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August 1, 2011

Ms. Diane McLaughlin
U.S. Department of Education
Federal Student Aid
Room 101J2
830 First Street, N.E.
Washington, D.C. 20002

Dear Ms. McLaughlin:

The Pennsylvania Higher Education Assistance Agency (PHEAA) is pleased to submit this response to the U.S. Secretary of Education's Federal Register Notice of May 31, 2011, inviting guaranty agencies to submit proposals to participate in a Voluntary Flexible Agreement (VFA). PHEAA currently has agreements with the Secretary under sections 428(b) and 428(c) of the Higher Education Act and is the designated guaranty agency for the states of Pennsylvania, Delaware and West Virginia.

PHEAA's proposal includes plans for providing services to the Secretary under all four Guaranty Agency (GA) Responsibility Areas described in the Federal Register Notice. PHEAA believes that its proposal is consistent with the Secretary's intent to eliminate conflicts of interest, as it does not propose to provide services under GA Responsibility Areas I and II for the same loans. PHEAA is prepared to modify its proposal, in consultation with the Secretary, to limit itself to providing services under GA Responsibility Area I, if its interpretation of this restriction is not consistent with the Secretary's intent.

PHEAA has identified potential partners that will enable PHEAA to properly implement its VFA with the Secretary. In this regard and with the approval of the Secretary, the partners identified on the Addenda to this letter would provide services under GA Responsibility Area II for loans guaranteed either by PHEAA or by that partner, and PHEAA would assume GA Responsibility Area I on these loans. In addition to assuming GA Responsibility Area I for these potential partners, PHEAA welcomes the opportunity to work with the Department to identify additional partners and loan volume for which it could perform services under GA Responsibility Area I. PHEAA has the system and operational capacity to meet the needs of the Secretary and to support additional guarantor partners.

PHEAA's proposal includes a description of the services it will provide within its current area of service under GA Responsibility Area III. PHEAA's proposal under GA Responsibility Area IV reflects its view that the current Common Review Initiative should be used to satisfy this requirement and provides sufficient safeguards against any potential conflicts of interest.

PHEAA looks forward to working with the Secretary and Federal Student Aid to finalize a Voluntary Flexible Agreement. Please feel free to contact Scott Miller, PHEAA's Director of Federal Relations, or Todd Mosko, Vice President of Loan Assets Management, as outlined below, if you have any questions on this submission.

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Sincerely,

James L. Preston

James L. Preston

JLP/lag
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Enclosures

Voluntary Flexible Agreement Proposal

(VFA Proposal – 2011)

August 1, 2011

Pennsylvania Higher Education Assistance Agency (PHEAA)
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… Creating access to higher education

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Appendices

Disclosure

This proposal includes confidential and proprietary data, including financial and pricing information. Without the prior written consent of PHEAA, this information may not be disclosed by the recipient or used for any purpose other than to evaluate this proposal. Pages of this proposal including such confidential and proprietary data are marked as such.

EXECUTIVE SUMMARY

The Pennsylvania Higher Education Assistance Agency (PHEAA) is pleased to submit a proposal that supports the U.S. Department of Education's (the Department) objectives in structuring a Voluntary Flexible Agreement (VFA). PHEAA's proposal is designed to ensure that guarantors successfully perform vital ongoing services in the best interests of borrowers, schools, lenders, and taxpayers. PHEAA's VFA proposal is predicated on a commitment to ensure that borrowers continue to receive high quality services and that sensitive data is maintained and protected in full compliance with the Department's stringent information assurance standards. PHEAA has identified potential partners and is prepared to work with additional partners which will provide high quality services to borrowers and ensure that PHEAA and its partners are in compliance with conflict of interest restrictions.

PHEAA's ability to perform successfully in each of the four Guaranty Agency (GA) Responsibility Areas is underscored by the following key components of this proposal:

Superior Capability – As one of the largest guaranty and default management agencies in the nation, PHEAA is uniquely qualified and fully capable of providing comprehensive VFA services in all four GA Responsibility Areas. PHEAA's cohort default rate has consistently been below the national average and its recovery rate ranks second among the eight guaranty agencies with portfolios in excess of $1 billion.

Scalability – PHEAA's robust, flexible OneLINK(SM) Guaranty and Claims System – which is supported by an experienced business staff and dedicated Information Technology (IT) systems development team – provides a powerful, comprehensive toolset with the inherent flexibility and scalability required to support the Department's needs. OneLINK currently handles 12 percent of the current industry collection capacity and is scalable to meet the needs of the U.S. Secretary of Education (the Secretary).

Sustainable Model – PHEAA has the personnel, resources, IT systems, and infrastructure necessary to adapt to a change in the guarantor model and to implement new models for GA Responsibility Areas I and II (in accordance with the conflict of interest limitations) that are in the best interest of the Secretary and student loan borrowers. PHEAA has proposed meaningful metrics that allow the Department to monitor and ensure continued superior performance under the VFA.

Security – PHEAA understands federal operational and security standards. PHEAA's performance on the Federal Loan Servicing (FLS) contract demonstrates PHEAA's capability to develop and maintain systems that meet and exceed FSA operational and security requirements. PHEAA's servicing system supporting Title IV programs – the PHEAA Commercial System (PHCS) – received Authority To Operate (ATO) from the Department in March 2010 and is certified to be in compliance with the standards mandated by the Federal Information Security and Management Act (FISMA). PHEAA's OneLINK system is likewise compliant with federal information assurance controls and able to satisfy all security requirements associated with the VFA.

Standard Data Exchange Format – To mitigate issues that could compromise data integrity, PHEAA's proposal includes recommended data exchange record layouts for guarantor-to-guarantor transfers of loans and data. It is in the best interest of the Department to implement immediately Common Data Formats to ensure that data exchanges between guarantors are standard and reliable.

Savings to the Federal Government – PHEAA's VFA proposal demonstrates how PHEAA can excel in all of the functional areas and operate within a payment structure that will bring the federal government significant cost savings. PHEAA's Revised Financial Model realigns payments to match the performance of tasks designed to produce desired outcomes for borrowers and the Secretary. PHEAA's pricing proposal presumes advantages attributable to increased economies of scale.

PROPOSAL OVERVIEW

PHEAA is pleased to submit this response to the Secretary's Federal Register Notice of May 31, 2011, inviting guaranty agencies to submit proposals to participate in a Voluntary Flexible Agreement (VFA). PHEAA currently has agreements with the Secretary under sections 428(b) and 428(c) of the Higher Education Act and is the designated guaranty agency for the states of Pennsylvania, Delaware, and West Virginia.

PHEAA's VFA proposal supports the Department's efforts to address the transformed landscape of student lending and the continuing role of the guarantor. PHEAA agrees with the Department's intent to structure the VFA to utilize the strengths of guarantors, or combinations of guarantors, to effectively perform vital ongoing functions to serve borrowers, schools, lenders, and taxpayers. **PHEAA's VFA proposal ensures that borrowers continue to receive high quality services and that their personal data is maintained and protected in accordance with the Secretary's stringent data standards.** The necessary transfer of data from one guarantor to another is a critical component of the success and viability of what will become the new guarantor model. PHEAA's proposal details a clear plan for data transfers that mitigates risk, provides the Secretary the control necessary to establish an orderly movement of data, and supports the necessary stewardship of the Federal Family Education Loan Program (FFELP) portfolio.

