Montana Guaranteed Student Loan Program
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July 28, 2011

VFA Team
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Dear VFA Team:

Attached please find the Voluntary Flexible Agreement (VFA) concept for the Montana Guaranteed Student Loan Program.

The primary contact for this VFA is:

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Respectfully submitted

Bruce Marks

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Introduction and Overview of Proposal

The Montana Guaranteed Student Loan Program (MGSLP), a state-designated guaranty agency submits this proposal to the Secretary of the Department of Education (the "Secretary") in response to the "Notice inviting guaranty agencies to submit proposals to participate in a Voluntary Flexible Agreement" published in the *Federal Register* on May 31, 2011.

MGSLP is submitting this VFA concept because it hopes to continue our success and to fulfill our mission of improving access to postsecondary education for our Montana residents. MGSLP exists to serve students and to help our constituents; we are not motivated by a quest for profit for stock holders. From our first day of service many years ago, we have concentrated on providing high quality, localized state-centered services, including college access and financial literacy information for students and families, such as how to pay for college through grants, savings, and borrowing as well as comprehensive training, technical assistance, oversight reviews for schools, delinquency aversion and default prevention for borrowers, and effective collection efforts when defaults occur. MGSLP is the single point where information about federal and state aid come together to provide a full overview for students, families and schools in Montana.

The Secretary of Education has the authority and has been encouraged by Congress to contract with state-designated agencies such as the MGSLP for a broad range of constituent services for students and their families, including financial literacy, early awareness, college access, outreach, default aversion, and collection programs. During these challenging economic times, students and families need these services now more than ever. Furthermore, this need will not diminish in the foreseeable future if the United States is to maintain a qualified and competitive workforce in the global economy. Exercising the existing authority to contract with state agencies, as the Congress has encouraged, will ensure that our constituents receive customized programs, content, and services from local public state agencies, staffed by public servants, rather than receiving 'one size fits all' materials and services nationally that may not align with public policy and the needs of a particular state. These efforts to provide the services described above are strongly aligned with President Obama's goal of increasing the college completion rate dramatically over the next decade and will leverage state activities to accomplish this laudable national agenda.

We offer this proposal in response to the Secretary's invitation for creative and innovative ideas. We request the same conduct from the Secretary – we believe that the use of Voluntary Flexible Agreement authority to modify the work of the MGSLP in the Federal Family Education Loan Program (FFELP) can also be readily utilized in conjunction with the Secretary's contracting authority for services in the Direct Loan program, as set forth in 20 U.S.C. §1087 and as more fully described below.

We are proposing that we provide the following services:

GA Responsibility Area I: Lender Claims Review, Lender Claims Payment, and Collections: MGSLP has experienced outstanding success working with defaulted student loan borrowers. As a state agency, we

have access to many state-specific tools that allow us to both locate and collect from defaulted borrowers. While the *Federal Register* speaks to potential conflicts of interest for guarantors who do both default prevention and collections, MGSLP describes later in this document methodology that mitigates the concern for this conflict of interest.

GA Responsibility Area II: Delinquency and Default Prevention and Management: Activities associated with loan servicing, such as individualized default aversion or delinquency prevention counseling, will be performed in parallel with and be supplementary to those offered by entities under contract with the US Department of Education's Office of Federal Student Aid (FSA) to service federally held loans. Supplemental services to help borrowers repay their loans are needed to help borrowers avoid the negative consequences of default and to protect the federal interest in the loans.

