

ACHIEVING NEW HEIGHTS




 **MOHELA**[®]

2012

ANNUAL REPORT

Message from the Executive Director



MOHELA began the 2012 fiscal year on July 1, 2011 with an ambitious plan to become the first Not-for-Profit (NFP) student loan servicer to obtain a Direct Loan servicing contract with the U.S. Department of Education. Months of hard work had been performed by MOHELA's Direct Loan Servicing Team and, as the fiscal year began, we believed we were more than ready for the challenge of Direct Loan servicing. The Department of Education agreed and, on September 27, 2011, MOHELA signed a Direct Loan servicing contract and became the nation's first NFP Servicer.

Contract in hand, MOHELA next set its sights on becoming the premier Direct Loan servicer in the student loan industry. On September 28, 2011, MOHELA opened its new Direct Loan Servicing Center in Chesterfield, Missouri with space for 172 loan servicing agents and capacity to service one million borrower accounts in the near term and up to three million borrower accounts over a period of 24 months. Our success in servicing Direct Loans can be measured by the fact that, as of July 1, 2012—less than nine months after MOHELA received its first 5,000 Direct Loan accounts for servicing—we were servicing nearly 800,000 Direct Loan accounts on behalf of the Department of Education. Clearly, this is a contractual relationship that has succeeded to the benefit of both parties.

While nearly all of our time and efforts during the year surrounded our intense pursuit of a successful transition into the Direct Loan Servicing business, we will never lose sight of our overarching goal of providing student loan related services for the benefit of our primary Missouri stakeholders. Beginning in FY2013, we anticipate a steady growth in net revenues generated as a result of our contract with the Department of Education. And, as always, all of MOHELA's net revenues will inure to the benefit of our primary stakeholders -- students pursuing higher education in the state of Missouri.

In addition to celebrating our successes in the business of Direct Loan Servicing, MOHELA's legacy portfolio of loans made under the Federal Family Education Loan (FFEL) Program continues to generate significant net revenues. During FY2012, through contributions to the Access Missouri Student Assistance Program, MOHELA funded an additional \$31 million in need-based scholarships to students pursuing higher education in Missouri.

Looking forward, we intend to expand our capacity to service additional Direct Loan volume. Within the next fiscal year, we anticipate opening a new 300-seat Direct Loan Servicing Center in Columbia, Missouri. This \$7 million Servicing Center will have the immediate capacity to service one million borrower accounts and the near-term capacity to service up to three million borrower accounts. This will bring our near-term servicing capacity to three million borrower accounts and our long-term servicing capacity up to eight million borrower accounts. While these numbers may seem hypothetical and overly ambitious, we believe they are attainable over the next three to five years. MOHELA and many other state-based servicers were precluded from bidding when the Department of Education awarded Direct Loan servicing contracts in 2009 because the contract solicitation required that bidders demonstrate the present ability to service 2.5 million borrower accounts. MOHELA now has that capacity and, accordingly, a significant barrier to entry into the federal student loan servicing market has been overcome. Our ability to overcome other barriers to entry, including ultra-thin operating margins and economies of scale, should provide MOHELA with the opportunity to significantly increase its portfolio of serviced loans in the coming years.

Over the past 30 years, MOHELA's participation in the FFEL Program generated well over \$600 million in net revenue for our Missouri stakeholders. In addition to net revenues, our participation in the FFEL Program generated hundreds of millions of dollars in economic activity for the state of Missouri that would have otherwise gone to out-of-state servicers, many of whom operate in the for-profit sector. Finally, our legacy FFEL Program loans are anticipated to generate an additional \$100 million or more in net revenues in the coming years. That being said, the FFEL Program has ended and the Direct Loan Program is now the program through which all federal student loans are made.

While it is not yet clear how long the Direct Loan Program may last, MOHELA is well positioned to actively participate in Direct Loan servicing. In doing so, we hope over a period of time to generate hundreds of millions of dollars in economic activity for the state of Missouri and perhaps also hundreds of millions of dollars in net revenues to be returned directly to our Missouri stakeholders. This would be a good time to give thanks to our founding Executive Director, John Wild, and the employees and Board Members throughout the years that contributed to MOHELA's success. I am confident that MOHELA's current employees and Board Members will one day have an opportunity to read a MOHELA annual report that looks back on FY2012 as a transitional year that began the rebirth of MOHELA. Congratulations and thanks to all of those who made this year an outstanding success.