As one of the largest guaranty agencies in the nation, PHEAA believes it is well-positioned to be a long-term partner with the Secretary. PHEAA has the personnel, resources, information technology systems, and infrastructure necessary to adapt to a change in the guarantor model and to implement new models that are in the best interests of the Secretary and student loan borrowers. PHEAA's VFA response demonstrates how PHEAA can excel in all of the functional areas and operate within a payment structure that will produce cost savings for the Secretary.

PHEAA's VFA Proposal

PHEAA's VFA proposal leverages PHEAA's well-earned reputation as a "best in class" performer in loan collections by maximizing efficiency, enabling economies of scale, and ensuring high quality services to borrowers and the Secretary. PHEAA proposes to leverage existing tools, systems, and processes to ensure ease of use for guarantors, lenders, borrowers, and the Department, while offering the most cost effective, risk averse solution.

PHEAA understands fully the Secretary's direction that the federal government must be protected against potential conflicts of interest from a single guarantor providing both default aversion services and post-default collections on the same loans. PHEAA interprets the Department's guidance so as not to preclude PHEAA from performing services under GA Responsibility Areas I and II, as long as it ensures that it does not provide both sets of services on the same loans. Thus, PHEAA is prepared, in cooperation with the Secretary, to offer its services under GA Responsibility Areas I and II to other guaranty agencies that may be in need of a partner for these purposes. If PHEAA's interpretation is not correct, PHEAA will limit its proposed performance to GA Responsibility Areas I, III, and IV.

PHEAA has the capacity to significantly increase the number of loans on which it performs post-default collections or default aversion. PHEAA has the resources to accommodate significant expansion in the size of the loan portfolios that PHEAA services under GA Responsibility Areas I or II, while assuring that all stakeholders continue to receive consistent, high-quality customer service. PHEAA has identified potential partners to perform default aversion, assuring PHEAA that borrowers with loans under PHEAA's guaranty will be provided with the tools and support they need to return their loans to good standing and, most importantly, to avoid loan default. PHEAA is open to additional partnership arrangements that may be identified subsequent to the submission of this proposal.

PHEAA's VFA submission includes:

- A proposal leveraging PHEAA's experience as a superior performer in Lender Claims Review, Lender Claims Payment, and Collections to conduct activities under GA Responsibility Area I using a performance-based payment model that emphasizes Loan Rehabilitation as the preferred resolution for borrowers and includes metrics for evaluating PHEAA's performance.
- A proposal under GA Responsibility Area II that, if acceptable to the Secretary under conflict of interest restrictions, would build on PHEAA's experience and success in this area to implement a performance-based payment model that emphasizes the value of cash payments to cure loan delinquencies and includes metrics for evaluating PHEAA's performance. PHEAA is also prepared to partner with guarantors with superior performance in Delinquency and Default Prevention Management to ensure that all necessary measures are taken to avoid loan default.
- A proposal under GA Responsibility Area III to continue to provide outreach, training, and financial literacy services within PHEAA's area of service.
- A proposal under GA Responsibility Area IV to fulfill lender and servicer review responsibilities through continuation and expansion of the Common Review Initiative (CRI).
- A summary of the impact of PHEAA's proposed revised fee structure for GA Responsibility Areas I and II demonstrating the magnitude of total savings that could be achieved by the Secretary under this model.
- A recommendation that the Account Maintenance Fee be replaced with a smaller Loan Maintenance Fee designed to ensure the continuance of necessary guaranty functions not specifically related to the four GA Responsibility Areas.
- A proposal to return the agency's Federal Reserve Fund to the Secretary and a recommendation that the Secretary implement a new, real-time method of claim payment and reimbursement.
- A request that the Secretary immediately adopts and implements a set of Common Data Formats to facilitate the timely and accurate transfer of data and loan records between guaranty agencies. PHEAA's specific recommendation leverages existing tools, systems, and processes to ensure ease of use for guarantors and lenders. PHEAA's cost-effective solution mitigates risk to borrowers, schools, lenders, and the Secretary.
- A projected implementation timeline for the system changes needed to adopt PHEAA's recommendations.
- A list of requested regulatory waivers consistent with the proposal (Appendix A).

FISMA Compliance

PHEAA's OneLINK Guaranty and Claims System operates within much of the same system boundary as the PHEAA Commercial System which, in March 2010, received an Authority To Operate (ATO), indicating that is certified to be in compliance with the standards mandated by FISMA. OneLINK adheres to the same standards required to become FISMA compliant. The Department performed a Guaranty Agency Onsite Security Review at PHEAA on February 16 – 18, 2011, during which PHEAA provided the Agency's system profile and other security documentation. **PHEAA is confident that it will be granted an Authority To Operate for its guaranty operations.**

Common Data Transfer Protocol

PHEAA's response details a common data transfer solution utilizing Common Data Formats. The absence of a defined national standard for data exchanges will create confusion and delays in implementing a VFA structure and hinder portability of information amongst guarantors, should one or more agencies become insolvent or become ineligible due to performance concerns. To mitigate this risk, **PHEAA proposes that the Secretary mandate guaranty agencies to adopt use of single, uniform protocol using specified industry-standard layouts**, with some modifications or additions, to ensure data exchanges are standard, reliable, and meet the specific needs of guarantors that will be performing diverse functions.

GA RESPONSIBILITY AREA I – LENDER CLAIMS REVIEW, LENDER CLAIMS PAYMENT, AND COLLECTIONS

Proposed Approach and Objectives

PHEAA proposes to perform activities defined in the solicitation as GA Responsibility Area I - Lender Claims Review, Lender Claims Payment, and Collections. PHEAA's proposal in this area encompasses the following:

- Retaining PHEAA-guaranteed claims and default portfolio for continued collection activity.
- Receiving new claims from other guarantors in accordance with partnership agreements or as designated by the Department for review, payment, and collections. This proposal assumes the guarantee will also be reassigned (Transferred In) to PHEAA upon submission.
- "Transfer In" of existing non-performing defaulted loans from other guarantors in accordance with partnership agreements or as designated by the Department for initiation of collection activity.
- "Transfer In" of existing performing assets (mid-payment stream) from other guarantors in accordance with partnership agreements or as designated by the Department for continued collection activity.

To prevent potential conflicts of interest stemming from a single guaranty agency performing default prevention activity and collections on the same loans, PHEAA-guaranteed loans would be submitted for preclaim assistance to other guarantors in accordance with partnership agreements via a common file transfer protocol.

PHEAA will leverage its current technology platform (the OneLINK Guaranty and Claims System) and experience in post-default collections to enable maximum performance and scalability on default claims processing and collections.

PHEAA believes that the receiving guarantor should assume the guarantee of loans when they are submitted for claim payment or transferred for collections from one guarantor to another. By transferring the guarantee, the Secretary will be assured that full responsibility for the loan will rest with the receiving guarantor and that there will be no issues of lingering conflict of interest in the administration of these loans. The transfer of guarantee will remove any potential ambiguities regarding responsibility for reporting on these loans to the Secretary and to other parties.