GA Responsibility Area III: Community Outreach, Financial Literacy and Debt Management, School Training and Assistance, and School oversight: MGSLP will perform a host of educational services to help students and their families make the best decisions to be successful at school, financially literate, and aware of their options for paying for college, and to take appropriate action to minimize borrowing and prevent delinquency and default. These services will be offered to students in elementary, middle, and high school years and on into adulthood for nontraditional students (including assistance in how to choose a program of postsecondary education that does not leave the student in worse condition than before entering, with high debt and few skills). Services continue through the student's college education, promoting financial literacy and encouraging college completion, and last until any college indebtedness has been satisfied. Our knowledge of Montana allows us to best determine the right techniques for communicating with regional audiences and engaging local resources. We will include information on both state and federal student aid programs to give students a comprehensive picture specific to their own situations. MGSLP will be able to establish relationships with individual students and families early to become the trusted "go-to" resource for information on paying for college. MGSLP will continue, as it has under FFELP, to assist FSA with monitoring schools to ensure compliance with student aid program laws and regulations and to confirm effective performance. MGSLP has a history of educating schools and financial aid administrators on aid program requirements and assisting them with improving their performance in serving students while meeting compliance requirements. MGSLP will also provide training and outreach to secondary and middle school counselors concerning how their students can best plan, apply, and pay for college. Montana colleges depend upon MGSLP. Many services and products were made available to Montana schools during the FFELP years; the need for these services remains strong even in a Direct Loan environment. In a recent survey conducted by the National Association of Student financial Aid Administrators (NASFAA), results showed that 90% of financial aid administrators have fewer resources available to provide critical student services, including student loan repayment. Accordingly, MGSLP will work with schools in Montana to encourage low default rates by providing localized counseling and support services for our distinctive student and borrower populations. We can serve as intermediaries between schools and multiple servicers under contract with FSA for loan servicing, relieving the schools of the additional burden of maintaining relationships with different servicers.

GA Responsibility Area IV: Lender and Lender Servicer Oversight: MGSLP has an outstanding audit track record, as do the lenders and servicers we work with. The Student Assistance Foundation and the Montana Higher Education Student Assistance Corporation, the servicer and secondary market that service and own some 75% of our total loans, are located in the same building we are. Providing lender and servicer oversight is both and convenient and logical for MGSLP.

MGSLP and FSA will work together in creating innovative approaches for managing the outstanding FFEL portfolio and new roles to support federal loans and other financial aid services. This approach will provide numerous benefits to:

- *Students and families* through localized services which offer a single trusted resource for support and information on saving, preparing, and paying for and accessing a college education;
- *Schools* by maintaining support for essential services provided through existing relationships;
- *States* through the continued support of resources to support or administer state grants, scholarships, and other student assistance programs such as 529 college savings plans;
- *The US Department of Education Federal Student Aid* (representing federal taxpayers) by eliminating conflicts of interest and providing an environment that makes for effective and efficient delivery of services.

Montana

The state of Montana is very unique and the MGSLP requires a unique VFA; it is the fourth largest state in the nation with more than 147,000 square miles and a population of less than one million people. The student full time equivalent population of roughly 45,000 is spread across 22 campuses, with nearly two thirds of those students attending either the University of Montana or Montana State University. This population distribution creates a very unique and challenging problem: how are effective default prevention and financial literacy programs delivered to a small population spread across such a large geographic area? One obvious answer is to utilize technology. Sadly, technology is not always an answer because some parts of Montana don't have internet access and many students located in geographically isolated areas live in very poor economic conditions. For many Montana students, access to the internet and computers is limited to public school hours.

To complicate Montana's geographic uniqueness, many of our state's poorest students come from one of seven independent Native American tribes located within Montana. Students from these tribes oftentimes come from school systems with high drop-out rates and hometowns with high unemployment rates. For many of these students, preparing for a postsecondary career is both challenging and increasingly problematic. If students are prepared academically and succeed in college, post-graduation employment can oftentimes only be found outside of the reservation. This fact can mean leaving family, friends, and culture behind.

In Montana, it is not enough to simply provide access to financial literacy information; it is also necessary to provide grassroots education about the benefits of achieving a higher education. It's one matter to counsel a borrower about paying back his or her loans, it's another matter altogether to

change a cultural disbelief towards borrowing. This is yet another reason why Montana's VFA must be unique.

