NCSEAA
North Carolina State Education Assistance Authority

To: VFA Team
United States Department of Education

From: Steven E. Brooks
Executive Director

Date: August 1, 2011

I am pleased to submit this proposal on behalf of the North Carolina State Education Assistance Authority ("NCSEAA") 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.

This proposal is one of two that the State Education Assistance Authority is submitting for the Secretary's consideration. Each creatively addresses the objectives of improving services to students, schools, and lenders while using Federal resources more cost-effectively and efficiently.

The attached proposal is for a North Carolina-only model which builds on NCSEAA's successful business model under the Federal Family Education Loan Program which has served students and families in accessing higher education since 1966. North Carolina is also pleased to be a participant in the *SCASSA Consortium* proposal submitted by a collective of State-designated College Access and Student Success Agencies.

We look forward to discussing each of these proposals over the coming weeks.

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Voluntary Flexible Agreement Proposal for North Carolina State Education Assistance Authority

August 1, 2011

Proposal to
Negotiate a Voluntary Flexible Agreement between the
United States Department of Education and the
North Carolina State Education Assistance Authority

Introduction

The State Education Assistance Authority, a political subdivision of the State of North Carolina ("the Authority" or "NCSEAA"), 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" (the "Notice") published in the Federal Register on May 31, 2011. We appreciate the opportunity to look anew at our longstanding work in promoting access to higher education in order to assist the Secretary in carrying out the mandates and priorities of the Department of Education innovatively and cost-effectively.

Created by the North Carolina General Assembly in 1965, the NCSEAA is the primary State instrumentality charged with the responsibility and equipped with the expertise for providing a comprehensive system of financial assistance to foster and promote postsecondary educational opportunity for North Carolinians and within the state's borders. With the creation of the Authority, the General Assembly authorized "a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to assist qualified students to enable them to obtain an education beyond the high school level by attending public or private educational institutions" and charged the Authority with the responsibility for establishing such a system. N.C. Gen. Stat. § 116-201(a). Repeatedly since, the General Assembly has returned to this authorization and relied upon the agency to maintain and adapt the system of financial assistance to the needs of the State, consistent with its policy to encourage the education of its citizens "to enhance economic development." Today, on behalf of the State, the Authority administers grants and scholarships, forgivable loans for career service, student employment programs, student and parent loans, the 529 college savings program, and conducts a robust set of outreach and training activities.

In June of 1966, the NCSEAA initiated its student loan insurance program and commenced guaranteeing loans as the designated guaranty agency for North Carolina pursuant to section 428 of the Higher Education Act of 1965. NCSEAA has since continuously served as a guaranty agency for the Federal Family Education Loan Program ("FFELP") and its predecessor, the Guaranteed Student Loan Program.

In administering its system of financial assistance for higher education, including the FFELP, the Authority works cooperatively with a not-for-profit corporation, College Foundation, Inc. ("CFI" or "the Foundation"). CFI was founded in 1955, a decade before enactment of the Higher Education Act, by the State of North Carolina for the purpose of assisting students in defraying

the costs of pursuing courses of study beyond the high school level. NCSEAA and CFI have since 1966 worked together in the FFELP; it is a one-to-one relationship, whereby all the loans originated by CFI have been guaranteed by the Authority, and all the loans guaranteed by the Authority have been originated and are serviced by CFI. North Carolina's approach to administering the FFELP has fostered an exemplary record of service to students, to the State, and to the Department of Education, of which we are very proud.

As part of our joint commitment to aid students in obtaining postsecondary education, and with the imprimatur of our respective governing boards, in 2000 the Authority and the Foundation developed and have since implemented College Foundation of North Carolina ("CFNC") as a free service providing comprehensive information resources on how to plan, apply and pay for college and explore careers. This service represents a collaborative effort among the Authority, CFI, the North Carolina Department of Public Instruction (K-12), the University of North Carolina (four-year public), the North Carolina Community College System (two-year public), and the North Carolina Independent Colleges and Universities (two- and four-year not-for-profit private). The centerpieces of this service are the CFNC.org website and a toll-free telephone call-in center. These services provide easily accessible points of access to the full picture of how to plan, apply, and pay for college for students, families, and schools. Additionally, CFNC field representatives reside in every geographical region of the state and make frequent in-person presentations to schools, community and church groups, and businesses to promote college access and success. Through the provision of these services, the Authority has gained a reputation in the state as a credible, trustworthy, and highly valuable resource for students and families seeking access to higher education.

With the passage of SAFRA, the United States Congress expressed intent for the Secretary of Education to exercise existing authority to contract with state agencies such as the NCSEAA for a broad range of constituent services for students and their families, including financial literacy education, early awareness, college access, outreach, default aversion, and collection programs. Students of all ages and families need these services now more than ever. 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 NCSEAA in this manner, as the Congress has encouraged, will ensure that our constituents continue to receive the customized programs, content, and services through their local state agency, staffed by public servants whose interests are not motivated by profit, rather than receiving 'one size fits all' materials and services nationally that may not align with public policy and the needs of North Carolinians. These efforts 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 ambitious and vital national agenda.

Summary of Services and Benefits

The Authority proposes to utilize the VFA process to build on its successful 45-year tradition of providing high quality, localized state-centered services for North Carolina students and families, as follows.

Preparing and Paying for College and Financial Literacy Education: Through CFNC and other outreach efforts, NCSEAA assists students and families from elementary school years through high school graduation and beyond. Services include helping young people to understand career opportunities and the education required to sustain them; assisting students to chart their coursework to prepare for college and career and to select colleges appropriate to their ambitions and talents; helping families save to meet the expenses of higher education to the extent they are able to do so; communicating with families the availability of financial aid to make college affordable; and advising students and families to take appropriate actions to minimize borrowing and prevent delinquency and default.

Services continue through the student's college education and on into adulthood for nontraditional students, promoting financial literacy education and encouraging college completion, and last until any college indebtedness has been satisfied. We include information on both state and federal student aid programs to give students a comprehensive picture specific to their own situations.

The Authority proposes to build on its strong track record and extensive knowledge of North Carolina's culture and educational systems to utilize the right techniques for communicating with our residents. We will fully capitalize on the Authority's history of establishing relationships with individual North Carolina students and families early to serve as the trusted "go-to" resource for information on planning, applying, and paying for college.

Training and School Support: NCSEAA has a well-established and highly regarded program to educate schools and financial aid administrators on aid program requirements and assist them with improving their performance in serving students while meeting compliance requirements. Additionally, we provide training and outreach to secondary and middle school counselors concerning how their students can best take advantage of all resources that are available to them. We will continue to enhance these programs, building on the strengths of our knowledge of and experience with the North Carolina educational community as well as our work through the CFNC partnership.

Colleges also rely on NCSEAA for a variety services which the Authority seeks to continue and enhance under the VFA model. The need for these services was underscored in a recent survey conducted by the National Association of Student Financial Aid Administrators ("NASFAA"), which found that 90 percent of financial aid administrators have insufficient resources to

provide critical student services, including student loan repayment counseling. Two in three financial aid administrators said their offices were facing a "moderate" or "severe" resource shortage and nearly 90 percent of these reported that the shortage affected their ability to counsel students. NASFAA further found that some 80 percent of those facing shortages believe that the shortages are not short term.