PHEAA's Default Collection Strategy

PHEAA Collection Strategy

- ✓ Demand for full payment or lump sum
- ✓ Voluntary monthly payment leading to rehabilitation
- ✓ Administrative wage garnishment
- ✓ Qualified reduced payment under Reasonable & Affordable
- ✓ Income Contingent payment under Federal Direct Consolidation

PHEAA pursues an aggressive collection strategy with the goal of establishing borrowers on a repayment plan to expedite Loan Rehabilitation, as experience shows that rehabilitation is, in most cases, the best outcome for resolving a defaulted student loan. To accomplish this, PHEAA promotes a number of loan payment alternatives, including automated debits (monthly, bi-weekly, and weekly) and debit card payments. An in-house collection unit handles both inbound and outbound calls. Calls are managed via an advanced automated Call Management System to ensure both a low average speed of answer on inbound calls and high productivity on outbound calls (contact rates). Borrower contact messages are sent via special blast email campaigns and PHEAA is currently exploring using text messaging as an additional contact tool. Telephone collection calls are monitored for quality control via live telephone monitoring and recording.

PHEAA's goal is to attempt negotiation of the outstanding balance with the borrower or, if not possible, work with defaulted borrowers to establish a monthly repayment plan leading to Loan Rehabilitation. Rehabilitation procedures encourage a monthly payment amount that will satisfy the outstanding loan obligation within the remaining statutory term, thus reducing the likelihood of future delinquency and re-default. If unable to qualify for rehabilitation, PHEAA's collectors work to document the borrower's financial situation to evaluate further the efficacy of a reasonable and affordable payment plan or possibly an income contingent option under Federal Direct Consolidation. Where a borrower does not cooperate toward account resolution, PHEAA works through various sources, including state agencies, to obtain employment and wage information in order to pursue administrative wage garnishment (AWG). OneLINK supports automated AWG processing functionality that ensures all required notices are sent within prescribed regulatory time frames. Treasury offset is also automatically supported.

If internal collection efforts prove unsuccessful, PHEAA will then place accounts with multiple collection contractors using a competitive placement and compensation strategy based on vendor performance. OneLINK uses system parameter settings to control placements by volume and type. Current metrics for performance emphasize cash, loan repayment, and Loan Rehabilitation. PHEAA's current collection contractors were selected through a competitive RFP process and are nationally licensed. All have experience collecting FFELP loans through the Department and other large guarantors.

PHEAA's internal collection unit, outside contractors, and system platform have the capacity and scalability to handle, efficiently and effectively, volume increases assigned by the Department.

Specific Activities

PHEAA proposes the following specific activities for claims assigned under GA Responsibility Area I:

Upon receipt of claim, the guarantor of record will transmit guarantee and claim information to PHEAA via a commonly accepted file format. The guarantor of record will also "Transfer Out" the guarantee at this time and report this transfer to NSLDS. Upon receipt of the claim from the guarantor of record, PHEAA will "Transfer In" the loan guarantee and assume all required reporting and activity. Claim review and payment activities will include the following:

1. Review of claim detail provided by the lender or servicer.
2. Communication of claim deficiencies or rejects to the original lender or servicer.
3. Payment of qualified claims through a process agreed upon with the Secretary.
4. Review and payment of claims for Total and Permanent Disability (TPD) and forwarding of appropriate files/documentation to the Department-designated TPD vendor for review.
5. Review and payment of claims for bankruptcy with subsequent transfer of guarantee to the Department-designated bankruptcy vendor for processing.
6. Review and payment of other specialty claims (Death, School Closure and False Certification) under procedures agreed to with the Secretary.

System Features and Capabilities for Claims

OneLINK contains automated claim review and processing capability that provides superior quality control with numerous accuracy checks, as verified in numerous internal and external audits. These quality control measures protect the federal fiscal interest in both the integrity of claim payment as well as expedited transition to collection activity. PHEAA's efficiency and automation in claim review and processing allow all costs of this activity to be covered in PHEAA's proposed fee structure for default collections, discussed in the Revised Financial Model section of this proposal. OneLINK is designed to accommodate industry initiatives and standards for claim processing based on the Common Claim Initiative. The system supports claim payment, claim return, claim rejection, borrower refund due to closed school or false certification, multiple supplements on a claim package, and partial discharge of consolidation loans.

OneLINK has the capability to process the partial discharge of consolidation loans due to death or disability through online transactions. These transactions contain validation edits to prevent duplication of refunds, and interact with claim information to ensure accurate updates to borrower accounts.

All information obtained through the claim process, including insignificant errors and other updates, such as claim payment, or claim payment back-out, are automatically created and stored on a transaction. Once claim review is complete, but prior to payment, a number of quality assurance steps are completed on the claim package to ensure only valid claims and appropriate amounts are paid.

Specific Activities for Late Stage Delinquency

PHEAA proposes, as a late stage delinquency effort, to initiate dialing and contact notices (email or mail) on all claims received in order to encourage borrowers to take immediate action and to avoid default before the claim is paid by PHEAA. A minimum of 14 calendar days will be allowed before the claim is paid to give borrowers time to respond and make arrangements to cure their account with all results tracked.

Specific Activities for Post-default Collections

PHEAA proposes to perform the following collections-related activities on claims paid from guarantees transferred to PHEAA:

1. Initial contact letter and administrative review.
2. Required credit reporting to all major credit reporting agencies.
3. Calculation and assessment of collection costs.
4. Administrative garnishment activity following prescribed federal requirements where employment is verified.
5. Treasury offset.
6. Subrogation to the Department, as appropriate.

PHEAA may seek agreement with the Department on adjustments to its collection activities in cases where loans are transferred to PHEAA after claim payment, including loans transferred in various stages of collection. Collections efforts may be enhanced by access to state-specific collections tools that would have been available to the original guarantor and PHEAA urges the Secretary to investigate ways to make those tools available after loan transfer. In addition, PHEAA encourages the Secretary to continue efforts to reinstate access to the National Database of New Hires (NDNH) as a means of facilitating loan collections.

System Features and Capabilities for Collections

OneLINK's user-friendly, parameter-driven functionality enables efficient management of large inventories. This is accomplished by the creation of automated queues and the ability of management staff to monitor and manage the workflows in real time. These features allow for the assignment and monitoring of specific tasks to collection representatives.

OneLINK interacts with PHEAA's automated Call Management System by sending selected workgroups to the autodialer. The OneLINK system will also create activity files retrieved from the autodialer during a nightly batch process. Through the use of parameter settings, the activity code(s) are determined and the appropriate updates made to the account(s). The settings for the number of days between contacts/attempts and work queues are easily changed through online transactions. Finally, OneLINK identifies invalid address/phone numbers for the borrower, endorser, or co-maker and initiates skiptracing when appropriate.

Experience and Accomplishments

PHEAA employs a highly trained and experienced collections staff with an average tenure of six years and a supervisory staff with an average tenure of five years. The Asset Management operational management team (Unit Manager, Outsourcing AVP, and Division VP) has a combined 55 years of experience in FFELP collections. PHEAA employs a dedicated and experienced technical staff supporting OneLINK system software development with a current average tenure of 19 years. The technical management team (IT AVP and Technical Process Managers) have a combined 91 years of experience in FFELP software development.

PHEAA has achieved an annual recovery rate that is consistently above the national average according to the Department's guaranty agency recovery rate data (Figure 1). PHEAA's gross collections (Cash, AWG, Rehabilitation, and Consolidation) have increased by an average of 26 percent per year since FFY 2006 (Figure 2). For FFY 2010, PHEAA's recovery rate ranked second of the eight guaranty agencies with inventories greater than $1 billion.

