



March 1, 2010

Marilyn Wicker, Financial Aid Office
Methodist University
5400 Ramsey Street
Fayetteville, NC 28311

Dear Marilyn,

We would like you to consider Discover Student Loans as one of your recommended lenders on the Federal Stafford, Federal PLUS, and Private lists for students attending Methodist University.

Over the past 20 years, Discover has developed a reputation for award-winning customer service, industry-leading rewards, and a commitment to helping customers make financial progress. We bring these values and our years of experience to higher education, through our student loan program—Discover Student Loans.

Discover Student Loans, which we issue through Discover Bank, include FFEL and school-certified private loans for undergraduate and graduate students. Our student loan program offers rewarding choices for students and their families with:

- 0.25% repayment interest rate reduction on all loans, when payments are set up for automatic debit
- Certified Private Loans with zero origination and a 2% cash reward on the outstanding principal balance at graduation

At Discover Student Loans, we actively seek to partner with financial aid advisors to help ensure responsible student borrowing. For example, we:

- Advise students to consider all federal loan options before pursuing private loans
- Encourage an adult cosigner on all Certified Private Loans
- Certify all loan amounts through the school
- Disburse all loans through the school

In our effort to answer your questions fully, we may have disclosed information about Discover's competitive advantage. We respectfully request that your school treat this information as confidential.

We will be happy to answer any further questions you may have for us. Please contact your school's Relationship Manager for additional assistance:

Charles W. Brantley
Discover Student Loans
2500 Lake Cook Road
Riverwoods, IL 60015
charlesbrantley@discover.com
1-864-609-9973

Discover Student Loans—General Information

Lender:	Discover Bank
Lender ID:	831312
Lender Address:	Discover Student Loans 2500 Lake Cook Road Riverwoods, IL 60015
Program:	Discover Student Loans
Customer Service:	1-877-728-3030 Option 1: General information for students and parents Option 2: Current customer to apply by phone Option 3: Existing applicants or borrowers Option 4: School financial aid professionals
	Fax: 1-877-239-8214
	E-mail: Service@DiscoverStudentLoans.com
	Web: DiscoverStudentLoans.com
Borrower Correspondence:	Discover Student Loans PO Box 30947 Salt Lake City, UT 84130-0947
Hours of Operation:	8:00 a.m. and midnight (ET), 7 days a week
Primary Contact for RFI Process:	Charles W. Brantley Discover Student Loans 2500 Lake Cook Road Riverwoods, IL 60015 charlesbrantley@discover.com 1-864-609-9973
Current School Profile:	<ul style="list-style-type: none">• ELM for certifications• ELM NDN for disbursements• ASA-Guarantor

Company Background

1. Company market position and approximate loan volume.

Discover Student Loans was launched in July 2007 and is supported by the financial strength and experience of our parent organization, Discover Financial Services. Since our company's inception in 1986, we have been a leading innovator and driver of change in consumer finance. Our track record of pioneering accomplishments includes the first credit card with no annual fee and cash rewards that never expire as long as the card is in use. We were one of the earliest card issuers to offer 24/7 customer service and secure account numbers for online purchases.

Now, we are building on the success and expertise we have developed over the past 20 years to bring the same spirit of pioneering change to the student loan industry. We designed our student loan program to:

- Provide affordable loan options for families, including hassle-free rewards and Certified Private Loans with zero origination and zero prepayment fees
- Encourage responsible borrowing, by requiring school certification and school disbursement
- Build on our reputation for award-winning customer service by selecting student loan servicing partners with exceptional service reputations
- Offer an industry-leading reward program with high redemption rates, through the Graduation Reward on Certified Private Loans—a 2% cash reward on the outstanding principal balance of the Certified Private Loan at graduation.

We fully anticipate being able to provide private lending for the 2010–2011 academic year. We are a large, stable lender with diversified sources of funds. Our total consumer portfolio (including credit cards, deposits, personal loans, and student loans) exceeds \$81 billion. Our sources for loan capital include: short-term borrowings, long-term debt and bank notes, asset-backed securitization, and deposits. We utilize deposits to diversify funding sources and to reduce our reliance on short-term credit-sensitive funding sources, thus enhancing our liquidity position.