The Authority works with North Carolina colleges and universities to encourage low default rates by providing localized counseling and support services for their distinctive student and borrower populations. In addition, 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.

School Oversight: The Authority will continue to perform reviews of the administration of state-funded aid programs by North Carolina colleges and universities to ensure compliance with program regulations and requirements. Through this proposed VFA structure, we will also offer our services to the U S Department of Education Office of Federal Student Aid ("FSA") to perform review of federal aid programs on their behalf. Coordination of federal and state program reviews will promote efficiency for FSA while subjecting schools to fewer but more intensive and comprehensive reviews.

Delinquency Prevention and Default Aversion: Activities such as individualized delinquency prevention and default aversion counseling will be performed for our portfolio of FFELP loans and for a selected portfolio of Direct Loans in parallel with and complementary to those offered by loan servicers. NCSEAA strongly believes that complementary and expanded services are needed for Direct Loan borrowers to help students avoid the negative consequences of default and to protect the federal interest in the loans. The Authority will utilize our special knowledge of working with delinquent borrowers to perform default aversion activities, thereby saving the borrower from damaged credit and the taxpayer from the costs of default.

Effective Resolution of Defaulted Loans: NCSEAA will draw upon its significant experience and its ability to complement federally authorized collection tools with State resources and powers that have been shown to enhance the collection of defaulted FFELP obligations. Among these resources and powers are setoff of State tax refunds and lottery winnings, litigation and garnishment opportunities, and the threat of loss of employment for those State employees who fail to repay. Additionally, resources available to the Authority as a State agency, such as through the North Carolina Employment Security Commission and Department of Motor Vehicles, are utilized to verify employment in preparation for administrative wage garnishment and to locate borrowers and their assets.

North Carolina's approach through this proposed VFA will provide numerous benefits to:

- *Students and families* through localized services which offer a single and familiar trusted resource for assistance and information on saving, preparing, and paying for and accessing a college education;

- *Schools* by maintaining support for essential services provided through our existing relationships;
- *North Carolina's FFELP lender, College Foundation, Inc.,* by enhancing services built on the solid foundation of a successful long-term lender-guarantor relationship;
- *The State of North Carolina* through the continued support of the partnership between the State and the federal government to provide students and families with one-stop shopping for comprehensive information on college access; and
- *The US Department of Education Federal Student Aid* (representing federal taxpayers) by providing outstanding, cost-effective state-based services on federal loans, managed through the existing VFA process.

Service Areas

NCSEAA proposes to perform all four service areas under a VFA. Our historical record of success forms the basis for our belief that NCSEAA is exceptionally well positioned to provide this comprehensive set of services in a manner that is mutually beneficial for FSA and for NCSEAA. We further believe that our record will demonstrate that no conflict of interest exists in our performance of these services.

Loan Servicing

History of Success

NCSEAA has been a guaranty agency successfully serving FFELP borrowers in North Carolina since 1966. Measures indicating the volume of the Authority's activity for our fiscal year which ended June 30, 2011, include:

- Holding the guarantee on a portfolio of $3.17 billion in outstanding principal on FFELP Loans;
- Processing 4,078 FFELP borrower claims totaling $47,997,000, including 3,042 of default claims totaling $33,505,433; and
- Recovering $27,759,576 million from defaulted FFELP borrowers, including funds from litigation and wage garnishment activities, seizure of federal and State tax refunds, collection agencies, and loan rehabilitation and loan consolidation programs.

As described previously, NCSEAA has engaged in a one-to-one business relationship with College Foundation, Inc. in which it serves as guarantor for all FFELP loans originated and serviced by CFI and CFI has originated and services all FFELP loans guaranteed by the Authority. The SEAA-CFI partnership in administering North Carolina's FFEL Program has been extraordinarily successful on all counts.

- The Authority and the Foundation have always operated under a business philosophy that puts students and families first. Our first step is to educate students on the importance of borrowing conservatively and taking full advantage of federal loan programs before taking out private loans. The average indebtedness of North Carolina's FFELP borrowers through College Foundation after four years of undergraduate education is $16,767, which is 6.6% less than the national average of $17,878 in federal debt, as cited by Mark Kantrowitz (finaid.org/loans).

- When a borrower is slated to enter repayment, either 30 days before the student's anticipated graduation date or within 15 days after receiving notification from a school of a student's withdrawal, CFI begins communicating repayment information to the student. It sends the borrower a letter describing how to contact CFI and the repayment tools that are available at CFNC.org, including a Repayment Wizard,

automatic draft sign-up, and online payment. Forty-five days after a student's last day of attendance, CFI sends another letter with similar information on all repayment options, CFI contacts, and tools.

- If and when a borrower begins to encounter difficulties while in repayment, such as late payments, CFI, acting on the Authority's behalf and at our direction, initiates twice the number of contacts required by federal regulations. A lender must contact the borrower once in every 45-day period of delinquency or make two attempts to contact the borrower within that time period. CFI utilizes two outbound call centers to reach these borrowers: one to contact borrowers who are one-to-five payments past due and the other for borrowers six or more past due. An automatic dialer is used to expedite contact. Special calling campaigns such as those targeting higher balances or certain levels of delinquency are also part of their extra effort.

- Because schools are important partners in helping keep defaults low, we make a Default Prevention Tool available on CFNC.org to assist schools in working with their students to prevent delinquency and default. Schools can pull reports on their students who have borrowed from CFI or request that CFI run reports on their behalf. Data available include loan status, last date paid, payment amounts, amount due, number of days past due, and the latest demographic and phone information CFI has on file for each student borrower from that school.