Sincerely,



Raymond H. Bayer Jr.
Executive Director



CONTENTS

Page 2-5 Operations Summary

Page 6-7..... Subcontractors & The NFP Sector

Page 8-9 IT, Facility Expansion

Page 10-11 Giving Back

Page 12-13 Financials

Page 14-15..... Staff Benefits

Page 16-17 Leadership

Federal Contract

On our ascent to a new business model, MOHELA received the first federal loan servicing contract awarded under the HCERA/SAFRA Not-For-Profit (NFP) Servicer Program solicitation by the Department of Education. MOHELA received its Authority to Operate (ATO) on September 22, 2011 and its contract on September 27, 2011. To receive the ATO, MOHELA's employees worked diligently to comply with hundreds of different regulations, laws and contract requirements. We developed a strategic approach based on the portfolio dynamics assigned to MOHELA for servicing.

Teaming

In fiscal year 2012, MOHELA also entered into a "teaming agreement" with seven other NFP servicers. In accordance with our Department of Education contract, each of MOHELA's team of eight members (including MOHELA) is entitled to receive a minimum of 100,000 federal asset accounts for servicing. Between its first transfer on October 20, 2011 and June 30, 2012, MOHELA converted and began servicing nearly 800,000 federal borrower accounts. This significantly increased the total amount of loans we service and enabled us to come closer to establishing a viable, new business model for MOHELA. This demonstrates why we took strategic steps during the past year to expand our staffing and space to meet borrowers' needs.

Metrics

MOHELA is evaluated on its performance in five areas: satisfaction of borrowers, satisfaction of Federal Student Aid personnel who interface with MOHELA, percent of borrowers in current repayment status, percent of borrowers who are more than 90 days delinquent and resolution of borrowers who are more than 180 days quarter to quarter delinquent. MOHELA is dedicated to performing well in all five areas to position us as a leader in our industry and enable us to service more federally-held loans. We are improving systems to simplify account management and repayment for borrowers through paperless correspondence, easier online account login, and a quick and easy phone system. We have also continued dedicated efforts to bring delinquent accounts current by contacting borrowers and informing them about repayment options.

Relationships

Relationship building has also been a key responsibility of MOHELA's Federal Contracts department. Working in partnership with Federal Contracts, members from IT and Accounting have worked directly with representatives from Federal Student Aid. MOHELA is committed to maintaining an open dialogue with Federal Student Aid to ensure that we are providing quality service and timely information, and modifying our loan servicing implementation as needed.

On September 27, 2011, Raymond H. Bayer, Jr., Executive Director, signed the contract between MOHELA and the Department of Education.



FELP and Private Loan Servicing

In addition to a federal loan servicing contract, MOHELA also services nearly \$3.6 billion of its own student loans and \$221 million in lender partner owned loans that will provide MOHELA ongoing revenue streams for many years to come. This legacy portfolio of CASHLoans and Federal Family Education Loans, and its related revenue, have and continue to assist MOHELA in completing a gradual and smooth transition to a federal asset servicing business model. We are committed to ensuring our servicing efforts remain strong and intact as we support this critical revenue stream into the future.



*MOHELA
increased its
staff from
218 to 388
employees
to meet
the needs
of more
borrowers.*

Creative Servicing Solutions for Borrowers

Servicing borrowers is the core focus of our organization. In fiscal year 2012, MOHELA enhanced our capabilities and staff training to better service our existing borrowers from the Federal Family Education Loan Program, our private CASHLoan program and new borrowers through our federal contract.