Discover Student Loans' ability to lend has also been unaffected by recent economic conditions, and we do not foresee this changing in the future. In fact, we have continued to grow our organization with loan volumes of approximately \$30MM in 2007, over \$800MM in 2008, and over \$ 855MM in 2009.

2. Indicate the current mission and goals of your organization.

Our Mission: To help people spend smarter, manage debt better and save more so they achieve a brighter financial future

Our Vision: To be the most rewarding relationship consumers and businesses have with a financial services company

3. Have you acquired or merged with any company in the student loan industry?

We have not acquired or merged with any company in the student loan industry since our inception in 2007.

4. Are any other products, other than student loans, marketed to your borrowers?

We do not cross sell other products to our student loan borrowers. However, since our company's mission includes empowering our customers to make financial progress, we hope to be a trusted provider of financial products with competitive rates and great service as their needs change.

Our company also offers regular and student credit cards, personal loans, and deposit products and separately manages the marketing of those products. We do not jointly market student loans and credit cards, and we do not use our student loan borrower list for student credit card marketing campaigns. We do market our student loans to our student credit card customers, since the student loan is a more affordable way to pay for school expenses.

Customer Service

1. Does your company have a toll-free number for students/parents and the financial aid office to inquire about the status of a loan? If so, what are the call center hours and where is the call center physically located?

Our customer service representatives are available at 1-877-728-3030, 7 days a week, 8 a.m. – Midnight Eastern Time to handle general inquiries, applications by phone, student or parent inquiries on applications in process, inquiries on existing loans, or calls from school officials.

Our internal service level standards are to answer 90% of all customer calls within 1 minute, and we manage our abandon rate to less than 3%. Our average speed of answer is approximately 30 seconds.

All borrowers, both in school and in repayment, always have the option to access their account online 24/7 to make payments or make general account updates.

We do not outsource our calls. Our call center is located in West Valley, UT.

2. What servicing company does your company use?

We service our student loans through Great Lakes Educational Loan Services Inc (Great Lakes), after disbursement. Great Lakes services student loans for over 1,400 lenders and was designated an Exceptional Performer by the Department of Education. Great Lakes has operated in the student loan industry for over 40 years.

3. What method does your company use to communicate with students?

Our primary method of communication with students is through mail. Our goal is to provide timely and effective communication. We may phone if it is an urgent message that requires immediate attention. In the future, we may utilize email more if students prefer to correspond in this manner.

Borrowers may contact us by phone, mail, or email. Emails to service@DiscoverStudentLoans.com are answered within one business day and typically within a few hours. Similarly, our turnaround for correspondence by mail is one business day.

4. Describe your Web-based services for borrowers and financial aid professionals.

In addition to being able to apply online at DiscoverStudentLoans.com, borrowers can access their loan information by logging into the secure My Account portion of the Web site:

- Students can e-sign Federal Stafford Loans, parents can e-sign Federal Parent PLUS Loans, and borrowers and cosigners can e-sign Certified Private Loans.
- Borrowers can view loan balance, pricing, and payment information throughout the life of the loan.
- Borrowers can update personal information (phone, address, e-mail, password).
- Borrowers can make loan payments.
- Print Self-Certification Forms and forms for deferment or forbearance.

For schools, we provide secure online access to view loan status, access reports, and certify loans. You can also download a variety of forms and loan documents via our Web site. These include promissory notes, privacy and borrower benefit policies, and deferment request forms.

We can customize your school's set up to provide a variety of reports on applications in process and disbursed loans via our Web site or via e-mail. Some examples include detailed reports with borrower

information, loan statuses, and delinquent account information. We can also provide ad hoc reports upon request.

5. Describe your options for certification and disbursement.

Certification – We support a variety of options for loan processing and disbursement. Our intent is to match the process with your school's preferences.

Options for certification include:

- Electronic processing via a third-party such as ELM, Great Lakes ScholarNet, AdvanTG, eCourier, and OpenNet
- Electronic processing directly with your School Based Software (SBS), using Common Line Version 4 standards
- Online certification via your secure login at our Web site
- Paper/fax certification if your school prefers

These settings can be customized by loan type (e.g., if your school prefers to handle Federal Stafford Loans and Certified Private Loans differently).