PHEAA's commitment to and success in Loan Rehabilitation is demonstrated by the 36.6 percent average annual increase in dollars rehabilitated since FY 2006 and 7.7 percent average annual increase in rehabilitations as a percentage of total collections during the same period. Figures 3 and 4 display these trends.

PHEAA is confident that its success in post-default collections and track record in rehabilitating defaulted borrowers will be transferable to any guarantor portfolio, regardless of size.

Figure 1. PHEAA Recovery Rate vs. National Rate Excluding PHEAA

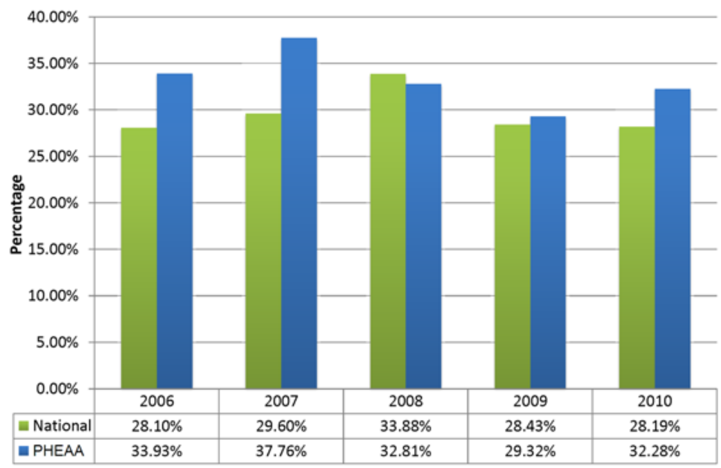
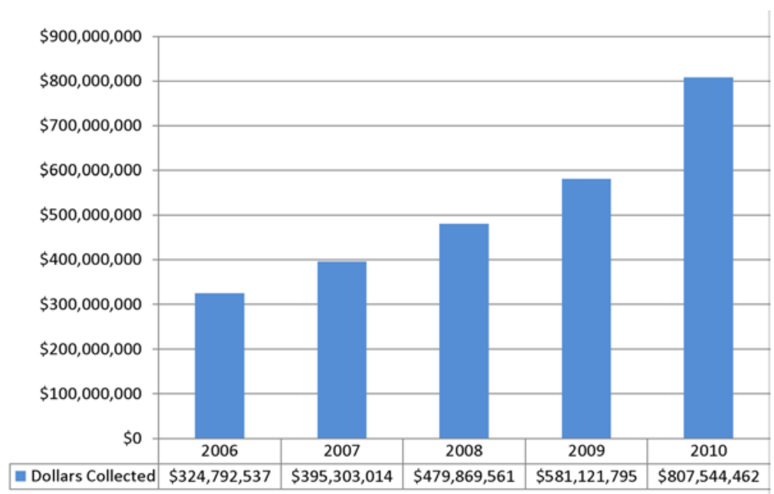


Figure 2. PHEAA Dollars Collected per FFY (Cash, AWG, Rehabilitations, Consolidations)



Growth and Expansion

PHEAA uses volume forecasts for claims, calls, and processing to ensure appropriate staff coverage. Cross training of staff in the Asset Management department enables seamless movement into areas that experience rapid growth or temporary spikes in volume. PHEAA's staffing flexibility includes alternative work schedules to support volume growth, alignment of like processes to gain efficiencies in staff utilization, and recruitment of employment candidates with the requisite skills.

PHEAA has the system and operational capacity to expand its current claim review, claim payment, and collection capacity to meet the needs of the Secretary. PHEAA's Asset Management area has an established collections operation and call center with dedicated agents, management, and support staff cross-trained in various aspects of collections processing. PHEAA has demonstrated both system and operational scalability, most recently with accommodations of growth in loan volume and staffing associated with the Title IV Additional Servicers (TIVAS) contract. The FedLoan Servicing (FLS) center, established in only four months (September 2009) as a distinct operational unit, was initially staffed with 90 customer service representatives handling $2.9 billion in account inventory. As of June 30, 2011, the FLS portfolio had grown to $49.1 billion and FLS staffing had increased to 443 customer service representatives. In that same time period, PHEAA has added 13 million borrower loans to the

FLS system, effectively doubling PHEAA's volume on its scalable architecture. Additionally, PHEAA's Asset Management collections operation outsources inventory if initial in-house collection efforts are unsuccessful, using multiple national collection vendors to ensure capacity needs are met.

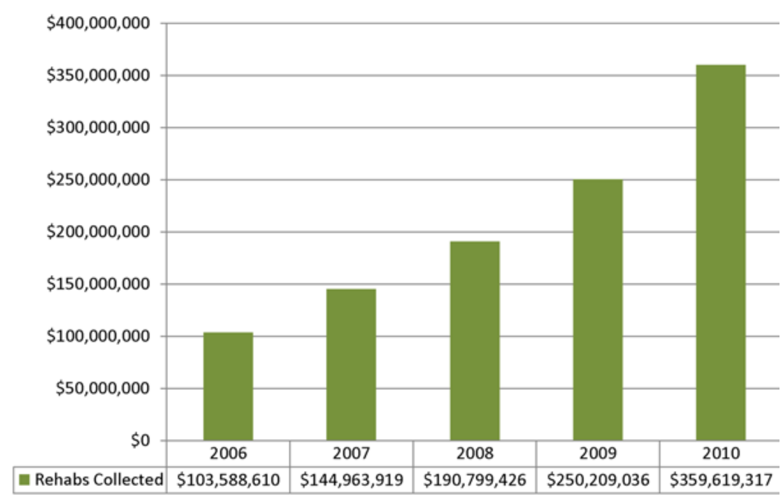


Figure 3. PHEAA's Rehabilitations per FFY

Performance Metrics

PHEAA's recommended pricing and performance metrics will provide the Secretary with reporting to ensure that PHEAA meets the highest standards in post-default collection. PHEAA's experience is that borrowers who qualify for Loan Rehabilitation have lower re-default rates than those whose default is resolved through consolidation. Lower re-default rates ultimately reduce expenditures for the federal government and taxpayers. To evaluate performance, PHEAA proposes using one or both of the following metrics. **Both sets of performance metrics ensure that collections will be maximized and that Loan Rehabilitation is emphasized as the primary means of collection.**

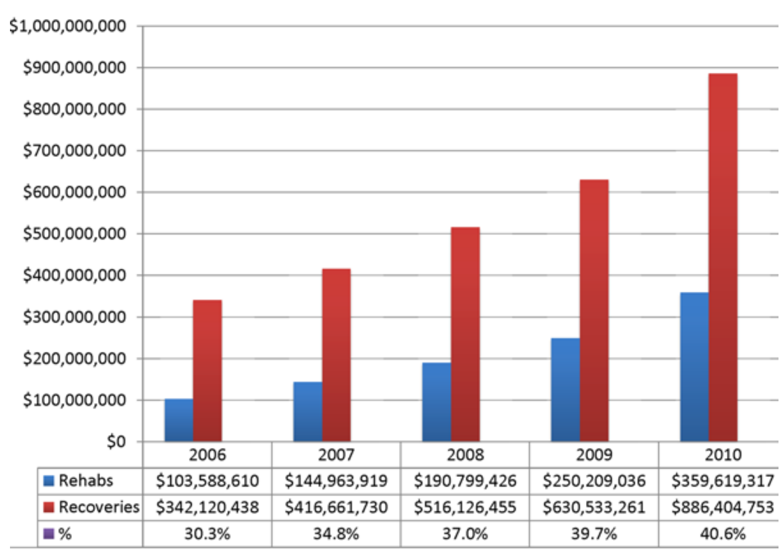


Figure 4. PHEAA's Rehabilitations Versus Total Recoveries per FFY

GA I Performance Metric#1

A performance model that mirrors the current Department Guarantor Recovery Rankings, but rather than using the beginning inventory as the denominator, PHEAA proposes using total recoveries as the denominator and ranking performance based on each collection type (Regular, AWG, Rehabilitation, and Federal Direct Consolidation) as a percentage of the total recoveries. Performance would be evaluated quarterly based on the Federal Fiscal Year time period (Table 1).