Under the MGSLP VFA model, a premium is placed upon personal, face-to-face service. We suspect this will be a significant difference compared with other VFA requests. It is crucial to students in Montana that FSA truly exercises its option to create individual VFAs designed to meet the needs of each respective state. If MGSLP were to enter into a one-size-fits-all model, students in Montana will suffer. Although we plan to use many innovative, efficient, and cost-effective student- and school-focused services made possible through the use of industry best practices and utilizing common technologies based on a FISMA-compliant platform, the Montana VFA model must take into consideration the uniqueness of our state.

An example of our unique approach is the default prevention and financial literacy programs MGSLP staff teach at the Salish Kootenai College. Upon enrollment, school officials request students attend money management classes taught by MGSLP employees. These classes cover everything from understanding your money personality to opening a checking account. For many of these students, this is their first exposure to financial literacy. Class size is kept to 30 or less students and classes are taught in person – the only effective way of delivering this type of information to this population of students. Salish Kootenai is approximately 200 miles from our office (one way) and we teach multiple classes at multiple times throughout the year.

The Montana Guaranteed Student Loan Program

MGSLP serves as a guaranty agency under the FFELP. Created in Montana statute in 1979, MGSLP is a program within the Office of the Commissioner of Higher Education and is part of the Montana University System. MGSLP has a track record of being financially conservative and consistently ranks in the top 3 nationally for our default prevention effectiveness. With more than 30 years of expertise and experience, MGSLP has an outstanding history of helping students, unqualified audits, and assisting Montana residents prepare, pay, and successfully complete their postsecondary educations. MGSLP also administers a variety of federal, state, and private grant and scholarship programs, as well as administering the state's 529 college savings plan.

MGSLP is in solid financial condition, with strong agency and federal fund balances. Throughout MGSLP's existence, we always charged the guarantee fee. As a result of charging the guarantee fee and having an outstanding trigger rate, our federal fund has always remained well above required minimums.

MGSLP is currently using a system that is FISMA compliant. Over the last two years, MGSLP has moved to also make its office FISMA compliant. We appreciate the importance that FSA places upon its guarantors to protect personal identifiable information.

MGSLP plans to retain its individual identity as well as our governance structure. This structure gives us the ability to continue managing our internal operations and preserving state-designated priorities by

providing other state-based services as necessary. MGSLP will retain the individual guarantee for loans coming from our portfolio. MGSLP is willing to escrow our FFELP Federal Fund to FSA and will ask for direct payment to lenders for approved default claims.

Lender Claims Review and Payment, Collections

MGSLP has long recognized the conflict of interest that exists by earning revenue on defaulted loans. An agency that fails to place the borrower first could readily supplement income by increasing defaults. Although MGSLP's industry best cohort default rate of 1.8% for 2008 clearly shows that scenario is not the case in Montana, we want to work with FSA to remove even the remotest possibility of a conflict of interest, whether real or perceived. To that end, MGSLP is recommending that we continue to collect MGSLP guaranteed defaulted FFELP loans, as well as MGSLP guaranteed FFELP loans that default in the future. However, [redacted] of net monies collected by MGSLP will be returned to FSA (where we define net as [redacted] of what MGSLP collects directly and [redacted] of the amount netted by MGSLP if we assign a defaulted loan to a collection agency).

We believe this approach is very logical because not only does it eliminate the conflict of interest, it allows FSA to take advantage of the state-specific collection tools that make MGSLP both efficient and effective. It also makes sense for the actual defaulted borrowers; many borrowers have already been contacted by MGSLP and may have made, or be in process of making, repayment arrangements. To switch to a new agency would be confusing to many of these borrowers. Their familiarity with us as their guarantor is a positive in efforts to recover the debt. It is very logical to retain these defaulted accounts.

We believe there will be significant cost savings for FSA under this model; although MGSLP is a small guarantor with a relatively small portfolio (approximately $1.7 billion in our portfolio), this model benefits all involved: the borrower, the FSA, and to a lesser extent, MGSLP.