Disbursement – We can disburse funds directly to your school according to your preference:

- Central disbursement via a third-party agent such as ELM NDN, Great Lakes CDS, or TG EFT
- Electronic funds transfer directly to your school's designated bank account
- Paper check addressed to school or school and borrower

Financial Literacy And Default Prevention

Please describe your company's default aversion initiatives, including financial literacy resources.

Discover Student Loans is committed to helping our student loan borrowers avoid the negative consequences of delinquency and default.

Because most of our loans have automatic in-school deferment, we send quarterly statements to students and cosigners that will help them understand their loan debt, accruing interest, and payment options if they would like to begin payments while in school. Although we don't require payments while enrolled at least half-time, we advise students and cosigners that they can reduce their total cost of borrowing by making payments before their loan enters repayment. This proactive approach helps mitigate delinquency and ensure a successful repayment phase.

We take a multi-level approach to helping borrowers in regards to financial literacy, default prevention and debt management:

1. Educational tools on our Web site
2. Conservative underwriting practices in our loan approval process
3. Established default prevention procedures (described below) to assist borrowers and minimize defaults

1. Web site Educational Tools: Financial Literacy

Our Web site includes a section titled Borrowing 101 to help educate students and their families about financial aid options and the importance of managing credit wisely. Topics currently include:

- Understanding an award letter
- Loan options for families
- The importance of good credit
- Glossary of financial aid terms
- Loan repayment calculator
- Links to external financial aid and scholarship Web sites
- Link to the government's FAFSA Web site
- Information on managing credit, including: how to monitor credit, report errors, and protect your identity

We have sponsored the educational video, Borrow Smart: Kiplinger's Guide to Student Loans to help students learn more about federal and Certified Private Loan options and considerations that should be made before applying for a loan. This video is viewable at www.Kiplinger.com or www.DiscoverStudentLoans.com.

We have also provided the College Loan Planner to help students understand the costs of attending college and ways to cover their funding gap. This can be viewed by visiting www.DiscoverStudentLoans.com/FinancialLiteracy.

2. Private Loan Underwriting Criteria and Approval Practices

Our underwriting criteria and approval process are designed to help students supplement other sources of financial aid while keeping the amount of debt incurred to a minimum. We utilize a proprietary underwriting score in addition to industry-standard, FICO-based decisioning, to improve the quality of credit decisions

We also recommend an adult cosigner for Certified Private Loans to increase the likelihood that the student makes an informed decision to take the Certified Private Loan. By recommending a cosigner for

the duration of the loan, we reduce default risk and therefore can price our loans more affordably. Creditworthy applicants have the option to apply without a cosigner. However, adding a cosigner may reduce their interest rates.

These up-front private loan–underwriting criteria supplement back-end default prevention activities performed by Great Lakes as our servicer.

3. Default Prevention Activities

We service our student loans through Great Lakes Educational Loan Services, Inc. (Great Lakes), after disbursement. Great Lakes services student loans for over 1,400 lenders and was designated an Exceptional Performer by the Department of Education. Great Lakes has operated in the student loan industry for over 40 years and is located in Madison, Wisconsin. Great Lakes originally received the “Exceptional Performer” designation from the US Department of Education in June 2004 and continued with the designation in 2005, 2006, and 2007. (The designation was repealed for all FFEL Program participants by the legislation effective October 1, 2007.)

Great Lakes’ default prevention resources are designed based on their experience working with delinquent borrowers and from input provided by financial aid professionals. Their system allows schools to quickly identify the delinquent student borrowers who most need help, then deliver that help in an informed, effective, and efficient manner. The tools available through Great Lakes to monitor and encourage responsible loan payment behavior and debt management include:

- **Default Rate Forecaster:** allows schools to estimate their cohort default rate as it develops throughout the year. The report calculates the rate based on the number of borrowers who have already defaulted in the cohort year.
- **Delinquency Letter Tools:** allow schools to automatically generate letters and mailing labels for three stages of delinquency, or create customized correspondence using our letter templates.
- **Borrowers at Risk Report:** helps schools prioritize their default prevention activities.
- **Counselors on Call:** supports schools’ delinquency counseling efforts and helps ensure that each borrower contact counts.
- **Borrowers in Default Report:** lists all borrowers who defaulted in the current federal fiscal year and is sorted by those who defaulted in the current cohort period and those who did not.
- **Default Prevention and Management Plan Template:** helps a school formalize its commitment to default prevention in about an hour.
- **Default Prevention Consulting:** allows schools to bring a Great Lakes default prevention specialist to campus for training on our tools and information on incorporating them into the school’s default prevention efforts.