Ranking performance based on collection type as a percentage of total recoveries will allow the Department to gain a clear understanding of a guarantor's collection strategy as outlined in their VFA. Additionally, performance under this model cannot be manipulated as it counts gross collections against total recoveries only.

Table 1. Guaranty Agency Recovery Totals (FY2010)

Breakdown by Collection Program Type (September 30, 2010 FYTD Results)

Org. Rank	Agency	Regular	% of Total	AWG	% of Total	Rehabilitations	% of Total	Direct Consol.	% of Total	Total	Adjusted Beginning Inventory	Recovery Percent
8	PENNSYLVANIA	79,182,743	9.8%	56,587,120	7.0%	359,619,317	44.5%	312,155,282	38.7%	$807,544,462	$2,746,176,805	29.41%

GA I Performance Metric #2

PHEAA's second performance measurement would look at guarantor performance in a competitive environment, similar to both the current TIVAS model and the model the Department uses to measure performance of its collection contractors. In this evaluation, guarantors would be ranked based on inventory liquidation, borrower payments, rehabilitation payments (fundings), rehabilitation credits (accounts in a repayment stream for rehabilitation), and Federal Direct Consolidation. A weight or point value would be assigned to each collection category; the higher the point value assigned, the greater the importance of that indicator. In this case, rehabilitation credits and rehabilitation payments receive the greater weight and should therefore account for the greater percentage of a guarantor's collections.

Scoring is determined by awarding maximum points to the guarantor with the highest collection rate in each indicator. The remaining guarantors will receive points in proportion to how their performance compares to the top performer in each indicator. Overall ranking is determined by simply adding the points received to get the total score. Ranking performance in this manner creates a competitive environment among the guarantors providing services under GA Responsibility Area I. The Department will receive a clear indication of the collection success for each guarantor and, as result, a clear indication as to which guarantor is maximizing recoveries for the Department (Table 2). The ranking can then be used to reward performance either under a bonus structure or through the assignment or transfer of additional accounts for collections.

Table 2. Competitive Guarantor Agency I Performance Metrics (FFY 2010)

			Indicator #1		Indicator #2	Indicator #3			Indicator #4		
GA	Total Inventory Value	Total Collected	Liquidation Rate	20 Pts. Poss	Borrower Payments	Rehab Funding Payments	Bwr. Fund. Rate	40 Pts. Poss.	Rehab Credits	Rehab Credit Rate	30 Pts. Poss.
PHEAA	$2,746,176,805	$807,544,462	29.41%	20	$79,182,743	$359,619,317	13.10%	40	$75,510,938	2.75%	30

	Indicator #5	Indicator #6						
GA	AWG Payments	Consol . Payments	Consol. Rate	10 Pts. Poss.	Total Pts.	Ranking	Ratio	Percent
PHEAA	$56,587,120	$312,155,282	11.37%	10	100	1	100/100	100.0%

NOTE: When evaluating multiple competitors, the competitor with the highest rate in each indicator will receive the maximum points. All others will receive a proportional amount relative to the ratio of their rate to the leader.

Pricing and Implementation

Pricing details and an implementation timeline for GA Responsibility Area I are described separately in the Revised Financial Model section and Proposed Implementation Timeline section of this proposal.

GA RESPONSIBILITY AREA II – DELINQUENCY AND DEFAULT PREVENTION AND MANAGEMENT

PHEAA is interpreting the guidelines in the Federal Register Notice as permitting PHEAA to perform activities under GA Responsibility Areas I and II, as long as these activities are not performed on the same loans. If this interpretation is incorrect, PHEAA is prepared to withdraw its proposal to perform activities under GA Responsibility Area II, Delinquency and Default Prevention and Management.

Proposed Approach and Objectives

PHEAA offers to perform Delinquency and Default Prevention under GA Responsibility Area II for loans managed by any guaranty agency as designated by the Secretary. PHEAA will not perform preclaim activity on loans that PHEAA guarantees or that may be assigned or transferred to PHEAA for collections.

PHEAA's objective is to leverage its current technology platform (OneLINK Guaranty and Claims System) and experience in default prevention to achieve both maximum performance and scalability on loans referred to PHEAA under GA Responsibility Area II.

Default Prevention Strategies

PHEAA currently employs approximately 80 telephone collections and support staff in its Default Prevention Call center. PHEAA's loan counselors are trained on all applicable regulations and work with borrowers on best options to cure delinquency and maintain at risk accounts in current status by offering payment, deferment, and forbearance options, as well as suggesting loan consolidation when appropriate.

PHEAA practices a first contact resolution strategy, stressing the importance of resolving the delinquency upon the initial contact with borrowers. Internet resources are available to allow borrowers to access information and forms (deferment, automated debit, etc.) and information can be processed via email to expedite delinquency resolution. Payment solutions offered and stressed include online and automatic debit via the appropriate servicer application. Counselors are evaluated and rewarded on curing accounts and setting up automatic debit agreements in order to keep FFELP borrowers in good standing.

PHEAA believes an effective default prevention strategy includes and integrates financial literacy and early awareness activity. Financial literacy information is particularly critical to students approaching graduation or separation and transitioning to repayment (grace period). PHEAA has a long history of successful financial literacy and debt management through initiatives launched via its YouCanDealWithIt website. Further detail on these efforts can be found in PHEAA's response to GA Responsibility Area III.

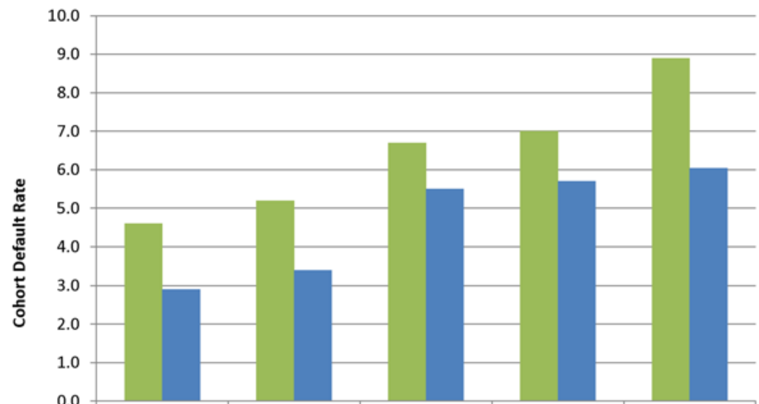
Specific Activities

PHEAA proposes, if permissible to the Secretary, to accept loans eligible for preclaim assistance from any guaranty agency designated by the Secretary via a common file format based on the current common preclaim submission process (CAM). PHEAA will further exchange daily updates on active preclaims with the guarantor of record using a common file format to record changes, such as address, telephone number, and status (cured, updated date the relevant condition occurred, claim paid). Specific activities performed to contact and cure delinquent borrowers include:

1. Initial contact notice sent to borrowers within 24 hours of placement.
2. Up to seven additional automated delinquency notices to borrowers, including final demand at approximately 270 days.
3. Integrated call blending allowing both inbound and outbound calling with virtually unlimited capacity.
4. Multiple dialing strategies to contact borrowers at home, work, or alternative phone numbers.
5. Advanced auto dialer analytics used to maximize contact rates.
6. Blast email and virtual dialing campaigns to boost contact rates.
7. Borrower interaction and response via email.
8. Reference calling campaigns (if references supplied).