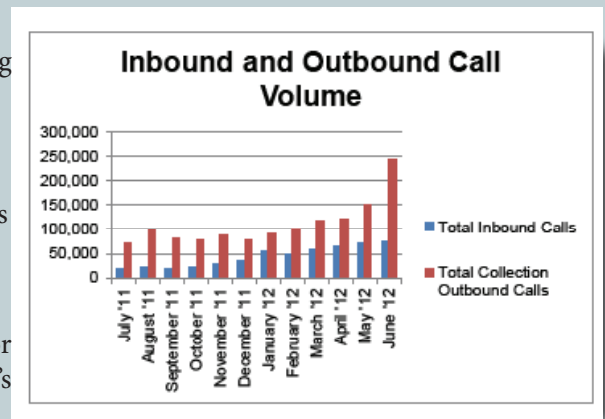
MOHELA began the year servicing approximately 365,000 borrower accounts and concluded the year servicing more than 1.1 million borrower accounts. This growth was primarily the result of MOHELA's success in obtaining a contract with the Department of Education to service federal assets and receiving nearly 800,000 federal student loans for servicing.

MOHELA's staff expanded rapidly to service the significant increase in the number of borrower accounts we began servicing in fiscal year 2012 and what we expect to service in the future. MOHELA began fiscal year 2012 with 218 employees. By June 30, 2012, our staff had climbed to 388 employees.

We made remarkable changes so we can continue to provide best-in-class service to many more new borrowers. For example, those changes included answering 95 percent of inbound calls in 60 seconds and answering calls within an average of 8 seconds. We also adjusted our phone system to give borrowers the ability to simply dial 1 and reach a customer service professional quickly and easily.

MOHELA remains focused on doing what we do best...providing outstanding services to student and parent loan borrowers by:

- Ensuring there are no busy signals
- Opening greeting quickly informing the caller that they can press "1" for a live agent
- Posting payments the same day they are received
- Empowering all employees to escalate calls to a supervisor if they believe they are unable to meet the caller's expectations
- Training supervisors to escalate calls further up the chain of command if necessary
- Providing every employee with our CEO's cell phone number and the ability to give it out to borrowers who ask to speak to the president or CEO



To service the significant increase in borrower volume, MOHELA opened a servicing center dedicated to federal accounts. A ribbon cutting ceremony marked the opening and was attended by elected officials, board members and employees.

In the midst of a dramatic change to its business model, MOHELA celebrated its 30th anniversary. Our history has been filled with hills and valleys. We embrace the lessons we've learned and the path we have laid out for our future. We have grown from a small organization with less than 10 employees in 1981 to nearly 400 employees in 2012, always with a focus on providing quality service to students and families.



MOHELA began the year servicing approximately 365,000 borrower accounts and concluded the year servicing more than 1.1 million borrower accounts.



Subcontractor Relationships

The Department of Education contracted with organizations from the Not-For-Profit sector to provide federal student loan servicing. MOHELA was the first organization to receive a NFP contract with the Department of Education. In order to reach scale, develop efficiencies and continue to provide high levels of customer service for more borrowers, MOHELA had to service a larger volume of federal assets. MOHELA reached out to other NFPs to service accounts on their behalf, and now has agreements with several subcontractors. The subcontractors are similar organizations to MOHELA but without sufficient resources or desire to service federal student loans independently. MOHELA services accounts on their behalf and performs all day-to-day interactions with borrowers, schools and the Department of Education. In fiscal year 2012, MOHELA entered into agreements with seven subcontractors and were approved to have them as part of MOHELA's team.