- As a program within the Montana University System, borrowers associate MGSLP employees as a component of the postsecondary institution they attended. Borrowers are more inclined to take calls from their school rather than from a collection agency or an out-of-state guaranty agency.
- MGSLP has direct access to the Montana University System's data warehouse. This access allows for both quantitative and qualitative report analysis (for example, we can determine which students require remedial education and the impact that has on success rates).
- Since the Montana University System is also part of the State of Montana, we have access to state-unique data bases, employment records, and collection tools that make our collection efforts more efficient and effective than third party collectors.
- Effective collections in Montana requires an understanding of the demographics of our state, including an understanding of local laws and limitations. With seven tribes, each its own sovereign nation, Montana is a difficult state in which to conduct collection activities.
- Effective collections in Montana requires a local presence. Without a local presence, collection activity is basically limited to legal processes. Montanans are fiercely loyal to their

state; there is absolutely no incentive for a defaulted Montana borrower to repay his loan to a guarantor located in Indiana.

Please note that this proposed collection model includes the continued use of a third party, portfolio management collection agency. Although there are certain aspects to collecting that MGSLP does very well, we also recognize there are certain things best handled by a national collector. Not all borrowers who attend school in Montana stay in Montana. Some defaulted borrowers leave the area and become 'skips'. We have found that it's far more efficient to assign these out-of-state skips to our collection agency, leaving MGSLP staff to primarily work with those defaulted borrowers living in Montana. For loans assigned to our collection agency, this proposed model would continue to pay the collection agency its negotiated commission. If, for example, we have negotiated with our collection agency that it retains [redacted]% of the direct pays it collects, MGSLP would then forward to FSA [redacted]% of the direct pay amount. This model again ensures that MGSLP is not profiting from a defaulted loan, thus eliminating all real and perceived conflicts of interest.

Another unique aspect to Montana is the fact that virtually 100% of all federal student loans made prior to July of 2010 were FFELP loans, with a very high percentage of those loans funded through the Montana Higher Education Student Assistance Corporation (MHESAC). MHESAC is a 150(d) private corporation and MGSLP is part of the Montana University System, however we are both located in the same building. Although there were 75+ local originating lenders, those local lenders all sold their fully disbursed loans to MHESAC. With the exception of a few national lenders (US Bank, Wells Fargo, etc.), the clear majority of MGSLP guarantees are with MHESAC (73.51% as of 6/30/2010). Logically, the bulk of our claims therefore come from MHESAC. This unique combination of physical proximity, holding the majority of our guarantees, and not-for-profit mentality of helping students, has created a partnership that is clearly in the best interest of borrowers, especially at claim review and purchase time. MGSLP's familiarity with MHESAC makes for a very clean and efficient claim review process. Our respective systems 'talk' well together.

Perhaps the single most unusual aspect of our relationship with MHESAC occurs every Wednesday, typically later in the day. A flurry of last-minute default prevention activity occurs, with MGSLP making every possible last-ditch effort to prevent loans from defaulting. Without fail, we have a handful of borrowers who make payments or deliver required forms literally at the final hour. Because of our relationship with MHESAC and our physical proximity, we walk required forms across the hall and are able to halt the claim process. This unusual process isn't available with our national lenders that are located in distant parts of the country, typically in different time zones. The handful of borrowers that respond each Wednesday adds up over the course of a full year. With a denominator of typically 10,000 (or so) in our annual cohort default rate, these few borrowers that we keep from defaulting have a dramatic impact on our industry-best default rates.

MGSLP's specific objectives for Area I are:

i. To ensure lender due diligence and to administer the claims process accurately and uniformly.

1. Metrics for measuring the success of this objective will include comparison of the approval and rejection rates for specific lenders against national averages. More important will be the review of the process on a periodic basis by the Department of Education in order to assure that the MGSLP is in compliance with all regulatory requirements.

ii. To maximize repayment of defaulted loans by a variety of means, via:

A. Working with borrowers to resolve defaults after the default claim was filed by the lender but before authorizing payment of the claim by FSA.