9. Advanced call monitoring and call recording for quality control.
10. Access via internet to all major student loan servicing systems.
11. Advanced skip tracing using internet, automated databases and select outsourcing.

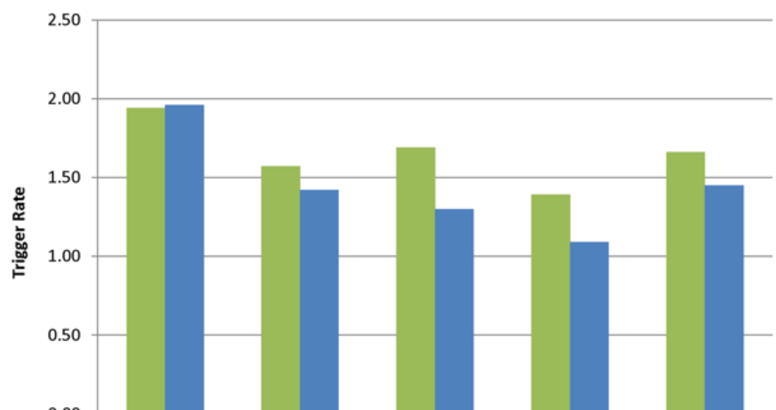
Figure 5. PHEAA's Cohort Default Rate Versus National Rate (Final Official Rates)



	2005	2006	2007	2008	2009*
National	4.6	5.2	6.7	7.0	8.9
PHEAA	2.9	3.4	5.5	5.7	6.0

* "Draft"

Figure 6. PHEAA's Trigger Rates Versus National Rate (Final Official Rates)



	2006	2007	2008	2009	2010
National	1.94	1.57	1.69	1.39	1.66
PHEAA	1.96	1.42	1.30	1.09	1.45

System Features and Capabilities for Default Aversion

OneLINK supports processing of Default Aversion Assistance Requests (DAAR) using online entry by in-house and remote lenders/servicers. Batch processing and DAAR is supported through CAM transmissions (record types 40, 41, 42, 43, and 44). Through this process, borrower, loan, endorser, co-maker, and reference information is evaluated and then loaded to the OneLINK system.

OneLINK also generates automated due diligence letters to borrowers and endorsers or co-makers on the day a DAAR is created. OneLINK permits efficient and strategic prioritization of inventories by creating calling tasks based on delinquency and number of prior attempts. Additional information such as number of days delinquent, date of last contact, and date of last attempted contact are used to prioritize among various calling strategies.

Experience and Accomplishments

PHEAA currently manages a preclaim inventory of over 100,000 accounts. PHEAA's Default Prevention Services call center currently places over 50,000 outbound calls daily and handles over 1,200 inbound calls. **PHEAA's system platform and call center staffing enable PHEAA to expand its capacity and absorb significant increases in loan volume.**

*For FFY 2010, PHEAA **cured over 396,000 accounts** representing a savings to the Department and taxpayers of over $9.1 billion in default claims.*

PHEAA cures approximately 86 percent of all delinquent borrowers identified through DAARs. PHEAA's cohort default rate is consistently below the national average (Figure 5). PHEAA's trigger rate has been below 2 percent since 1995 and has also consistently been below the national average (Figure 6). These results demonstrate PHEAA's solid portfolio management skills and its commitment to work with student loan borrowers to prevent FFELP defaults.

The Asset Management primary operational management team (Unit Manager, Outsourcing AVP, and Division VP) have a combined 55 years of experience in FFELP collections. Additionally, PHEAA employs a dedicated and experienced technical staff supporting OneLINK system software development with a current average tenure of 19 years. The technical management team (IT AVP and Technical Process Managers) have a combined 91 years of experience in FFELP software development.

Growth and Expansion

As described in GA Responsibility Area I, PHEAA has the capability for significant growth and expansion in both operational and system capacity.

Performance Evaluation Plan

PHEAA believes that it is in the best interests of the Secretary to monitor and measure a guarantor's performance in Default Prevention. PHEAA proposes using one or a combination of the following metrics to evaluate its performance.

GA II Performance Metric #1

The proposed model tracks by batch the number and dollar value of accounts placed for DAAR. PHEAA will separate accounts and dollars cured by cash versus paper (deferment or forbearance) and use these figures to derive a total cancellation rate. Utilization of a performance model such as this will give a clear picture as to the manner in which accounts are cured (cash versus paper), as shown in Table 3.

Table 3. Preclaim Outsourcing Performance

Placements			Cancels												
			Cash			Deferment			Forbearance			Total Cancels			
Date Placed	Accts	Value ($)	Accts	Value ($)	% of Total	Accts	Value ($)	% of Total	Accts	Value ($)	% of Total	Accts	% of Total Accts	Value ($)	% of Total Dollar
5/23/2011	2,241	35,924,208.92	25	318,808.71	6.8	17	356,615.22	7.6	212	4,025,454.16	85.7	254	11.33	4,698,588.27	13.08%
5/31/2011	1,672	35,608,080.55	13	200,324.48	7.4	6	113,552.97	4.2	104	2,403,763.05	88.6	123	7.36	2,713,788.53	7.62%
6/6/2011	1,522	28,832,025.61	2	166,246.27	17.9	7	192,975.68	20.8	31	599,059.69	64.5	40	2.63	929,150.31	3.22%
6/13/2011	1,851	36,530,741.43	0	0.00	0.0	0	0.00	0.0	0	0.00	0.0	0	0.00	0.00	0.00%
Totals	7,286	136,895,056.51	40	685,379.46	8.2	30	663,143.87	7.9	347	7,028,276.90	84.3	417	5.72	8,341,527.11	6.09%

GA II Performance Metric #2

PHEAA proposes a cure resolution rate measured on a quarterly basis for each FFY. This measurement will track the number of cures divided by the number of cures plus number of defaults at both a loan and dollar level. This will provide a measurement of the resolution percentage for each loan/dollar that had a DAAR submitted during the FFY (Table 4).

Table 4. Cure/Resolution Rate[1]

FFY 2010

	Loans	Dollars
Loans Cured[2]	714,937	$9,153,098,621
Loans Defaulted[3]	137,202	$1,129,185,822

Loan Rate			
Cures	714,937	=	83.9%
Cures+Defaults	852,139		

Dollar Rate			
Cures	$9,153,098,621	=	89.0%
Cures+Defaults	$10,282,284,443		

FFY 2009

	Loans	Dollars
Loans Cured[2]	660,191	$8,517,785,713
Loans Defaulted[3]	134,795	$1,134,798,231

Loan Rate			
Cures	660,191	=	83.0%
Cures+Defaults	794,986		

Dollar Rate			
Cures	$8,517,785,713	=	88.2%
Cures+Defaults	$9,652,583,944		

[1] Cure Rate = Cures/(Cures + Defaults)
[2] All loans that were cured in the FFY for cash, deferment, or forbearance
[3] All loans that had a lender payoff date in the FFY for reason of payment

Pricing and Implementation

Pricing details and an implementation timeline for GA Responsibility Area II are described separately in the Revised Financial Model section and Proposed Implementation Timeline sections of this proposal.