Building the NFP Ser

Assisting Not-For-Profit Servicers

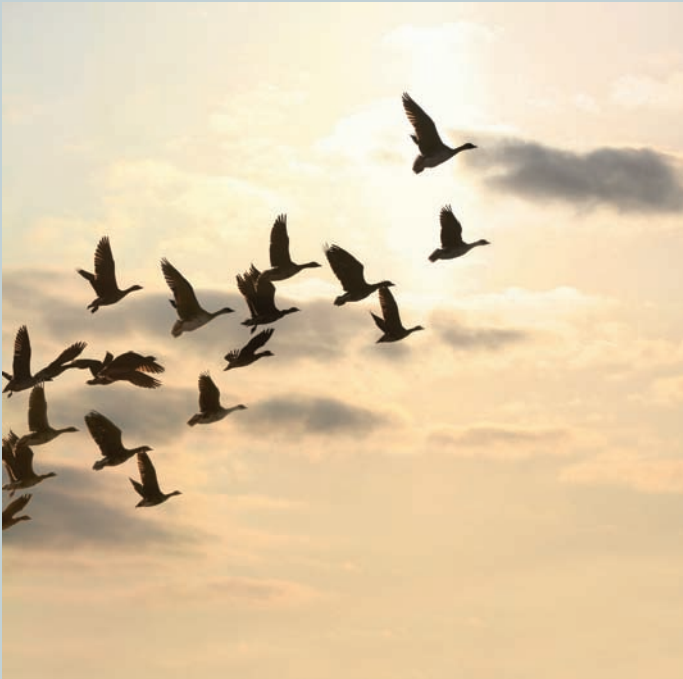
Success of the entire Not-For-Profit (NFP) sector for federal loan servicing is dependent on a strong group of NFP servicers. It is critical that NFP servicers demonstrate the capability to meet and at times exceed the requirements and expectations set forth by the Department of Education in the NFP Solicitation that was issued in 2010. In order to help maintain the viability of the NFP sector for federal loan servicing, MOHELA is committed to assisting and supporting other NFP servicers throughout the country. We help them understand the intricacies involved in securing an Authority to Operate (ATO) and in working within the boundaries of a federal contract. Our experience as the nation's first NFP to receive a contract for federal loan servicing, under the NFP solicitation, makes us uniquely positioned to share the knowledge of our staff and processes to benefit the sector. It will ultimately make each of us readily available to increase loan volume as the Department of Education has a need. Collaboration with other NFPs also allows MOHELA to identify ways we can continue to improve our processes and borrower services.



vicer Community

IT & System Security

MOHELA substantially enhanced its security and capacity to support and maintain the ATO we received from the Department of Education in fiscal year 2012. One of IT's top priorities was to become compliant with the Federal Information Security Management Act (FISMA) as an ATO requirement for federal contractors.



The systems and processes MOHELA developed ensured that we received security certification and accreditation, which then allowed us to begin servicing federal assets.

MOHELA was also the first loan servicer under the Department of Education's NFP contract to comply with Section 508 of the Rehabilitation Act. Section 508 is part of the Americans with Disabilities Act (ADA). Complying with Section 508 means that web visitors with disabilities can access and use MOHELA's electronic information technology in accordance with federal guidelines.

With increased IT capacity developed this year, MOHELA can support three million borrower accounts in the near-term and expand to five to eight million accounts over the next three to five years.

Lastly, MOHELA launched a visualization project, which makes information that is the heartbeat of the business readily accessible to every employee. Screens are strategically placed around our offices to inform employees and leadership in that

location about the critical parts of the business. For example, information on the screens includes call and support service volume, and it quickly and easily shares organizational updates with staff. The standardization and modernization of this technology and others throughout MOHELA increase our efficiency and responsiveness and ultimately enhance the user experience for borrowers.



*Facility Expansion
555 Vandiver Drive, Columbia, MO*



Facility Expansion

As part of our Disaster Recovery/Business Continuity Plan, MOHELA needed more space to continue to provide uninterrupted service in the event of an emergency. To meet this need, we acquired property at the end of fiscal year 2012.

Once it is renovated, the new Columbia Servicing Center will replace the existing leased Columbia, Missouri office space as the back-up data center and disaster recovery site for the Chesterfield headquarters. The location is geographically separated as required by business continuity plans but is close enough to support organized commute capabilities for personnel in the unlikely event that the Chesterfield facility becomes rendered temporarily unusable. This site will also accommodate additional staff as our growth in volume dictates.

MOHELA closed on the 42,000 square-foot property in Columbia in June 2012 for \$1.8 million (photo, page 8). Renovations will be completed to create a 600 square foot secure Data Center, 2,700 square foot environmentally-controlled print and mail room, new bathrooms, an employee break room and multi-purpose room, two offices and more.

Now that we have our ATO, MOHELA will continue to bid on other related contracting opportunities with the federal government. MOHELA anticipates that the volume of Department of Education student loans it services will continue to grow from its current level of approximately 800,000 borrower accounts to well over one million accounts during the next year. At the same time, MOHELA will continue servicing its legacy portfolio of student loans made under the Federal Family Education Loan and the CASHLoan Programs.

Once renovated, the Columbia facility will provide the capacity to independently service up to three million accounts. This will allow us to accommodate up to eight million borrower accounts in total.