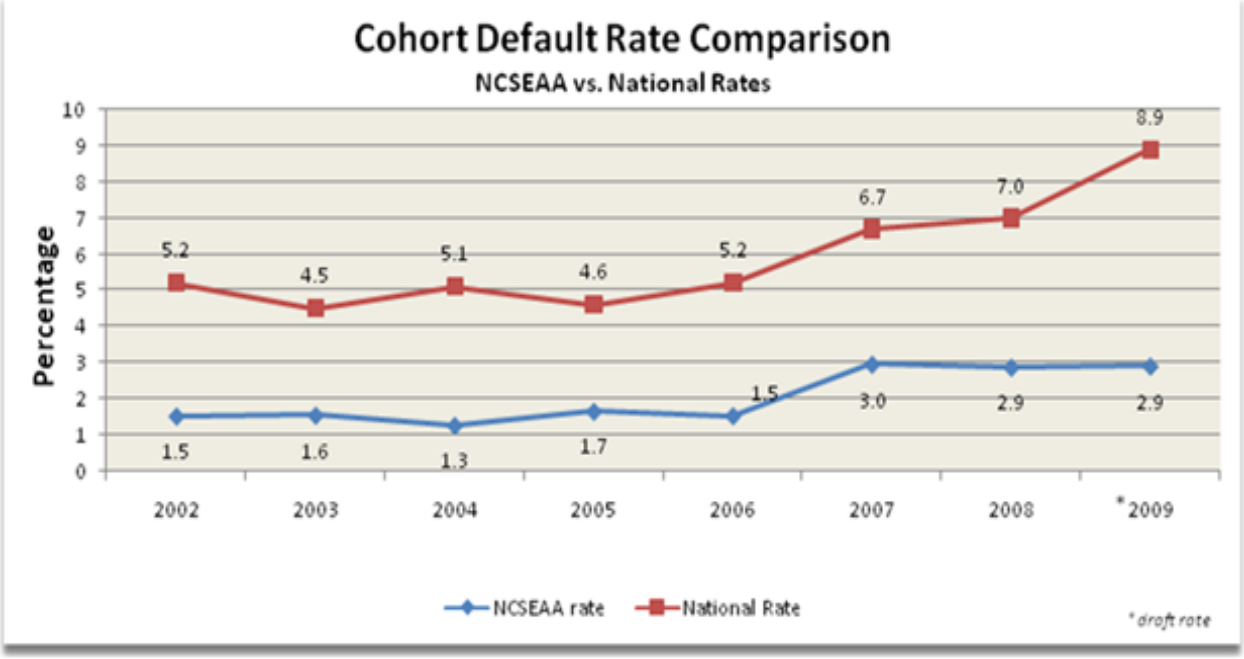
- Again at the Authority's direction, CFI follows a policy of offering generous but appropriate forbearance to borrowers. Repeated studies of outcomes after forbearance in North Carolina's program confirm the benefits of this approach. The most recent study, completed in 2009, followed a cohort of borrowers in a forbearance status between January 31, 2002 and January 31, 2009. At the seven-year mark, even with a historic recession during the study period, accumulated defaults were only 11% of the cohort and a majority of borrowers were current in their payments.

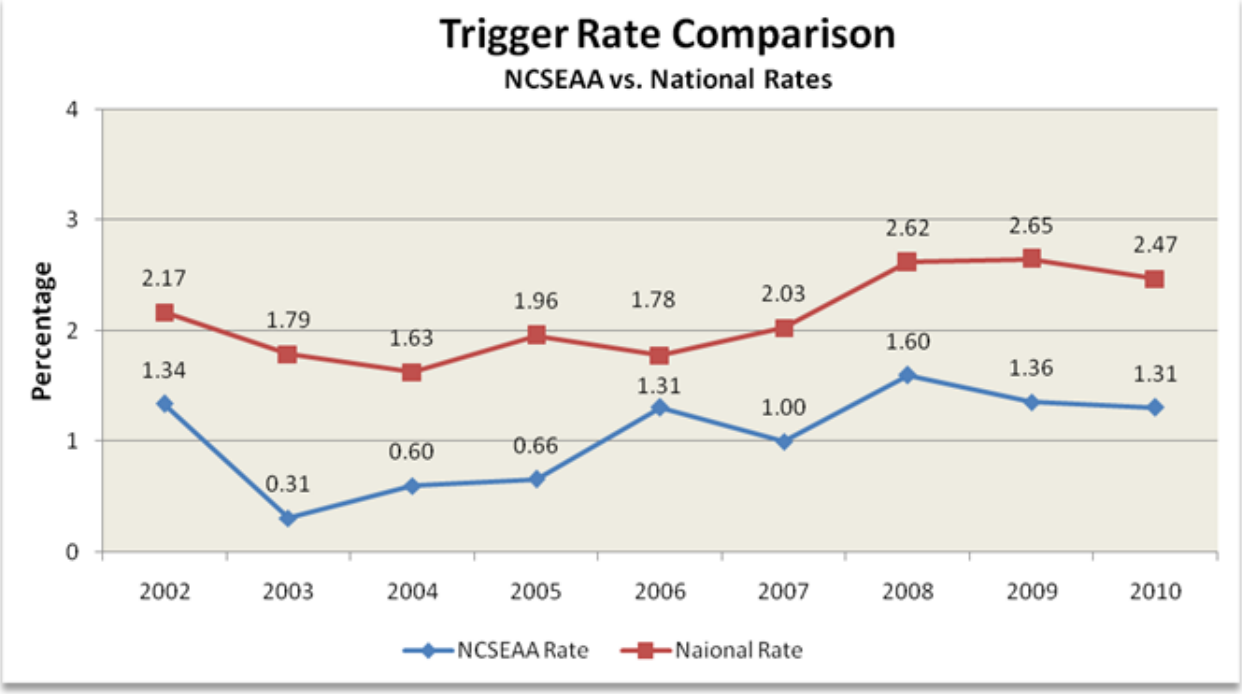
- When a borrower becomes delinquent and the lender files a claim, NCSEAA undertakes an additional set of default prevention activities, including contacting borrowers by letter and telephone through the delinquency period and performing skip-trace activities when necessary. Even at this late stage these efforts have been successful at averting a further 12% of defaults since 2003.

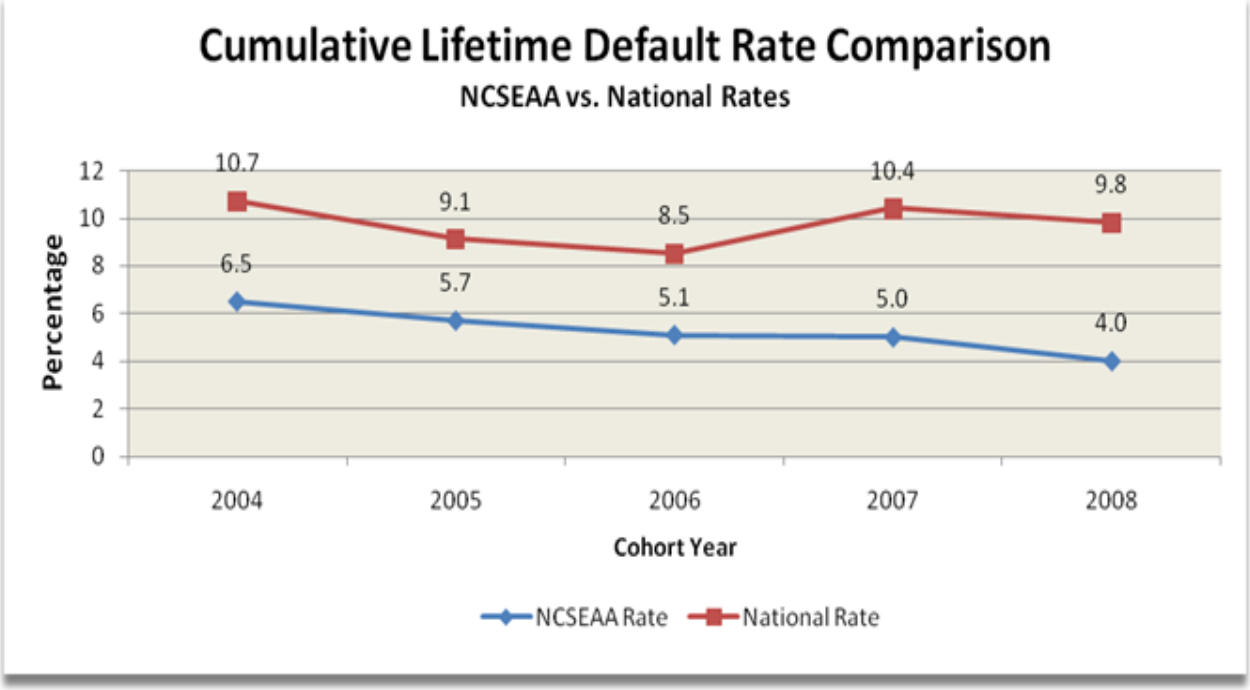
NCSEAA also supports school-level default prevention efforts by sending detailed reports to colleges and universities in North Carolina indicating their students or former students for whom CFI as the lender has requested default aversion assistance. These reports have been supplemented with sample letters and mailing labels showing last known addresses that the schools can use to contact these delinquent borrowers directly.