Federal Loans

1. What are the eligibility criteria and loan terms for your federal loan programs?

Federal Stafford Loan Terms:

- Students must be a US citizen or eligible non-citizen
- Students must be enrolled at least half-time at a school that participates in the Federal Family Education Loan Program
- There is no credit check or cosigner required
- 5.6% fixed (subsidized)
- 6.8% fixed (unsubsidized and graduate and professional students)
- 0.25% Auto Debit Reward
- 1% Federal Default Fee
- 0.5% Federal Origination Fee
- Zero payments until 6 months after graduation or enrollment in school less than half-time (6 months for undergraduate and graduate)
- Minimum loan limit: \$100 annually

Federal Parent PLUS Loan Terms:

- Parents must be a US citizen or eligible non-citizen
- Students must be enrolled at least half-time at a school that participates in the Federal Family Education Loan Program
- Parents must pass a credit check
- 8.5% fixed interest rate
- 0.25% Auto Debit Reward (ACH)
- 3% Federal Origination Fee
- 1% Federal Default Fees
- Payments typically begin within 60 days after final disbursement; parents have the option to defer payments while the student is enrolled at least half-time
- 10 to 25 year repayment period
- Loans up to 100% of your student's Cost of Attendance minus other aid, based on school certification

Federal Grad PLUS Loan Terms:

- Students must be a US citizen or eligible non-citizen
- Students must be enrolled at least half-time at a school that participates in the Federal Family Education Loan Program
- Students must pass a credit check (There is no cosigner required.)
- 8.5% fixed interest rate
- 0.25% Auto Debit Reward (ACH)
- 3% Federal Origination Fee
- 1% Federal Default Fees
- No payments due until 6 months after graduation or enrollment in school less than half-time
- 10 to 25 year repayment period
- Loans up to 100% of your student's Cost of Attendance minus other aid, based on school certification

2. Do you have a minimum borrowing requirement on Federal Stafford and Federal PLUS Loans?

Our minimum FFELP loan amount is \$100 annually. We follow all federal guidelines including any minimum borrowing requirements with respect to Federal Stafford and Federal PLUS Loans.

3. Do you deduct fees from the disbursement, or will the student get a bill?

We deduct the fees before disbursing the loan funds to students. That way, they do not have to pay a bill in the future. We amortize the fees based on the number of disbursements so students will not pay more in fees than the actual loan funds they receive in the event that they cancel a disbursement.

4. What is the minimum monthly payment?

The minimum monthly payment is \$50.

5. When do you capitalize interest during periods of deferment or forbearance?

We capitalize interest at the start of repayment and at the conclusion of any subsequent deferment or forbearance period. At that time, we send a new repayment schedule to the borrower that discloses the capitalized interest and monthly payment amount.

6. Please describe your repayment benefits.

Auto Debit Reward – The borrower receives 0.25% repayment interest rate reduction when payments are set up for recurring automatic debit from a bank account during the repayment phase. If the borrower has more than three NSFs, we will remove the benefit. If the borrower cancels Auto Debit Reward, he or she may reinstate the benefit by simply by resuming recurring payments through automatic debit from a bank account.

7. Are your borrower benefits guaranteed for the life of the loan?

Yes, we honor the benefits we advertised for existing loans, even if we change our benefit policies for new loans. We have not sold our federal loans.

8. What guarantee agencies do you work with? Please specify if your borrower benefits vary by guarantor.

We currently have your school setup to use Great Lakes. We also provide schools with the option to use TG, USAF, NELA, ECMC, ASA, or Ed Fund. Our benefits do not vary by guarantor.