B. Encouraging prompt rehabilitation of defaulted loans by contacting borrowers with information and counseling about the process.

1. Metrics for measuring the success of this objective will include the rehabilitation rate.

C. Assisting defaulted borrowers with repayment options, including reasonable and affordable payments, consolidation of their loans, and other measures. Activities will include counseling defaulted borrowers in writing and by telephone on the importance of repayment to restoring their credit ratings and pursuing additional educational opportunities.

1. Metrics for measuring the success of this objective will include outputs, such as the number of borrower contacts, and outcomes (qualitative measures), including making comparisons of such factors as rehabilitation rates, recovery rates, and subrogation rates.

Please note that all collection and claim activity described in this concept paper relate only to FFELP loans. At the current time, MGSLP is not proposing that it collect on defaulted Direct loans (and obviously a guarantor does not handle a claim for a Direct loan). However, if the FSA were to desire to have MGSLP collect on defaulted Direct loans, MGSLP would be happy to enter into negotiations regarding that possibility.

As indicated later in the section on *Financing the VFA,* Area I (Collection) is part of the all-inclusive pricing model described later in this document.

Delinquency Prevention and Default Aversion:

As previously mentioned, MGSLP is a program within the Montana University System. When the move to Direct Lending became law, Montana schools immediately became concerned about the school requirements for default prevention that had previously been handled by MGSLP. The Montana constitution requires the State to have a balanced budget; in recent years, due to the economy, this has translated to a reduction in State support to the Montana University System. Montana schools simply don't have the personnel resources to conduct required default prevention activities. Schools complete

required counseling, but too many students are leaving school without a full understanding of their debt and how that debt will impact their lives going forward. To assist our schools, and to help ensure that Montana defaults are kept to an absolute minimum, MGSLP entered into Memorandums of Understanding (MOUs) with all Montana postsecondary schools. Since the MOUs were signed almost a full year ago, MGSLP has been providing default prevention services for our Montana schools on both Put and Direct loans that have become delinquent. This arrangement appears to be working well; the draft cohort default rate for Montana appears to be just [redacted]% - a number that clearly reflects our success.

Although there is no current requirement that MGSLP provide default prevention services for Put and Direct loans for our Montana schools, MGSLP believes that defaulting is so detrimental to Title IV borrowers that anything we can do to help borrowers becomes a moral obligation of the Montana University System. The timing of the *Federal Register* announcement inviting guarantors to respond with VFA ideas comes at a good time. Although we feel an obligation to help our schools, there is also a very real expense associated with the work we do. As a guarantor of FFELP loans, our first commitment is to protect those federal assets we have guaranteed. Without this proposed VFA, there will come a point in the future when we will be forced to determine the appropriate allocation of MGSLP resources in order to continue to protect federal assets. That determination could result in less resources being available to help our schools and those borrowers in the Direct Loan program or who have loans that have been put.

MGSLP's default prevention efforts are primarily the same regardless of type of loan (i.e. FFEL or Direct). For FFEL loans, MGSLP uses contact information obtained at the point of guarantee to reach out to delinquent borrowers. MGSLP also uses a variety of mechanisms to reach borrowers: letters, e-mails, social networking, and personal phone calls. While somewhat basic, we believe that the best default prevention work is done by actually speaking with the borrower. Annually, we reach out to upwards of 20,000 delinquent borrowers. The relatively low number of borrowers in Montana allows us to individually contact each delinquent borrower. We readily understand that larger agencies might not have this luxury; the cost of providing this type of one-on-one default prevention would simply be too high.