The effectiveness of these efforts is reflected in default rates and trigger rates issued by ED which consistently rank NCSEAA as among the best guaranty agencies in the nation at

preventing defaults. The Authority also routinely outperforms the national average on these measures, as demonstrated in these graphs.







- When defaults do occur, the Authority's approach is first to counsel borrowers to pursue rehabilitation of their loans. In those cases where this initial borrower-friendly approach is unsuccessful, NCSEAA performs vigorous collection efforts to resolve defaults to protect the taxpayers' interest. These include the effective use of State powers and resources to complement and enhance federal collection tools, such as use of North Carolina Employment Security Commission and Department of Motor Vehicles records to verify employment in preparation for administrative wage garnishment and to skip trace borrowers when needed. NCSEAA fully utilizes its authority to setoff State income tax refunds and lottery winnings, pursue debt recovery through litigation in state courts, and arrange the termination of employment for defaulted borrowers employed by the State of North Carolina. We further work in cooperation with ED to collect through offset of federal tax refunds and other federal payment streams.

- The Authority's success in utilizing these tools is demonstrated by our strong recovery rate which has surpassed the national average for each of the last ten years, as depicted in this table.

FFELP Loan Recovery Rates		
Fiscal Year	NCSEAA Average	National Average
2001	39.31%	17.80%
2002	38.21%	18.86%
2003	34.32%	18.77%
2004	32.32%	18.76%
2005	27.75%	18.75%
2006	36.64%	19.13%
2007	28.26%	19.90%
2008	27.48%	21.94%
2009	23.07%	19.77%
2010	25.66%	20.10%

This recovery rate is all the more impressive when considered in light of NCSEAA's very low default rate. Borrowers with NCSEAA who do default despite our record of successful prevention activities could very reasonably be classified as being more difficult cases on which to collect than are cases where prevention efforts (by other agencies) have been less effective. The Authority has nevertheless been successful in recovering debts from even these seemingly more problematic accounts.

- In addition to performing these services on defaulted loans, NCSEAA carefully administers post-default bankruptcy accounts; total and permanent disability discharge requests; death cancellations; false certification, ability to benefit, and identity theft cases; and Teacher Loan Forgiveness requests.

Absence of Conflict of Interest

We understand that the Notice presumes that a guaranty agency should not perform both Area I and Area II loan servicing activities under a VFA because of a potential conflict of interest. However, we believe that, based on our historical track record and local relationships, we are in the best position to provide these services for loans in our FFELP portfolio since they are primarily held by borrowers who are North Carolinians with whom NCSEAA has a long and productive relationship. Any objective evaluation of the 45-year history of our program under FFELP will find no data to support any conflict between our work to encourage conservative borrowing and to prevent defaults by offering information to and intervention on behalf of borrowers, and to a vigorous pursuit of collections of debt when default cannot be avoided. In fact, on August 11, 2009, FSA's Financial Partners Eligibility & Oversight office performed a review to evaluate NCSEAA's compliance with the statutes and federal regulations as they pertain to any conflict of interest in NCSEAA's administration of the FFEL Program. The review identified no conflict of interest findings. There is no data and there were no findings because there is no conflict: we have always put the student first and intend to continue that

longstanding philosophical tradition. Indeed, the Authority's success in the performance of these responsibilities was demonstrated through the default and recovery rates previously cited.

The absence of any conflict of interest is especially noteworthy with regard to the Authority's FFELP loans that will have entered default before the VFA agreement is executed. Significant legal and contractual structures already exist for the collection of these loans. Moving them to another guarantor for collection would doubtless result in a loss to the taxpayer. As previously cited, NCSEAA has a substantial cohort of borrowers in default who have already been contacted by the guaranty agency and may have made, or be in process of making, repayment arrangements. Switching to a new agency would be confusing to many of these borrowers. Their familiarity with NCSEAA is a positive in efforts to recover the debt. Disruption of ongoing collection processes for already defaulted loans would pose a major challenge for employers submitting garnishments payments under administrative wage garnishment arrangements. Preserving the current legal standing of loans for borrowers who have been successfully sued in North Carolina state courts and have outstanding judgments will ensure that the value of existing judgments would not be nullified by a change.

We submit that our history demonstrates no prior conflict of interest in performing both Area I and Area II services. Additionally, to show our good faith in proposing to continue to perform Area I and Area II services, we propose to structure our fees to incent prevention and to be paid less for FFELP collections if loans do default despite our best efforts.

Proposed Services

NCSEAA proposes to continue this tradition of service in a manner that will enhance the services offered to both FFELP and Direct Loan borrowers while maintaining the agency's financial viability, as follows.

Area I: NCSEAA proposes to perform robust area I (Claim review and default recovery) services for our existing portfolio of outstanding FFELP Loans.

The specific objectives in Area I are:

1. To ensure lender due diligence and to administer the claims process accurately, efficiently, and effectively.

2. To maximize repayment of defaulted FFELP loans by a variety of means, thereby encouraging rehabilitations, credit repair, and reinstatement of Title IV financial aid eligibility, by:
    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 on the rehabilitation process.
c. Assisting defaulted borrowers with repayment options, including reasonable and affordable payments, consolidation of their loans when appropriate, 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 through possible reinstatement of Title IV federal student aid eligibility.

3. To take vigorous actions, using a wide range of tools available to enforce collection of debt when borrower assistance efforts are unsuccessful. In addition to administrative wage garnishment and offset of federal payments, these tools include the use of State powers such as access to State resources to assist with determining the location of borrowers whose addresses are not known, access to State employment records to prepare accounts for garnishment proceedings, setoff of State tax refunds and lottery winnings, termination of State employment, and State litigation.

   As of June 30, 2011, NCSEAA had approximately 12,000 defaulted borrowers in our FFELP portfolio. We have established active or on-going relationships with approximately 36% of them, i.e., they are currently in repayment, with judgments, under post-default bankruptcy, or otherwise under some stage of wage garnishment. This does not include our "on-going relationship" with those whom we have permanently certified through federal offset or whom we weekly certify for state setoff (which would be virtually all borrowers). In addition, NCSEAA's borrowers in FFELP are also frequently in collections on loans held through the Authority's state-funded loan programs. The simultaneous servicing of both of these types of delinquent or defaulted accounts should continue for efficiency and effectiveness.