Going Above & Beyond

“MOHELA’s representative was more than helpful to me. I had some recent misfortune that has put me in a tough position and MOHELA was able to lift a huge weight off of my shoulders. The representative was patient, kind and actually listened to me. I could not be more happy.”

- Nancy

“The representative I spoke with was unbelievably professional. He handled my call with class and did an amazing job. I was going through some personal issues and was avoiding this situation due to pride. Your representative made this situation easy and quick.”

- Christopher

“I was not initially happy that my loans transferred, but I was completely blown away about how great MOHELA’s customer service professionals are. The representative I spoke with was extremely patient and professional and I am excited to deal with MOHELA going forward.”

-Armando

“I wanted MOHELA to know that speaking with your customer service professional was really worth my time. She did a phenomenal job and is a good person all around. I consider myself to be illiterate when it comes to taxes, computers and interest accrual. Your representative made something complicated, very simple.”

- Michael



Giving Back to Joplin

More than 1,000 of MOHELA's borrowers live in Joplin, Missouri and many students were caught in a difficult situation due to the devastating tornadoes that wreaked havoc on their town in May 2011.

The EF-5 tornado caused catastrophic damage and destruction challenging our ability to communicate with borrowers throughout the small Missouri town. Many of these borrowers have temporary mailboxes and MOHELA sent information to them by U.S. Mail and e-mail to let them know what programs were available to help them delay payments and otherwise keep them informed.

MOHELA made a \$100,000 grant for scholarships and financial aid to Franklin Technology Center. The majority of the Franklin Technology Center campus was eliminated and they are in the middle of a three-year rebuilding project.

MOHELA also helped support the recovery efforts in Joplin by donating \$5,000 to AmeriCorps, a first responder organization.

Giving Back to the Community

Borrower Benefits

MOHELA continues to focus on the development of creative solutions to support our mission. In the past, MOHELA has offered various rate reduction programs to borrowers who establish payments through automatic deduction as well as various loan forgiveness programs. Beginning in fiscal year 2009, MOHELA modified its borrower benefits to comply with new requirements related to the federal Ensuring Continued Access to Student Loans Act (ECASLA) programs. As a result, borrowers who establish payments through automatic deduction can receive a 0.25% interest rate reduction.

MOHELA's Board is committed to providing support to Missouri Stakeholders. We formed the Missouri Scholarship Foundation (MSF) with the purpose of distributing funds for higher education. Thanks to one-time gains from certain bond transactions in 2011, MOHELA was able to donate to two state programs. Our board authorized a donation of \$30 million to Access Missouri and \$1 million to a state scholarship program titled the Advanced Placement Incentive Grants.

Financials

MOHELA purchased \$351.9 million of gross principal student loans from a variety of financial institutions during fiscal year 2012. This compares to \$758.8 million in gross principal purchased or originated during fiscal year 2011 and \$938.5 million during fiscal year 2010, representing a 54% decrease for fiscal year 2012 compared to a 19% decrease for fiscal year 2011.

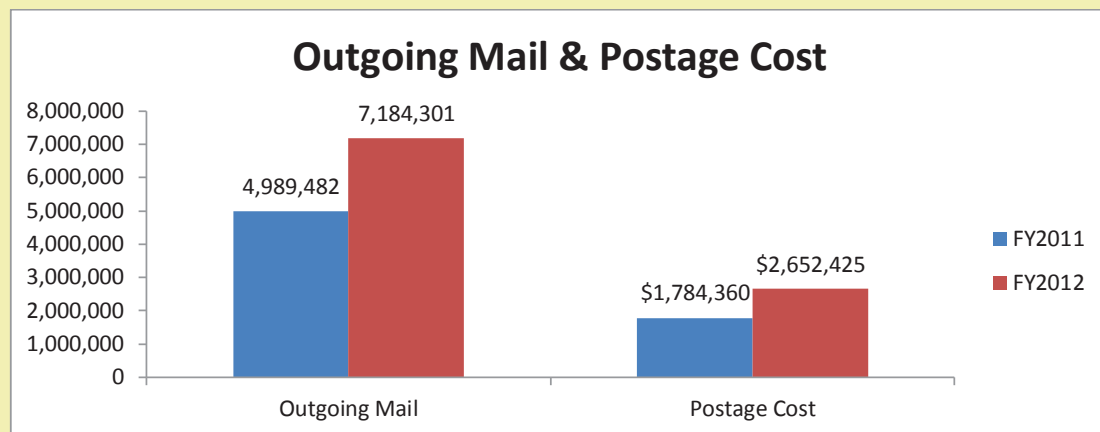
We received revenues of \$0.9 million in lender servicing fee income from our lender partners for serviced loans that in the past would have been purchased. In addition, in fiscal year 2012, MOHELA received \$5 million in servicing fees from its federal servicing contract after fees paid to subcontractor team members.