For Put and Direct loans, our MOU's allow for participating schools to forward their delinquent lists to our office to be worked by MGSLP employees (an interesting aside is that many Montana schools did not know about the DL delinquency lists, nor did they know how to retrieve or work those lists. MGSLP trained Montana financial aid offices on the retrieval and work process for these lists). Now that we receive the delinquency lists for both Put and Direct loans, we use the process described in the preceding paragraph to work the delinquent loans. To date, our efforts have been very successful. Many of the loans we assist our schools with have 'technical' issues associated with the delinquency. For example, perhaps a borrower has multiple servicers. One of the servicers received a deferment form from the borrower, whereas the other servicer was not aware of the deferment. We have also found that borrowers are much more likely to respond positively when the University System calls them,

verses a third party servicer or national guarantor. Although we don't have a full year's history to document our success rates, we forecast our cure rate on delinquent Put and DL loans to exceed 95%.

MGSLP believes the best default prevention starts with default aversion. We help Montana borrowers avoid delinquency by providing a variety of tools that cover budgeting, money management, spending habits, loan counseling, understanding debt, the impact of debt after graduation, and how to manage your credit. MGSLP outreach personnel deliver these educational tools throughout a student's career. We concentrate on those schools with populations more likely to default and partner with other access programs whenever possible (for example, Student Support Services offered through TRIO programs). These individualized and group counseling sessions also provide MGSLP with a great source to obtain qualitative information about our default aversion activities.

By partnering with other access programs, we reach a larger segment of our student population that would otherwise be unreachable. For example, we partner with the Montana School Counselors Association (MSCA). Through the MSCA, we have been able to successfully integrate financial literacy programs into some of our Montana middle and high schools. At Browning High School (the largest Native American high school in the state), MGSLP's Money Management financial literacy program is now built into the junior and senior curriculum.

The specific objectives of MGSLP in Area II are:

i. To prevent delinquency by working with lenders and borrowers throughout the cycle of borrowing and entering repayment.
ii. To avert default of delinquent loans by contacting and counseling FFEL (including Put loan) borrowers who are 60 days past due on a payment, and ensuring that the borrower is provided accurate and timely information on the deferment, forbearance, and repayment options available to them.

    1. Metrics for measuring the success of this objective will be based on outputs, including the number of contacts with borrowers and lenders, as well as outcomes, including portfolio loan repayment and default rates.

Please note that this proposal does not include default prevention for schools outside of Montana. However, if it is the desire of USED to have MGSLP provide default prevention activities for schools in our geographic area (for example, Wyoming or Idaho), we are willing to discuss that option.

As indicated later in the section on *Financing the VFA,* Area II (Default Prevention) is part of the all-inclusive pricing model described later in this document.

Community Outreach, Financial Literacy and Debt Management, School Training and Assistance, and School Oversight

MGSLP will perform community outreach, financial literacy, debt management, school training and assistance, and school oversight responsibilities (collectively termed "Outreach Services"), and thus be responsible for Area III in Montana. MGSLP currently provides many of these services and it is logical that MGSLP continue to provide them.

As mentioned earlier in this proposal, Montana is a very unique state. Physically, we are somewhat like Texas, however our largest city barely has 100,000 people. For MGSLP to be efficient and provide effective Outreach Services, we plan to take advantage of existing infrastructures, programs, and like-minded entities. It would be our goal to partner/work with a variety of existing entities that already have established Outreach Services. Some of those entities include:

- The Office of Public Instruction
- The Montana University System
- The Native American Studies Program
- Student Financial Services – getmoneysmarts.org
- The Montana School Counselors Association
- The Montana College Access Network
- GEAR UP
- TRIO (multiple grants throughout the state)
- The Student Assistance Foundation
- Montana Career Information System (MCIS)
- Montana Post Secondary Education Opportunity Council
- Mapping Your Future

Each of these entities/programs offers a variety of Outreach Services. Those respective services fill different service gaps for different areas of the state. Through partnerships, we can reach a larger section of our target population both effectively and efficiently. For example, MGSLP participates in the Montana School Counselors Association. We attend conferences, teach seminars, and staff display booths so that we might respond to individual questions. We cover a variety of life skills, money management, college preparation, financial aid, and financial literacy topics. The counselors then take what they have learned back to their respective schools, sharing the information with students and other teachers.