Performance Measures: Metrics for measuring the success of these efforts will include:

1. Number of borrower contacts

2. Comparison against national averages for:
   a. approval and rejection rates for claims
   b. rehabilitation rates,
   c. recovery rates,
   d. subrogation rates

3. Periodic regulatory compliance review by FSA.

Area II: NCSEAA proposes to perform efficient and cost effective delinquency and default prevention activities for its existing FFELP loan portfolio. We further propose to expand our services to support borrowers whose FFELP loans were originally guaranteed by the Authority but have been "Put" to the Department of Education and selected direct loan borrowers with a North Carolina connection.

The **specific objectives** in Area II are:

1. To prevent delinquency by working with lender/servicers and borrowers throughout the cycle of borrowing and entering repayment.

2. To avert default of delinquent loans by contacting and counseling borrowers who are 60 days past due on a payment, being certain that the borrower is provided accurate and timely information on the deferment, forbearance, and repayment options available to him or her.

3. To assist North Carolina colleges and universities in performing general default prevention loan counseling through education about effective entrance and exit counseling and other services. The Authority is in the best position to work with our North Carolina schools and can provide these institution-based services in conjunction with our overall outreach to schools under Area III.

Existing Services:

NCSEAA proposes to perform services meeting these objectives for our existing portfolio of FFELP loans. Activities will include frequent telephone and written contact with borrowers throughout the delinquency period and mediating conferences between the borrower and the lender. Working collaboratively with CFI, NCSEAA intends to continue to perform twice the number of contacts required by federal regulations under the FFELP. NCSEAA will work closely with the lender and with affected schools as partners to maintain the lowest default rates possible.

Expanded Services:

NCSEAA proposes to expand our Area II services in delinquency prevention and default aversion to the benefit of borrowers, servicers, and FSA by adding the following categories of borrowers.

1. Put" Loans Originally Guaranteed by NCSEAA

These "Put" loan borrowers currently have no assistance from a guarantor on their "Put" loan. Institutions have reported that loans that were "Put" to the Department of Education are performing worse than regular FFELP loans. The three-year cohort default is reported to be 75-82% higher and the two-year rate 28-42% higher. It is vital to assist these borrowers and provide them with comprehensive, well orchestrated services rather than subjecting them to

uncoordinated and inconsistent communications and collection efforts performed by multiple servicers. Their inclusion will foster improved repayment of outstanding debt by borrowers primarily from North Carolina who are likely to be most responsive to contact from their home state's guaranty agency.

NCSEAA has existing relationships with these borrowers since they originated their loans with CFI by entering an application online through CFNC.org. Furthermore, many of these borrowers are "split borrowers", with loans still being serviced by CFI in addition to their "Put" loans. State powers can be helpful in locating these borrowers and helping them to establish good repayment arrangements as well as in facilitating collections when repayment arrangements cannot be concluded in a satisfactory manner. Currently there is no outside party with a "thumb on the scale" in behalf of these borrowers, and the repayment status and the reported elevated default rates for these borrowers are illustrative of the need for a remedy for that situation.

2. Federal Direct Loan Program borrowers

Since we believe that Direct Loan borrowers can benefit from NCSEAA delinquency and default prevention and management services equally as well as can "Put" loan borrowers, NCSEAA also proposes to provide Area II services to borrowers through the Federal Direct Loan Program. Two categories of Direct Loan borrowers are proposed for services through NCSEAA:

- those who are North Carolina residents at the time their loan(s) become delinquent; and
- those assigned to College Foundation, Inc. under its contract as a not-for-profit loan servicer regardless of their state of residence.

We propose to perform these functions as a pilot program for FSA to test the value added by the provision of these essential services in support of Direct Loan borrowers. This would allow these borrowers to benefit fully from the Authority's services in delinquency prevention and default aversion which have been demonstrated so well to be effective with FFEL borrowers.

We believe that North Carolina borrowers of Direct Loans will be especially responsive to our efforts for the same reasons that our FFELP loan borrowers have for the last 45 years, as demonstrated by our outstanding track record of low default and trigger rates. We have system and staff capability to scale services to work with multiple servicers and to handle any reasonable volume assigned for our services.

We further believe that borrowers whose loans are being serviced by CFI will benefit from the successful collaborative approach developed between CFI and NCSEAA during those 45 years, regardless of their state or residence. Nevertheless, this "pilot" could be further enhanced if the volume of Direct Loans provided to CFI would be formulated primarily from North Carolina borrowers instead of a national pool which would allow NCSEAA to fully capitalize on the power of locally provided services and State resources in preventing defaults.

We will work closely with FSA in designing an effective program of intervention on behalf of these Direct Loan borrowers. For example, borrowers who are a certain number of days past due should be assisted by NCSEAA as a borrower advocate at the point in the contract with servicers where the payment to the servicer becomes insufficient to promote additional aggressive intervention. We believe this aversion assistance can be helpful to the servicer in moving borrowers back toward "on-time" status; we propose it not as a means of reducing the effort of the servicer on seriously past due loans but instead as offering valuable outside assistance at a point in the life of the loan when it can be beneficial in protecting the federal fiscal interest.

The recent study by the *Institute for Higher Education Policy*, indicating that for every default, there are two or more borrowers who fall behind but do not default, provides clear evidence that a borrower advocate such as NCSEAA can appropriately offer interventions to borrowers of both "Put" loans and Direct Loans that reduce defaults and their associated costs to the borrowers and to the taxpayers.

We offer this in response to the Secretary's much-appreciated invitation for creativity and innovation. We believe that the use of Voluntary Flexible Agreement ("VFA") authority to modify the work of guaranty agencies in the FFEL program 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. Our reading of this authority is permissive and in fact explicitly seeks to include guaranty agencies where practicable. The statute requires the Secretary to give special consideration to State agencies with a history of high quality performance to perform services for institutions of higher education within their States – to the extent practicable and consistent with the purposes of 20 U.S.C. §1087a et seq. [20 U.S.C. §1087f (a)(2)]. We believe that, based on outcomes data previously presented, NCSEAA clearly exhibits this high quality performance.

Performance Measures:

Metrics for measuring the success of these objectives will be based on:

1. the number of contacts with borrowers and /servicers;
2. portfolio loan repayment and default rates; and
3. success in averting and preventing defaults.

Outreach Services

Area III: The Authority will continue to perform its extensive and successful program of community outreach, financial literacy education, debt management, school training and assistance, and school oversight activities (collectively termed "outreach services"). These services are provided under the brand name "College Foundation of North Carolina" ("CFNC") as a collaborative effort with CFI and North Carolina's education community, including public schools, community colleges, and public and private two- and four-year colleges and universities.

CFNC.org, the comprehensive online information service which provides the backbone of the partnership, is nationally recognized as the "gold standard" for such services and has served as a model which has been adopted by many other states. During our last fiscal year, 523,870 free accounts were established, increasing the total number of CFNC user accounts by 13.8% to 3,807,984 (in a state with total population of 9,535,483 according to the 2010 census). Holders of these accounts include middle school, high school, and college students and their families as well as adult learners, and educators of all types, including teachers, school counselors, and financial aid administrators. Appendix 1 provides a sample of "cradle through career" activities offered through CFNC.