On July 11, 2011, we issued \$576.8 million in LIBOR floating rate notes under the 2011-1 Trust Indenture to refinance the 2008 Trust, purchase FFELP loans from our lender partners and purchase loans from MOHELA's general fund. On May 10, 2012, MOHELA issued \$256.1 million in LIBOR floating rates under the 2012-1 Trust Indenture to purchase nearly \$204 million in loans from the Straight-A Conduit, \$46.1 million in loans from the line of credit and \$7.5 million in loans from MOHELA's general fund.

Total assets decreased \$202.9 million compared to a decrease in liabilities of \$192.5 million resulting in a decrease in MOHELA's net assets of \$10.4 million in fiscal year 2012.

Support Services

Reflective of the growth throughout the organization, MOHELA's Support Services department had a busy year. MOHELA is required to notify borrowers when their account transfers to us. The increase in account transfers for Department of Education borrowers has increased the printed volume MOHELA must mail. Month after month, MOHELA set records for the amount of outgoing mail it was required to send. As is apparent, we can make a meaningful impact on both the environment and our bottom line as we strive to decrease the amount of mail generated per borrower. This is one of the key drivers of our Paperless Initiative.



Paperless Initiative

MOHELA understands that borrowers want to be environmentally friendly, be able to easily access account correspondence online, reduce the clutter in their lives, and be communicated with in a manner with which they are comfortable. Therefore, we continue to implement a paperless campaign to let borrowers know how to sign up for paperless.

Condensed Statements of Net Assets

Condensed Statements of Net Assets

(in thousands)

	2012	2011	2010
Capital assets	\$ 19,150	\$ 16,858	\$ 14,045
Other than capital assets	4,040,636	4,245,787	4,610,752
Total assets	\$ 4,059,786	\$ 4,262,645	\$ 4,624,797
Current liabilities	\$ 284,254	\$ 458,578	\$ 950,145
Long-term liabilities	3,480,220	3,498,395	3,359,542
Total Liabilities	\$ 3,764,474	\$ 3,956,973	\$ 4,309,687
Invested in capital assets	\$ 19,150	\$ 16,858	\$ 14,045
Restricted for debt service	218,653	204,415	217,214
Unrestricted	57,509	84,399	83,851
Total net assets	\$ 295,312	\$ 305,672	\$ 315,110

Condensed Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

	2012	2011	2010
Interest on student loans and interest subsidy	\$ 193,142	\$ 186,231	\$ 187,621
Special allowance	(81,243)	(86,874)	(89,617)
ECASLA income	--	19,770	19,578
Investment income and other	7,099	4,465	7,440
Total operating revenue	118,998	123,592	125,022
Bond expenses	46,188	46,196	58,510
Student loan expenses	25,225	32,841	25,139
General and administrative expenses	67,241	58,778	34,131
Total operating expenses	138,654	137,815	117,780
Operating income (loss)	(19,656)	(14,223)	7,242
Gain on extinguishment of debt	9,296	4,785	139,461
Change in net assets	\$ (10,360)	\$ (9,438)	\$ 146,703



Our Staff

Employees are key to MOHELA's success and continued growth. In particular, we are focused on developing and retaining dedicated employees who have the information they need to perform their jobs with excellence. MOHELA's staff grew from 218 to 388 employees to meet the needs of more borrowers and to ensure we continue our great level of service.