MGSLP also provides training for financial aid office personnel and the coordination of student aid. As part of the Montana University System and Office of the Commissioner of Higher Education, MGSLP has the standing and the expertise to train financial aid office personnel and to coordinate financial aid administration. MGSLP has historically provided an annual financial aid directors' retreat to discuss aid issues in Montana and additionally convenes and chairs the statewide financial aid task force, aimed to

develop best practices and to develop, set, and monitor financial aid policy goals throughout the system. MGSLP also administers various state and federal student aid, including the Montana Governor's Post-Secondary Scholarship Program, the Montana University System Honors Scholarship, Montana Tuition Assistance Program, Montana Higher Education Grant and state and federal work study. MGSLP is in the process of purchasing scholarship administration software which will make the coordination of aid more effective.

MGSLP conducts program and compliance reviews of Montana University System financial aid offices that receive state financial aid funds. In addition, MGSLP incorporates student loan compliance and best practices as part of the review process. These reviews assist financial aid offices with maintaining compliance for state and federal programs and identify areas that need improvement within the system offices.

As indicated later in the section on *Financing the VFA,* Area III (Outreach Services) is part of the all-inclusive pricing model described later in this document.

The specific objectives in Area III are:

i. Promoting college access and success
ii. Ensuring that students are prepared for college and for work through financial literacy education
iii. Creating, enhancing, and maintaining state infrastructures that help students understand the importance of higher education and help them plan, apply and pay for college. We will place emphasis on "at-risk" students, such as low income and first generation college students. In Montana, this will include Native Americans.

    1. Measuring outcomes and outputs will be difficult for Outreach Services. Readily measured outputs can include number of student contacts, number of students who complete financial literacy education, number of high school and college counselors and financial aid administrators trained, number of FAFSAs filed, and number of Pell Grant recipients. We believe that these output measures are in fact highly significant; counting the number of students who receive information is a sound measure of overall effectiveness and efficiency of delivery.

    2. We also acknowledge that output measures alone can be insufficient indicators of overall effectiveness of Outreach Services. Other measures might be developed, including, for example, changes to the college-going rate within twelve months of high school graduation ("College Participation Rate"), numbers of non-traditional adult students entering and completing college, percentages of those completing financial literacy education who achieve a sufficient score on the exit examination. MGSLP seeks input from FSA as to what standards of outputs and outcomes might reasonably be expected to be attained.

Lender and Lender Servicer Oversight

MGSLP will continue its duties for lender and lender servicer oversight for FFELP lenders and servicers that service loans in our portfolio. MGSLP will continue to use the Common Review Initiative (CRI) process designed to create efficiencies and consistency in lender program reviews conducted by guarantors where multiple guarantors use the same lender. Participating CRI guarantors will cooperate to conduct lender reviews by sharing staff and review costs while using common review procedures. CRI will focus on conducting comprehensive reviews at the servicer level using "best practices", and will serve our trading partners by eliminating redundant guarantor reviews.

The specific objectives of Area IV are:

i. To assure that lenders and servicers are performing their functions in compliance with all regulations and that they are according to borrowers all the rights that pertain to their loans.

    1. Metrics for measuring the success of these objectives include: output measures, such as the number of servicer reviews conducted annually and any findings of these reviews, servicer delinquency and default rates as they change over time, and the claim denial rate of servicers. MGSLP is interested in discussing with FSA how specific measures of effectiveness in Area IV might be improved.

As indicated later in the section on *Financing the VFA,* Area IV (Lender Oversight) is part of the all-inclusive pricing model described later in this document.

Financing the VFA

Determining an appropriate finance model for MGSLP is difficult. We are geographically a very large state, yet have less than one million residents. Delivering financial literacy to Plentywood High School is the equivalent of driving from Boston, Massachusetts to Richmond, Virginia – well over 500 miles. With barely 120 students in the entire school, how is an effective and efficient financial literacy program presented to these students? Delivering material electronically isn't always an option because not only do students and families lack computers; they may not even have internet access.