The Authority has carried significant responsibility for financing CFNC and related outreach efforts. It is vital that these efforts continue to be available, local and specific, and enhanced, in years ahead. NCSEAA is committed to maintaining and expanding these outreach efforts. The intent of this proposal is to obtain federal participation in funding, not to secure total funding from the federal government. This enterprise should be a partnership between the State and the federal government, providing students and families with one-stop shopping for comprehensive information.

The **specific objectives** in Area III include:

1. Promoting college access and success:

While CFNC programs and the CFNC.org website serve all students and families, our targeted efforts place emphasis on "at-risk" students, such as low income and first generation college students. We have had significant success to date in serving this population. According to analysis published in *Postsecondary Education Opportunity*, October 2010, "between FY1999 and FY2009, the college participation rate for North Carolina students from low income families increased by 7.9 percentage points, from 20.6 to 28.5 percent – the highest on record." This increase meant that North Carolina rose from well below the national average of 27.7% and a ranking of 38th in the nation in 1999 (just prior to the establishment of CFNC) to above the national average of 27.4% and a ranking of 20th in the nation in 2009. CFNC is widely credited for being the catalyst for these extraordinary results.

Due to the sizable population of military families in North Carolina, we also pay special attention to supporting their needs with information about benefits, military-specific initiatives at colleges, and related topics. CFNC also offers Spanish language services targeted toward Latino families, including publications and presentations in addition to Web resources.
In addition to the online services through the website, CFNC offers a toll-free call center. The knowledgeable call center staff counsel students and families by telephone and email to respond to requests for information and to answer individual questions on careers, planning, applying and paying for college. During the fiscal year that ended June 30, 2011, the call center handled 104,111 calls and responded to 7,231 email inquiries. Field representatives located regionally in the state's seven telephone area codes provided 2,582 college access workshops, presentations and training sessions for school and community groups attended by 75,537 individuals.

"FAFSA Day", held each February for the last ten years, is a special CFNC initiative to assist students with completing the FAFSA. In 2011, almost 5,000 high school seniors and their families received assistance in submitting their FAFSAs from 1,700 volunteers at over 300 sites in all 100 North Carolina counties, thereby taking the essential first step in securing federal and State assistance with paying for college.

North Carolina's FAFSA filings overall have increased significantly in recent years, as demonstrated in this table. It is clear that CFNC activities have played a vital role in contributing to this increase.

	All U.S. FAFSA Filers*		All N.C. FAFSA Filers*	
Academic Year	Headcount	% Chg from Prior Year	Headcount	% Chg from Prior Year
2006-2007	14,034,467		372,385	
2007-2008	14,608,518	4.1%	395,947	6.3%
2008-2009	16,399,838	12.3%	466,729	17.9%
2009-2010	19,486,280	18.8%	582,070	24.7%
2010-2011	21,111,766	8.3%	640,342	10.0%

*Data obtained from FSA Q6 reports: http://federalstudentaid.ed.gov/datacenter/application.html. All U.S. FAFSA Filers is the sum of Q6 year-to-date total across all states, territories, etc. All NC FAFSA Filers is the year-to-date total reported on the Q6 report.

The Authority also coordinates with North Carolina's college completion efforts, especially supporting those relating to the availability of information about paying for college as a contributor to successful degree attainment at both two- and four-year institutions. Numerous studies have shown that students who graduate are much less likely to default on their loans so the Authority's participation in college completion activities is integral to our default prevention program. CFNC's Transfer Student Planner includes information on courses that are transferrable between the University of North Carolina's sixteen campuses and the articulation agreement that enables transfer of credit from North Carolina community colleges to many North Carolina four-year colleges. We next plan to develop a focused effort utilizing this

information with students who have "stopped out" of school just a few credits from graduation to encourage them to return to complete their degrees. We also support North Carolina's significant efforts to promote college access and completion for minority males attending public and private postsecondary institutions. Research has shown that minority males may be less likely to submit the FAFSA, so targeted efforts to support this population in submitting the FAFSA are designed to increase their access to financial assistance which would enable their continued enrollment and successful degree completion.

2. Ensuring that students are prepared for college and for work through financial literacy education:

CFNC provides a wide variety of multi-media financial literacy education courses which include instruction and assessment tools for use in the classroom as well as on an individual basis by students from elementary through college age and adults. It offers these education programs for use by all of the CFNC partners, with customization available to meet the needs of their respective populations. For example, CFNC offers the "Fat Cat" financial education program for elementary and middle school students in collaboration with the North Carolina State Employees' Credit Union. NCSEAA and CFI are collaborating with the North Carolina Treasurer and the Community College System to offer an online financial literacy course for their students as enhanced loan counseling prior to certification of eligibility for borrowing through the Direct Loan program. This program, designed as consumer materials covering a range of financial literacy education topics, should also yield dividends as a default prevention initiative. CFNC.org features a variety of debt management tools such as loan payment calculators and salary-loan payment calculators to help students consider how to plan for repayment in advance of borrowing.

3. Creating, enhancing, and maintaining the State infrastructure that helps students understand the importance of higher education and helps them plan, apply and pay for college:

As North Carolina's State agency charged with maintaining a system of financial assistance to aid students with obtaining higher education, NCSEAA administers diverse financial aid programs for the State. For the 2009-2010 academic year, NCSEAA administered 213,709 student grant, scholarship and loan awards, totaling $372,667,117, for the State of North Carolina. NCSEAA also administers North Carolina's 529 College Savings Program, noted for solid investment offerings with good performance offered with low fees to program participants. As of June 30, 2011, the program had 92,176 account owners with a total fund value of $822,169,719.

The administration of these programs for the State, in combination with our operation of the FFELP program for North Carolina and our expertise in federal student aid opportunities and procedures, has enabled the Authority to bring comprehensive knowledge of college financing opportunities to North Carolina students and families.

4. Training of financial aid administrators and school counselors

NCSEAA offers a highly respected training program for aid administrators and school counselors. In the fiscal year that ended June 30, 2011, 944 school counselors attended 24 training sessions conducted by NCSEAA on availability and administration of federal and State financial aid programs for students. The Authority first offered our formal training for new financial aid administrators in October 2003; we have trained 601 individuals at 21 training workshops since then. The table of contents for training materials presented at these sessions is included in Appendix 2. These training programs, which provide extensive content on both federal and State aid program requirements and are offered at no cost to attendees, provide essential and invaluable services to colleges and universities and to high schools as they seek to provide accurate and appropriate assistance to students in taking full advantage of the financial aid that is available to them.

5. School oversight

NCSEAA conducts a regular program of school reviews for over 100 North Carolina community colleges and public and private two- and four-year colleges and universities to determine compliance with State aid program administration requirements. During the fiscal year that ended June 30, 2011, the Authority conducted school reviews of 20 campuses that are analogous to the types of reviews conducted by FSA. It has been our observation that findings in these reviews often arise from the challenges inherent in administering many programs with varying requirements, and that these challenges are frequently exacerbated by high staff turnover rates and staff shortages resulting from significant budget cuts. The Authority has used these results to inform our training program and we believe that widespread participation in NCSEAA training programs by aid administrators from campuses across the state contributed to the generally good results we see. The Authority could readily scale up our efforts to perform review of federal aid programs on behalf of FSA in coordination with these State program reviews. This would provide efficient and effective assistance to FSA while subjecting schools to fewer but more intensive and comprehensive reviews.

