response to this proposed procurement, and return this communication at your earliest convenience (note the return FAX number above).**

Thank you for your help.

Attachment(s)

Must include the entire contract or amendment document and where applicable, the non-competitive contract or amendment request form. The original contract and any prior amendments that were applied to the same section of the contract must be provided with an amendment. Electronic copies of the contract, amendments, and request form without signature are acceptable.

RFP documents must be provided in electronic form.

OIR Endorsement :

*Mark Benzel (gc)*

OIR Chief Information Officer

12/20/07

Date

**AMENDMENT ONE  
TO FA-06-16570-00**

This Contract Amendment is made and entered by and between the State of Tennessee, Tennessee Student Assistance Corporation, hereinafter referred to as the "State" and GuaranTec, LLP, hereinafter referred to as the "Contractor." It is mutually understood and agreed by and between said, undersigned contracting parties that the subject Contract is hereby amended as follows:

**1. The following provision is added as Contract Section A.26.:**

**A.26. GEAR-UP TN Bridge Incentive Awards**

Addition of the student financial aid program GEAR-UP TN Bridge Incentive Awards to the e\*GRandS system as set forth in the Software Requirements Specification Enhancement: Issue 6365 - EG060059 GEAR-UP TN Bridge Award (Refer to Attachment G).

**2. Contract Attachment G attached hereto is added as a new Contract Attachment.**

**3. The text of Contract Section C.1. is deleted in its entirety and replaced with the following:**

**C.1. Maximum Liability.**

In no event shall the maximum liability of the State under this contract exceed Forty-eight million sixty-two thousand seven hundred and thirty dollars (\$48,062,730.00). The Service Rates in Section C.3 shall constitute the entire compensation due the Contractor for the Service and all of the Contractor's obligations hereunder regardless of the difficulty, materials or equipment required. The Service Rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

The Contractor is not entitled to be paid the maximum liability for any period under the Contract or any extensions of the Contract for work not requested by the State. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this contract unless the State requests work and the Contractor performs said work. In which case, the Contractor shall be paid in accordance with the Service Rates detailed in Section C.3. The State is under no obligation to request work from the Contractor in any specific dollar amounts or to request any work at all from the Contractor during any period of this Contract.

**4. The following language is added to Contract Section C.3.:**

**C.3. Payment Methodology**

**DEVELOPMENT FEES FOR THE GEAR-UP TN BRIDGE  
INCENTIVE AWARDS**

February 1, 2008 - May 1, 2008

Hourly Payment Rate for Software Enhancement\*\* \$90.00

\*\*The Contractor shall be compensated for the addition of the financial aid program GEAR-UP TN Bridge Incentive Awards to the e\*GRandS system at a billing rate of ninety dollars (\$90.00) per hour and shall not exceed six hundred ninety-seven (697)

hours. In no event shall the maximum liability of the State for the GEAR-UP addition to e\*GRandS exceed Sixty-two thousand seven hundred and thirty dollars (\$62,730.00).

**5. The following is added as Contract Section E.31.:**

**E.31. Completion Date.**

It is anticipated by the parties that all software enhancements required for the addition of GEAR-UP TN Bridge Incentive Awards to e\*GRandS shall be completed by April 30, 2008 so that the Tennessee Student Assistance Corporation shall have full functionality and tested by May 1, 2008 and a tentative timeline for completion has been attached. (Refer to Attachment H). Any delay in the completion of the work described herein shall constitute a material breach of this Contract.

**6. Contract Attachment H attached hereto is added as a new Contract Attachment.**

**7. The following is added as Contract Section E.32.:**

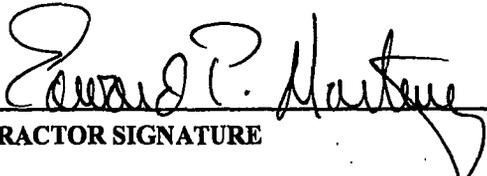
**E.32. Contractor Name.**

All references to "GuanTec, LLP" shall be deleted and replaced with "Nelnet Guarantor Solutions (NGS)."

The revisions set forth herein shall be effective February 1, 2008. All other terms and conditions not expressly amended herein shall remain in full force and effect.