The above example is repeated throughout Montana many times. Now consider the additional challenge many Montanans face: severe poverty and a historical and cultural background that doesn't support higher education.

For these and many other legitimate reasons, MGSLP is proposing a finance model that allows us to address the very unique needs of the state of Montana. We propose the following:

- A five year VFA Memorandum of Understanding with an option for renewal

    - We want to be able to track cohorts of students to see if our efforts are making a difference
- A quarterly payment from FSA to MGSLP of [redacted]
    - This quarterly payment would be [redacted]% of the revenue MGSLP receives for providing all of the services described in this concept paper
- MGSLP will forward to FSA [redacted] of the amount we collect in-house on defaulted FFELP loans and [redacted] of the net amount MGSLP receives on defaulted FFELP loans assigned to our collection agencies
- MGSLP will return (or escrow) the Federal Reserve Fund to FSA
    - MGSLP will continue to process FFELP claims
    - FSA will reimburse lenders directly
- MGSLP will retain its Agency Operating Fund
- No Account Maintenance Fee or Default Prevention Fee will be paid to MGSLP after entering into the VFA with FSA (likewise, MGSLP will not return any Default Prevention fees already paid to us for previously cured loans that default)
- An inflation factor should be built into the funding – perhaps CPI or some other mutually agreeable factor

The [redacted] per quarter requested by MGSLP represents a significant savings to USDE when collection revenue is netted against the payment. Additionally, by not tying each area of service directly to the corresponding compensation, this model allows MGSLP to spend agency resources in a manner that best serves students and families in Montana. Consider the example at the beginning of this section: there is no financing model that would cover the costs associated with providing financial literacy to an area 500+ miles distant, with limited internet access, to just 120 students. Yet these 120 students are every bit as deserving of financial literacy as every other student living in Montana. If Montana were forced into a one-size-fits-all model, these students would suffer.

Plans for evaluation

MGSLP hopes to work closely with FSA to determine appropriate evaluation measures. Certain service areas are relatively simple to evaluate by comparing, for example, rehabilitation and recovery rates in Area I and comparing default aversion successes in Area II. Clearly it is more difficult to gauge the impact of outreach activities from elementary school through college completion and loan repayment. There are numerous indicators rather than specific proofs– "college participation rate" within 12 months of high school completion, for example – and substantive evidence that local outreach is most effective (personal interactions etc.). It's our hope that by working through existing programs such as TRIO and Mapping Your Future, qualitative results can be compared for different cohorts of students. For example, do students in our fourth cohort have a better understanding of the financial aid process and do they have better budgeting skills than students in our first cohort? We pledge to work closely with FSA to determine evaluation measures that reflect the intentions of FSA and Congress.

Future Changes to the VFA model

MGSLP enters this proposal in good faith. An aspect of concern to MGSLP of the *Federal Register* notice inviting VFA concepts is that our current agreements with the Secretary would be replaced by a memorandum of understanding with the Secretary. Those current agreements afford certain protections to guaranty agencies that are not likely to be included in the new memorandums of understanding. MGSLP respectfully requests that prior to the signing of a memorandum of understanding, FSA provide a detailed list of the conditions and situations under which a guaranty agency such as MGSLP could be closed and/or the memorandum of understanding voided.

Conclusion

In summary under the proposal outlined, MGSLP proposes to accomplish FSA's stated objectives for ensuring that the responsibilities of the FFEL Program are fulfilled in the most cost-effective and efficient manner possible, preserving the integrity of the FFELP while protecting the federal fiscal interest. We also propose to offer qualitative improvement to the lives of borrowers of other federal loans while offering savings to the taxpayer through increased default aversion activities and reduced defaults as well as vigorous collections efforts at no cost to the FSA.