Performance Measures

In order for the Authority and FSA to evaluate the effectiveness of this diverse set of outreach activities, NCSAA will measure outputs and outcomes, both of which are significant.

1. Outputs will include annual reporting of:
    a. Activity with CFNC, including the numbers of:
        - Free CFNC.org accounts created;
        - College applications filed using CFNC.org;
        - High School Transcripts sent to colleges via CFNC.org;
        - Students at high school and college levels (including adult learners) who access and complete online career exploration, high school and college planning, test

preparation, college financial aid information, and financial literacy education activities on CFNC.org; and
    - Toll-free calls and emails to the CFNC call center.
b. Participants in CFNC-sponsored events, including:
    - High school and college counselors trained to advise students on how to pay for college;
    - Financial aid administrators trained in administration of federal and state aid programs; and
    - Attendees at outreach presentations/visits made by CFNC regional representatives.
c. Statewide data, including:
    - Students filing FAFSAs each year (including those submitted at the annual FAFSA Day event);
    - Students who receive Pell grants; and
    - Changes to the college-going rate within twelve months of high school graduation ("College Participation Rate").

We believe that these measures are in fact highly significant: counting the numbers of students and other constituents who receive information and participate in aid programs is a sound measure of overall effectiveness and efficiency of delivery.

2. We also acknowledge that quantitative measures alone can be insufficient indicators of overall effectiveness of Outreach Services. Accordingly, outcomes will include:

    a. Evaluation of financial literacy education through comparison of pre- and post-testing results;
    b. Periodic monitoring of "market awareness" through studies designed to inform efforts to target specific communications to at-risk students, perhaps using minority status, geographic diversity, socio-economic status, and other variables that are important to the North Carolina service area; and
    c. Results of school reviews to identify areas of individual weakness as well as any trends that may indicate needs for additional monitoring of aid programs or training of aid administrators.

Lender and Lender Servicer Oversight

Area IV: NCSEAA proposes to continue to review CFI in accordance with the audit guidelines and procedures sanctioned by FSA under the Common Review Initiative (CRI). The Authority, with its knowledge of the Foundation's history, business practices, and information systems, and geographic proximity, is uniquely positioned to perform the requisite oversight pursuant to CRI standards in an efficient, cost-effective manner and without the need for FSA to engage other guaranty agencies to duplicate the review process.

The **specific objective** of Area IV will be to:

Monitor and verify, through systematic oversight, that College Foundation, Inc., is performing its responsibilities as lender and servicer for the remaining FFEL portfolio originally guaranteed by the Authority.

Performance Measures:

Evaluation of the Authority's effectiveness in performing Area IV services will be based on measures derived from the CRI.

The history of the operation of the FFEL program in North Carolina, and specifically, the track records of both the Authority and CFI, demonstrate that there is scant risk to the federal government that a conflict of interest would taint a future review. As explained in the introduction to this proposal, the Authority is an agency of the State of North Carolina, subject to oversight from other State regulators, as well as independent auditors and the FSA. The Foundation, as a 501(c)(3) nonprofit corporation organized under North Carolina law, has been recognized by the Internal Revenue Service as a supporting organization of a governmental unit. Accordingly, the Foundation is subject to oversight in the conduct of its affairs from a tax and nonprofit corporate perspective as well as under Title IV of the Higher Education Act of 1965, as amended. In addition, CFI is audited annually by a firm of independent public accountants under the provisions of the Statement on Auditing Standards No. 70, Service Organizations (or, going forward its, successor standard). Both the Authority and CFI receive some form of an A-133 Higher Education Act annual compliance audit annually. Furthermore, the Authority and the Foundation have never been subject to a finding of a conflict of interest in their administration of the FFEL program.

For the purpose of this proposal, the Authority proposes that it be engaged to continue its regular reviews of CFI in accordance with the applicable CRI standards and procedures and further submits that this process be the only oversight for CFI with respect to its role in the FFEL program.

Financing Model

Our proposed financial model is built upon the concept of cost-neutrality for FSA. We are modeling a set of fees which correspond to the different services offered, yet which in total are designed to be cost-neutral for FSA and revenue-neutral for NCSEAA. The fees are interrelated; the model works when NCSEAA revenues for all services are combined to achieve revenue neutrality. The fees reflect incentives for good performance in preventing and averting defaults, thereby assisting borrowers and protecting the federal interest in the loans, while recognizing the costs associated with the provision of the full set of services identified in the Notice.

The proposed fees are as follows.

- *Business Operations Fee:* The premises of this fee are that there will be ongoing and significant operational outlays required for NCSEAA to fulfill its federal obligations even as its overall FFELP portfolio declines and that many of the services expected of the Authority in the future will have significant impact beyond FFELP. This payment will help assure that the Authority has sufficient operational capacity going forward as we work to meet our obligations as a guaranty agency in the FFELP and to provide the broad array of access and success services outlined in the Notice. This fee will address the many general costs of doing business, including general agency administration, reporting according to FSA requirements, provision of ombudsman services, FISMA compliance, and performance of lender and servicer reviews. NCSEAA proposes that the annual Business Operations Fee be calculated based upon the total federal portfolio of loans, including FFEL and Direct Loans, for North Carolina.

- *Fees for Area I Services:* These fees will be modeled on the current rates that FSA is paying to private collection contractors under the Direct Loan program, which are below current rates paid to guaranty agencies. We propose that the rates be based on a percentage of loan recoveries. The rates would range from [redacted] depending on the category of the loan recovery or repayment.

- *Fee for Area II Services:* This fee will be modeled after the current Default Aversion Request fee. It is an explicit recognition that prevention should be incented to avoid future costs of collection both to the taxpayer in direct costs and to society as a whole in foregone social, educational, and economic opportunity. While our model will set this fee higher than current payments, the higher fee will be offset by reductions elsewhere that result in cost-neutrality for FSA. This puts the incentives where they belong, on prevention rather than collection.

- *Fee for Area III Services:* This fee will be based on two objective standards that provide good indicators of the need for Area III services in a state. These standards are the annual Federal Direct Loan volume at participating colleges and universities in North

Carolina and the population under 45 years of age per the most recent U.S. Census data.

The fee structure is based on a state and federal cost-sharing approach, through which federal payment will cover only a fraction of the Authority's costs for Outreach Services. The federal share of the payment is to recognize the federal interest in good quality information to Direct Loan borrowers, as well as in the overall college access and success initiatives of the state. The balance of outreach services expense in North Carolina is the Authority's responsibility, either through state funding or in collaboration with education partners in our state.

Fees for Area III services are based on the cost of providing community outreach, financial literacy and debt management education, and school training activities. Additionally, NCSEAA proposes to assist FSA in performing school audits and reviews in North Carolina, gaining efficiencies for FSA by combining the reviews with those done for state programs. Schools would have fewer but more extensive reviews and FSA would increase its ability to perform reviews. This additional assistance could be contracted, at an additional cost based on the number and scope of reviews and services desired by FSA.