- Texas Guaranteed Student Loan Corporation (TG) holds guarantees on more than \$49 billion in loans to more than 3 million students and borrowers. We have worked with TG since July 2008.
- USA Funds (USAF) has supported a total of nearly \$171 billion in financial aid for higher education to more than 19.7 million students and parents since 1960. We have worked with USAF since June 2009.
- Northwest Education Loan Association (NELA), a subsidiary of USAF, is a nonprofit guarantor that serves the Pacific Northwest. NELA is the designated guarantor for the states of Idaho and Washington. We have worked with NELA since June 2009.
- Educational Credit Management Corporation (ECMC) has guaranteed federal loans since 1994. We have worked with ECMC since October 2008.
- American Student Assistance (ASA) is the oldest federal loan guaranty agency and one of the largest in the country. We have worked with ASA since October 2008.
- EdFund processed \$9.3 billion in student loans in 2006–2007. Their portfolio guarantees federal loans valued at \$29 billion. We have worked with EdFund since October 2008.

Certified Private Loans

1. Please describe your private loan program.

We offer Certified Private Loans for undergraduate and graduate students to supplement their other sources of financial aid.

We require school certification to confirm enrollment and ensure borrowing is based on the cost of attendance less other sources of aid – the amount needed, not more. With respect to enrollment, there is no minimum credit hour requirement. Students who are enrolled at least half-time receive automatic in-school deferment. Half-time enrollment is determined by the school. (We do lend to students enrolled less than half-time, but they will have to make payments.)

We recommend an adult cosigner for Certified Private Loans to increase the likelihood that the student makes an informed decision to take the Certified Private Loan. By recommending a cosigner for the duration of the loan, we reduce default risk and therefore can price our loans more affordably. Creditworthy applicants have the option to apply without a cosigner. However, adding a cosigner may reduce their interest rates.

We also disburse funds through the school and request the school to provide the disbursement schedule. This helps ensure that funds are used for education-related expenses and helps ensure that interest does not accrue unnecessarily for months before school begins. Loans can be certified for balances incurred within the last six months. As with all of our Certified Private Loans, certification is required by the financial aid office and funds are disbursed through the school.

Private Loan Terms:

- Variable interest rates from Prime plus 1.00% to Prime plus 7.75%, based on credit evaluation
- 0.25% Auto Debit Reward
- Zero origination fees
- Zero payments until 6 months after graduation (9 months for graduate students) or enrollment in school less than half-time
- 15 year repayment period (20 years for graduate loans)
- 2% Graduation Reward based on outstanding principle balance
- Loans up to 100% of Cost of Attendance minus other aid, based on school certification

Eligibility:

To be eligible for our Certified Private Loan, the student borrower must be:

- US citizen or a permanent resident
- Enrolled in a 4- or 5-year undergraduate degree program or a graduate degree program
- Degree-seeking
- Making satisfactory academic progress (SAP), as defined per school
- In good credit standing (i.e., pass a credit check)

We recommend that students add a cosigner, which could improve their chances for approval and may reduce the interest rate for a loan.

Cosigners must meet the following requirements:

- US citizen or permanent resident
- At least 18 years old
- Must pass a credit check

Approval Criteria:

We determine Certified Private Loan eligibility based on the following:

- Evaluation of student applicant's credit
- Evaluation of cosigner applicant's credit (if a cosigner is added)
- School certification

Credit criteria include:

- Combination of FICO score and proprietary underwriting score – the dual-score approach improves the quality of credit decisions
- Credit history – student and cosigner credit is reviewed for any severe negative information such as: bankruptcy, foreclosure, repossession, or charge-off.

Please note that there is no minimum income requirement for the borrower or cosigner associated with our loans.

Loan Limits:

Our Certified Private Loan limits are:

- Minimum: \$1,000 annually
- Maximum: The annual maximum loan amount is the cost of attendance minus other aid, as determined during school certification.
- Aggregate loan limit: The aggregate limit for a borrower is \$200,000. Should a borrower require funds that exceed this aggregate limit, exception requests can be referred to the appropriate bank officer for review.

Our private loan limits do not include federal loan debt. These limits are only for our Certified Private Loans.