GA RESPONSIBILITY AREA III – COMMUNITY OUTREACH, FINANCIAL LITERACY AND DEBT MANAGEMENT, SCHOOL TRAINING AND ASSISTANCE, AND SCHOOL OVERSIGHT

Introduction

PHEAA has a long history as a provider and innovator in the areas of community outreach, financial literacy and debt management, and school training and assistance. PHEAA believes that each of these functions are integral to PHEAA's role as a state agency created by the Pennsylvania General Assembly in 1963 to serve the mission of creating access to education in the Commonwealth of Pennsylvania.

PHEAA proposes to maintain primary responsibility for providing these services in Pennsylvania through a variety of means, including employees specifically dedicated to delivering these services to individuals and groups across the Commonwealth. PHEAA's materials will be available to interested individuals and groups outside Pennsylvania via the internet.

PHEAA does not propose a plan for program reviews of postsecondary institutions. PHEAA's reading of applicable regulations is that, in the absence of new originations under FFELP, guaranty agencies no longer have regulatory responsibility for conducting reviews of postsecondary institutions.

PHEAA is not seeking separate compensation for performing activities under GA Responsibility Area III. As described above, these activities are part of PHEAA's core mission as a state-created agency. PHEAA will fund these activities, as it has done in the past, from its business earnings. PHEAA is open to negotiating appropriate compensation with the Secretary for providing certain services in GA Responsibility Area III outside of its current area of service.

Proposal Approach and Objectives

PHEAA's objective in Area III is to use its current suite of services to continue its industry leading efforts to promote early college awareness and provide financial literacy education to student loan borrowers and other stakeholders.

Specific Activities

PHEAA will use its team of Higher Education Access Partners (HEAPs) to provide personalized service to schools and other appropriate constituencies in Pennsylvania. PHEAA's team of HEAPs are constantly identifying new community and other organizations with which to partner in an effort to widen the audience for its presentations on postsecondary readiness and financing.

PHEAA will continue to refine its EducationPlanner.org and YouCanDealWithIt.com websites to ensure that they are kept fully current with any relevant changes in descriptions of student financial assistance or loan repayment options. As it does today, PHEAA will continually review the content and presentation of the websites and provide periodic updates to design and content.

PHEAA plans to augment these websites with periodic webinars that would be available and accessible nationwide. PHEAA also intends to expand the use of social media outlets (e.g., Facebook and Twitter) to promote its websites and related content. PHEAA also proposes a similar online approach to the training of personnel at postsecondary institutions.

Improved Services

PHEAA believes that the approach outlined above will continue its long tradition of providing high-quality, customer-focused information on postsecondary opportunities and financial literacy. As it does today, PHEAA intends to review its materials and websites continually to ensure that they are capable of delivering important information to a variety of relevant constituencies. PHEAA will also continue its tradition of exemplary service to postsecondary institutions in Pennsylvania through its HEAPs and through its long-standing partnerships with the Pennsylvania Association of Student Financial Aid Administrators (PASFAA) and the Pennsylvania Financial Aid Training Program (PFAT).

Efficiencies

PHEAA is always cognizant of the need to deliver the highest quality information and service in the most efficient manner. Because of the efficiency and cost-effectiveness in providing web-based content, PHEAA uses web methods for content delivery, thereby avoiding the effort and costs to print, store, and distribute large quantities of hard copy materials. PHEAA, along with many other organizations, including the National Association of Student Financial Aid Administrators (NASFAA) and the Department, believes that online training is an effective method for delivering critical information to personnel at postsecondary institutions. Online training is significantly more efficient for both the trainers and the participants than traditional, in-person training. While PHEAA has not abandoned printed materials entirely, it reserves those for specific, appropriate settings, such as community presentations. In addition, PHEAA's websites often offer users the option to print PDF files of key documents.

Experience and Accomplishments

PHEAA is the primary provider of information on early college awareness in Pennsylvania. Over the years, PHEAA has developed and distributed a number of print and other materials encouraging citizens to explore postsecondary opportunities. PHEAA has developed innovative, age-appropriate early awareness publications, computer programs, and other media for students and parents of all ages. Annually, PHEAA publishes and makes widely available the Pennsylvania Student Aid Guide, which is the basic resource document for students and parents interested in obtaining financial aid in Pennsylvania.

PHEAA maintains a cadre of well-trained individuals, strategically deployed across the Commonwealth, to provide support to Pennsylvania's colleges and universities, secondary schools, and the general public. In the past fiscal year, the members of the Pennsylvania School Services team (HEAPs) provided nearly 850 early awareness and financial aid information sessions for the students, parents, and the general public, more than 100 training workshops for high school counselors and community organizations, and nearly 400 site visits to provide technical assistance to postsecondary institutions. In addition, HEAPs attend regional meetings of student financial aid administrators and secondary education administrators and provide valuable updates and guidance.

Education Planner.org

For more than a decade, PHEAA has maintained a sophisticated website for use in early postsecondary education planning and for researching student financial aid opportunities. In recent years, EducationPlanner has averaged nearly one million visits per year from across the United States and throughout the world. In 2005, the site was named a Forbes Favorite by Forbes.com.

The newly redesigned Education Planner is designed for middle and high school students who are thinking about careers and college, but it is helpful for returning and non-traditional students as well. Students can explore hundreds of careers through O*NET OnLine, get information about hundreds of colleges from the College Board and search for scholarships at FastWeb. Education Planner also includes a "Parents" section, focusing on their role in helping students transition from high school to college.

YouCanDealWithIt.com

As a leader in default aversion, PHEAA has a long-term commitment to ensuring that students fully understand their education loan debt and the options they have to assist in managing their loan repayment. It is PHEAA's experience that student loan borrowers who encounter difficulty in repaying their loans often are experiencing more general difficulty in managing their personal finances. This view led PHEAA to develop a holistic financial literacy website and curriculum, under the umbrella of YouCanDealWithIt.com

YouCanDealWithIt.com provides information, techniques, tools and practical advice on how to approach many of the common financial situations facing today's college graduates and students. In addition to being a resource for students, the website has helpful information and tools for financial aid administrators and parents to communicate with their students on financial literacy matters.

The YouCanDealWithIt.com program also includes a number of support services for schools, including The Delinquent Borrower Counseling Guide, which is designed to help schools create and execute their own default prevention plan.

Growth and Expansion Capabilities

PHEAA has demonstrated its ability to absorb continuous growth in the numbers of users of its web-based products without disruption to users.

Performance Metrics

PHEAA is willing to work with the Secretary to develop appropriate performance metrics for its early awareness, training, and financial literacy programs.

GA RESPONSIBILITY AREA IV – LENDER AND LENDER SERVICER OVERSIGHT

Proposed Approach

All 32 guaranty agencies currently participate in the Common Review Initiative (CRI). CRI provides a system for guaranty agencies to fulfill their lender and lender servicer oversight responsibilities set forth in 34CFR682.410(c)(1)(i). **PHEAA's VFA application proposes continuation and enhancement of the Common Review Initiative**, which PHEAA believes provides and should continue to provide the most effective and efficient means to conduct lender and lender servicer oversight.