Information Security Through FISMA Compliance

In April 2011, FSA conducted an on-site review of NCSEAA's information security policies and practices as part of its discussions with guaranty agencies regarding the importance of data security and the adoption of security measures necessary to avoid risk-related data tampering, fraud, disruptions in critical operations, and inappropriate disclosure of sensitive information. In anticipation of that site visit, NCSEAA conducted an extensive internal review of our information security policies and procedures utilizing the risk management framework defined in NIST standards for FISMA compliance. This review included an assessment of risk measured against the three FISMA security objectives for information and information systems: confidentiality, integrity, and availability. We reviewed our information systems for potential threats and vulnerabilities as required and conducted a rigorous analysis of our security controls, again within the NIST context. We presented the results of this internal review to the FSA site visit team and received a positive response with only minimal suggestions for possible enhancements. Implementation of these suggestions will be completed within the new few months.

The Authority places highest priority on information security and the protection of personal identifying information for our borrowers. We are confident that our efforts are sufficiently stringent and appropriate to a level of risk acceptable for our agency as allowed under the NIST risk management framework. We anticipate fully completing the FISMA compliance process as required by the Department of Education within a reasonable timeframe.

Conclusion

NCSEAA appreciates the opportunity to work with FSA to continue this successful local services model inside a national program. We believe that, through the newly proposed VFA process, FSA is providing an excellent opportunity to build together a future that enhances the federal loan programs, increases access to and completion of college, and maintains a local infrastructure dedicated to opportunity for higher education. We have a longstanding record of providing high quality, localized, and state-centered services that add significant value to a national program by providing our state's residents with one-stop shopping for both federal and state information and resources.

This VFA application includes provision of the full range of services for the Authority's underlying FFELP portfolio. It also includes delinquency and default prevention for "Put" FFELP loans that were originally guaranteed by the Authority and for Direct Loans for North Carolinians and for borrowers serviced by the not-for-profit servicer, College Foundation, Inc. By using the specific contract authority of 20 U.S.C. §1087f within the VFA mechanism, we believe this approach will both conform to the intent of Congress and serve students and taxpayers well.

The Authority and FSA will work together to establish appropriate measures of success in each of the areas and will provide data that enable FSA to determine payment for the services it provides. The proposed fee structure provides for payment in four main areas: Default Resolution, Prevention, Outreach, and Business Operations.

While the fee structure is designed to be revenue neutral for NCSEAA, we believe that it will produce savings to the taxpayer through increased default aversion activities and reduced defaults as well as vigorous default resolution efforts provided at a lower cost. We further believe that these efforts will offer qualitative improvement to the financial lives of borrowers through all federal loan programs by helping them to establish good financial records and credit histories. We view these services not as added expenses for FSA but instead as value-added mechanisms for cost-savings and enhanced quality in federal loan programs. It is our expectation that the proposed approach, combining services to the Authority's existing FFELP loan borrowers with enhanced services to "Put" loan and Direct Loan borrowers, will provide more effective and efficient services for FSA while providing a stable future for the Authority and its employees by building on an existing successful decades-long business plan.

We express appreciation to the Secretary for this opportunity to work collaboratively to pursue our shared vision of access to opportunity that is afforded by higher education.

Appendix 1

Examples of Cradle to Career Activities:
North Carolina State Education Assistance Authority

College Foundation of North Carolina

The following is a sample of activity areas; it is intended to be illustrative and is not comprehensive.

	Elementary Students	Middle School Students	High School Students	College Students	Adult Learners	Families
Career Exploration:						
Interest inventories, matching interests to careers Learning style and personality assessments	✓	✓	✓	✓	✓	✓
Career cluster and job descriptions, including salary, educational requirements, and working conditions		✓	✓	✓	✓	✓
"Paws in Jobland" web-based game to explore careers with the aid of a cartoon dog named Paws	✓					
Tools and information for creating resumes and preparing for an interview			✓	✓	✓	✓
Financial Literacy Education:						
Debt management publications and tools such as loan payment calculators and a salary-loan repayment calculator			✓	✓	✓	✓
"Fat Cat", age-appropriate financial education provided with assistance of the NC State Employees' Credit Union	✓	✓				✓
Multi-media financial education courses, with assessments, exercises and tools			✓	✓	✓	✓
Individualized budget and loan counseling integrated with community college student financial literacy course				✓	✓	
Course and Activity Planning:						
Online and textbook curriculum for NC educators to use in classrooms; outcomes aligned with NC Standard Course of Study	✓	✓	✓	✓	✓	

	Elementary Students	Middle School Students	High School Students	College Students	Adult Learners	Families
Timeline with steps to follow for high school and college planning		✓	✓	✓	✓	✓
Plan and track high school courses for graduation and comparison with college entrance requirements Track extracurricular activities		✓	✓		✓	✓
School counselors can monitor students' activity and progress		✓	✓			
College Exploration:						
College profiles and virtual tours		✓	✓	✓	✓	✓
College matching assistant and tools for comparing schools		✓	✓	✓	✓	✓
College Application:						
Test preparation (college entrance test preparation for ACT, SAT and GRE and a vocabulary builder)			✓	✓	✓	
Online system for applying to North Carolina colleges and universities; saved courses and activities can feed into applications completed through online service			✓	✓	✓	
Send high school transcripts electronically			✓	✓	✓	
Annual College Application Week emphasizes college going and encourages high school seniors, especially first generation, to apply			✓	✓	✓	
College redirection service April 1-August 31 for students not yet admitted to college			✓	✓	✓	
College Credit and Transfer:						
List of online learning opportunities for college credit			✓	✓	✓	✓
Transfer navigator: planner for transfer students with college articulation agreement information			✓	✓	✓	✓

	Elementary Students	Middle School Students	High School Students	College Students	Adult Learners	Families
Financial Aid:						
Financial aid process overview and specific information on ways to pay for college, including saving, scholarships, grants, loans, and work-study		✓	✓	✓	✓	✓
Annual statewide FAFSA Day in February to help students and parents complete the FAFSA			✓	✓	✓	✓
Scholarship search and state scholarships application tool			✓	✓	✓	✓
Financial aid estimator calculator helps determine amounts of state and federal grant students may receive under current formulas and guides them to other aid available on NC campuses			✓	✓	✓	✓
Saving for College:						
NC 529 College Savings Program: college savings system and service					✓	✓
Broad Outreach:						
Regional representatives located in state's seven telephone area codes provide college access workshops, presentations and training sessions for school and community groups	✓	✓	✓	✓	✓	✓
Call center handles email and phone requests for information and individual questions on careers, planning, applying and paying for college		✓	✓	✓	✓	✓
Targeted Outreach:						
Services in Spanish for Latino families, including publications, Web resources, email and toll-free phone support and presentations	✓	✓	✓	✓	✓	✓
Information for current and former military and their dependents, including benefits, military transcripts, and military-specific initiatives at colleges	✓	✓	✓	✓	✓	✓

Appendix 2

Overview of Financial Aid

for

Financial Aid Administrators

A Training Workshop for Aid Administrators
at North Carolina Colleges and Universities

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