Interest Rates and Fees:

The interest rate is equal to the Prime Index plus Margin. The Prime Index adjusts quarterly on each January 1st, April 1st, July 1st, and October 1st and is the highest rate of interest listed as the prime rate in the Money Rates section of The Wall Street Journal on the first Friday of the last month of the previous quarter. The Margin ranges from + 1.00% to + 7.75% based on credit evaluation and is set at the time of loan origination. The interest rate is capped at 18%, regardless of the Prime Index and Margin value.

Interest Rate Tier (based on credit)	National Distribution (loans disbursed 06/01/2009–02/04/2010)
1 (Prime Index +1.00%)	13%
2	21%
3	23%
4	24%
5 (Prime Index + 7.75%)	19%

For the first quarter of 2010, the Prime Index is 3.25%.

There are zero origination and zero prepayment fees for Certified Private Loans, and these benefits are automatic with 100% of borrowers qualifying.

The Late Charge is the greater of five dollars (\$5.00) or five percent (5%) of the entire payment that was not paid in full. It is capped at \$50 per month. With monthly payments, a charge could be

assessed a maximum of 12 times per year, but not more than once per incident. We include these nominal charges to discourage poor payment behavior.

The Returned Check Charge is ten dollars (\$10.00).

Deferment:

Borrowers who are in school at least half-time can qualify for deferment. We also offer the following types of deferment:

- In School (Unlimited)
- Active Military Duty (36 months)
- Residency (36 months)
- Public Service (36 months)

Forbearance

Borrowers can request a discretionary forbearance up to six months due to the following temporary hardships:

- Unemployment
- Economic hardship
- Excessive student loan burden
- Medical disability
- Natural disaster

We have zero fees for loan deferments or forbearances. Interest will continue to accrue during any deferment or forbearance period.

Repayment:

Our Certified Private Loans have automatic in-school deferment while the student is enrolled at least half-time. Following graduation or enrollment less than half-time, the grace period is 6 months for undergraduate loans and 9 months for graduate loans. At the conclusion of the grace period, the repayment phase begins and is scheduled for 15 years for undergraduate loans and 20 years for graduate loans.

Students are eligible for additional in-school deferment if they enroll in school again. Forbearance is available for temporary hardships up to six months.

The student always has the option to make payments ahead of schedule without penalty. We encourage borrowers to make payments while in school to reduce their overall cost of borrowing. We send quarterly statements to students and cosigners that will help them understand their loan debt, accruing interest, and payment options if they would like to begin payments while in school.

Benefits:

We designed our loan program to provide benefits with no gimmicks. Our benefits of zero origination and zero prepayment fees for private loans are automatic and 100% of borrowers qualify. The Auto Debit Reward is easy to sign up for and most borrowers qualify. If the borrower cancels Auto Debit Reward, he or she may reinstate the benefit by simply by resuming recurring payments through automatic debit from a bank account.

We honor the benefits we advertised for existing loans, even if we change our benefit policies for new loans.

Auto Debit Reward – The borrower receives 0.25% repayment interest rate reduction when payments are set up for recurring automatic debit from a bank account during the repayment phase. If the borrower has more than three NSF's, we will remove the benefit. Once lost, the Auto Debit Reward cannot be regained. If the borrower cancels Auto Debit Reward, he or she may reinstate the benefit by simply by resuming recurring payments through automatic debit from a bank account.

Graduation Reward – An eligible borrower receives a cash reward, calculated as 2% of the outstanding principal balance of the loan on the last day of the month of graduation. To be eligible:

- The student must graduate from the degree program that the loan was used to fund.
- The graduation date must be more than 90 days and less than six years after the date of the loan's first disbursement.
- The loan must not be in default on the graduation date.

Please see our Web site (DiscoverStudentLoans.com) for the full Graduation Reward Terms and Conditions.

2. Are borrower benefits guaranteed for the life of the loan?

Yes, we honor the benefits we advertised for existing loans, even if we change our benefit policies for new loans. We have not sold our private loans.

Closing

Discover Student Loans is committed to providing the best loan products and services to its student and parent borrowers. We are also very serious about our commitment to work closely with schools to understand the needs of their financial aid offices. We hope that the benefits and strengths of our program are evident from the responses within this survey and our cover letter. We are interested in any feedback you have on how we can improve our program and services to better meet the needs of your students.

We appreciate the opportunity to provide information on Discover Student Loans and look forward to working with you to meet the needs of your students.