Training

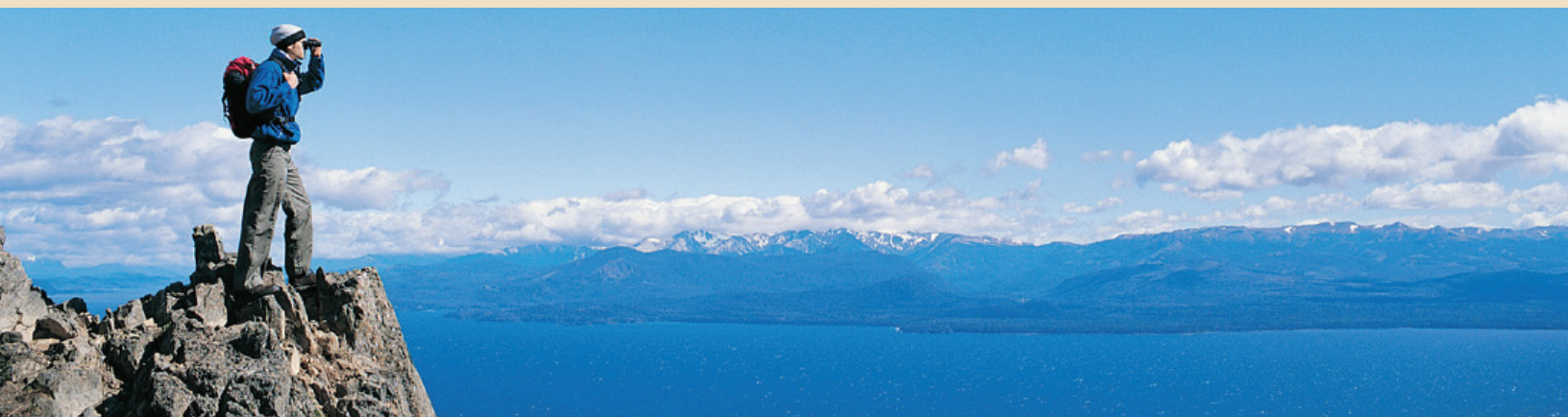
To ensure MOHELA's high service levels were maintained as we transitioned to servicing federal loans, employees were busy with training classes in fiscal year 2012. New hires were trained in servicing Federal Family Education Loans and Federal Loans, and employees were cross-trained for our call center and loan servicing. Current employees were trained in Federal Loan servicing during 16 sessions offered over half-days, full-days and Saturdays.

Seventy-one MOHELA employees also took advantage of individualized training and development courses throughout the year. Those courses included topics that are designed to improve supervision, communication, problem solving, facilitation and project management skills among many others.

Tuition Reimbursement

As an organization that supports educational access and success, MOHELA has strengthened our commitment to encourage and support our employees in their pursuit of higher education. MOHELA updated the eligibility requirements of its Tuition Reimbursement Policy to include:

- An employee will become eligible at six months of employment rather than at one year;
- The maximum reimbursement amount that the employee can request during a calendar year increased to \$10,000 from \$7,500;
- Full-time and reduced full-time employees who have completed at least one year of employment are eligible to receive tuition reimbursement for their dependent children who are pursuing an associate, baccalaureate or graduate degree.



Health Benefits

MOHELA is committed to providing its employees with valuable health benefit programs for their security and peace of mind. MOHELA shares the cost of the health plan with participating employees, with the company paying the majority of the employee's premium cost and part of the premium cost for their dependents. Although health care costs increased this year, MOHELA's management chose to keep premiums at the same level as fiscal year 2011. MOHELA absorbed the 1.8% increase in premiums under the new plan, which was changed to a High Deductible Health Plan with employee Health Savings Accounts.



Much like rock climbers, MOHELA's employees supported one another during the tough ascent over the last several years.



Through visionary leaders, excellent customer service, committed employees and detailed processes, we expect the total number of borrowers we service to continue to SOAR.

*We thank you for your commitment,
vision and service!*

Executive Steering Committee



(from left to right) Mr. Raymond H. Bayer, Jr., Executive Director; Mr. Don Bertier, Chief Information Officer; Ms. Jennifer Farmer, Director, Federal Contracts; Mr. Scott Giles, Chief Financial Officer; Mr. Chris Lee, Assistant Director, Loan Servicing



(from left to right) Ms. Carol Malon, Controller; Dr. Jim Matchefts, General Counsel; Mr. Will Shaffner, Director, Business Development & Government Relations; Ms. Mary Stewart, Director, Operations



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