**IN WITNESS WHEREOF:**

**NELNET GUARANTOR SOLUTIONS**



1-28-08

**CONTRACTOR SIGNATURE**

**DATE**

**EDWARD P. MARTINEZ, EXECUTIVE DIRECTOR**

**PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)**

**TENNESSEE STUDENT ASSISTANCE CORPORATION**



1-31-08

**ROBERT W. RUBLE, EXECUTIVE DIRECTOR**

**DATE**

APPROVED:

*M. D. Goetz, Jr. /agl*

*4-30-08*

M. D. GOETZ, JR., COMMISSIONER  
DEPARTMENT OF FINANCE AND ADMINISTRATION

DATE

*John G. Morgan*

*5/5/08*

JOHN G. MORGAN, COMPTROLLER OF THE TREASURY

DATE

January 22, 2008

*VIA FACSIMILE TRANSMITTAL TO (615) 741-6101  
AND BY UPS OVERNIGHT SIGNATURE REQUIRED*

Dr. Robert W. Ruble, Executive Director  
Tennessee Student Assistance Corporation  
404 James Robertson Parkway  
Parkway Towers, Suite 1950  
Nashville, TN 37243-0820

Re: Contract between TSAC and Nelnet Guarantor Solutions; notice of breaches  
by TSAC

Dear Dr. Ruble:

I enjoyed talking to you at the recent NCHELP Leadership conference. Unfortunately, I am compelled to send this letter pursuant to the Contract effective as of January 1, 2006 (the "Contract") between Tennessee Student Assistance Corporation ("TSAC") and Nelnet Guarantor Solutions LLC, formerly known as Guarantec, LLP ("Nelnet"). Notice is hereby given pursuant to Section E.4(b) of the Contract that TSAC has breached the Contract in the manner described below:

1. Commissions for Rehabilitated Loans. Section C.6 of the Contract provides that Nelnet is entitled to a commission on rehabilitated loans at the rate allowable by the U.S. Department of Education, less 5% which was to be retained by TSAC. It has come to our attention that Nelnet has received commissions in an amount less than the sum to which it was due, as portions allocable to accrued interest, collection costs, late charges and attorneys fees charges to the borrowers on such rehabilitated loans were omitted from Nelnet's commission amounts. All such amounts of accrued interest, collection costs, late charges and attorneys fees are clearly to be included in the amounts to which TSAC (and thus Nelnet in its commission) are entitled under the Guaranty Agency Financial Report Guide. The amount of such commissions to which Nelnet is entitled but has not yet received is approximately \$8.2 million. Nelnet submitted an invoice to TSAC for said amount on December 12, 2007, with a due date of January 11, 2008. TSAC has refused to pay the commissions earned and due by written notice dated January 10, 2008. Thus, demand is hereby made for the immediate payment of such commissions, and for TSAC to include the full amounts of such commissions received by Nelnet in the future. TSAC has thirty (30) days from the date of this correspondence to cure this breach.

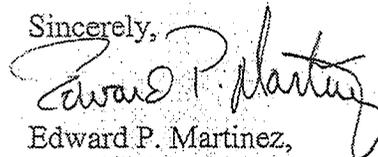
2. **Commissions for Consolidation of Defaulted Loans.** Section C.4 of the Contract provides that Nelnet is entitled to a commission on consolidation of defaulted loans at "the rate allowable by the U.S. Department of Education (currently 18.5%) less 5%" which was to be retained by TSAC. The rate allowable by the Department of Education was reduced from 18.5% to 10% through a legislative change. Q&A Nos. 65 and 10 of the Request for Proposal (incorporated into the Contract by Section E.12 thereof) clarified that any reduction of retention percentages by the Department of Education "shall be addressed at that time through a Contract amendment." Nelnet has requested such amendment, but TSAC has thus far rejected that request. Demand is hereby made for the immediate amendment of the Contract to adjust Nelnet's commission and TSAC's retention amounts to correspond with the change in the rate allowed by the Department of Education, effective as of the legislative change reducing that rate.

3. **Maximum Liability.** Section C.1 of the Contract provides that the maximum liability of TSAC may not exceed the amount of \$48 million. It has come to our attention that TSAC has tracked payments on commissions due to Nelnet and applied such commission amounts against the maximum liability amount. However, it is clear from a plain reading that the maximum liability is intended to apply only to "Service Rates" for which TSAC is liable and must pay with its own funds; in fact, Section C.3 of the Contract expressly limits the application of the "maximum liability" to "Service Rates." The maximum liability amount was never intended to apply to limit commissions, which do not get paid out of TSAC funds from its own pocket, but instead are derived from amounts recovered from the Department of Education or borrowers, and which are separately addressed in Sections C.4, C.5 and C.6 of the Contract. Demand is hereby made that the commission amounts received by Nelnet under Sections C.4, C.5 and C.6 not be applied to the "maximum liability" amount on prior and future calculations.

If the breaches described above are not cured within thirty (30) days, or no later than February 22, 2008, Nelnet intends to pursue its remedies to the fullest extent provided under law.

Bob, thus far all of my interactions with you and Levis Hughes have been friendly and cordial. I trust that we can build upon that to arrive at a contract resolution that benefits both parties. Let me know if you wish to discuss further any of the issues raised in this letter.

Sincerely,



Edward P. Martinez,  
Executive Director  
Nelnet Guarantor Solutions