CRI already embodies the principles FSA is attempting to accomplish though the VFA initiative – scale, efficiency, and avoidance of potential conflicts. The VFA Notice encourages guarantors to establish consortia. CRI is a pre-existing consortium of guarantors. CRI was initiated in January 2004 following interim approval by FSA. CRI has been continually improved ever since, and was approved by FSA on an ongoing basis on December 21, 2007, at which time FSA found that the process satisfies a guaranty agency's obligation to review lenders and servicers. FSA officials are involved in the administration and oversight of CRI. They actively participate in the monthly calls of the CRI Council, CRI's governing body. FSA has the opportunity to request changes in the scope of CRI reviews, as it did recently when it requested that CRI begin reviewing compliance with ED's Lender Reporting System (LaRS), thereby enhancing administrative efficiency by eliminating FSA's previous direct review of LaRS. Review of LaRS by CRI formally began with the 2010-2011 biennium (though it should be noted that CRI was also asked to assist FSA with the 2008-2009 review and reconciliation). FSA has worked with the CRI Council in developing mutually agreeable measures of CRI effectiveness, also consistent with the VFA Notice.

While PHEAA recognizes that the VFA Notice states that a guaranty agency that assumes responsibility for claims review, lender claims payment, and collections (GA Responsibility Area I) may not assume responsibility for lender and lender servicer oversight, PHEAA believes the structure of CRI addresses the concerns about potential conflicts of interest that underlie this restriction, while providing the most efficient oversight to protect the interests of the Department and the taxpayer. As stated, FSA has been and will remain fully involved in setting the CRI agenda and its operating rules and procedures. All CRI reviewers undertake a detailed training program, and through their participation in this training and their collaborative work efforts continue to demonstrate competency in lender and lender/servicer oversight. FSA staff is invited to all training sessions. PHEAA believes the high level of awareness of statutory and regulatory requirements by lender and lender servicers is in part attributable to the sophistication of the current CRI process.

CRI reviews are conducted by a team of individuals from multiple guaranty agencies. No single agency is responsible for an individual review, thereby eliminating the potential for conflicts of interest. Generally, there is a desk audit conducted by a CRI work team, which is then followed by an onsite review. The size of the team conducting the desk audit varies, depending on the size of the review and the number of Lender ID's involved. There are usually six individuals from different agencies on each on-site team. No more than two members of the team come from a single agency, and the lead and co-lead cannot be from the same organization. All reports are subject to review by a quality assurance team, and are provided to FSA. As the FFEL Program transitions and loan servicing becomes more concentrated at a reduced number of servicers, there is an opportunity to make the process even more efficient by focusing reviews at the servicer level. Consideration could be given to improving this enhancement through the VFA initiative. More broadly, the CRI Council is willing to explore with the Department expanding the categories of reviews that are conducted.

In 2007, FSA stated that "CRI reduces the review redundancy and improves the quality of reviews." PHEAA questions whether replacing CRI with another process will continue these goals, or result in any greater effectiveness or efficiency. This is particularly true, given that PHEAA assumes that not all guaranty agencies will have a VFA. Unless all guaranty agencies continue to be authorized to conduct reviews through the collaborative CRI initiative, reviews will again be conducted in the old, redundant way. That is why PHEAA proposes that each VFA, including PHEAA's, include provisions allowing continuation of the Common Review Initiative, with appropriate enhancements.

Currently, travel costs of CRI reviews are shared among the guaranty agencies. Each agency also funds its own administrative and other indirect costs. Under the current statutory schema, there are no dedicated revenues for performing lender and lender/servicer reviews; guaranty agencies' costs are funded from general revenues. The true cost for PHEAA's performance of GA Responsibility Area IV through continuation of CRI and other required activities needs to be properly compensated through the VFA.

REVISED FINANCIAL MODEL

PHEAA presents a comprehensive financial model that revises all areas of guaranty agency financing, with an emphasis on performance-based compensation. PHEAA's financial analyses, as displayed in Table 6, indicate that **this revised pricing structure could produce significant savings for the Secretary** as compared to current expenditures. PHEAA is prepared to work with the Department on necessary transition and subsequent reconciliation requirements as a result of the adoption of a new financial model for guaranty agencies.

Return of Federal Reserve Fund

PHEAA suggests, as part of this proposal, that the current framework for funding guaranty agency obligations, including loan insurance and reinsurance, are not compatible with the wind down of the FFEL Program. In this context, PHEAA proposes to return its Federal Reserve Fund (FRF) to the Secretary. **PHEAA does not believe that, as currently structured, the FRF can be sustainable over the long term,** as the fund will not receive any significant new financial inflows. PHEAA believes that the Secretary benefits from the return of the FRF by obtaining an additional source of funding for guarantee operations that will be completely within his control. Along with this recommendation come certain operational considerations, such as the need for the Secretary to provide a new, real-time mechanism for payment of guarantee claims, which could be similar to the process used under prior VFA agreements with other guaranty agencies. In addition, PHEAA believes that the performance-based payment structure recommended for GA Responsibility Areas I and II can replace current statutory provisions that adjust reinsurance rates based on the default rate on loans under an agency's guarantee.

Performance-based Pricing

The revised fee structure in PHEAA's proposal aligns the compensation and fees paid to guaranty agencies with the responsibilities associated with managing a diminishing FFELP portfolio, while assuring sufficient support for the continuation of essential services to borrowers, schools, lenders, and the Secretary**.** PHEAA's suggested approach to compensation and fees is designed to reduce overall costs to the Secretary through the adoption of performance-based pricing for default aversion efforts and for the collection of defaulted loans. PHEAA believes that additional cost reductions can be achieved through economies of scale should there be an increase in the volume of defaulted loans for which PHEAA will be responsible for collection and an increase in the number of loans for which PHEAA performs default aversion. PHEAA's experience under the TIVAS contract has provided PHEAA with substantial expertise in streamlining operations to achieve maximum efficiencies, without degradation of customer service or operational integrity.

Proposal for Performance-based Pricing Structure for Collections Activities (GA Responsibility Area I)

PHEAA's proposed compensation plan for the collection of defaulted loans is based on the proven success of basing payment on a percentage of amounts collected. The proposed collections pricing strategy seeks to emphasize Loan Rehabilitation as the preferred method for returning borrowers' loans to good standing by providing separate compensation levels for amounts collected via borrower payments and garnishments, Loan Rehabilitations, and conversions to Federal Direct Consolidation. This model could also be applied to collections on Federal Direct Loans.

Loan Rehabilitations: [redacted] percent of principal, [redacted] percent of interest, plus collections costs of up to [redacted] percent of principal and interest

- The proposed fee is lower than the current statutory model, and in line with the percentage that will be paid to the Department's third-party collection vendors for Direct Loans effective October 1, 2011. This fee takes into account the need for the guarantor to match the loans with an eligible lender for the repurchase to occur. Due to market conditions, guarantors have had to offer discounts, sometimes up to nine percent, to sell the loan and complete the rehabilitation process.

- Rehabilitation is generally the best outcome for a borrower who has defaulted on his or her federal student loan. Compensation must be structured so that guarantors emphasize Loan Rehabilitation as the preferred method for reinstating the good standing of borrowers' loans.
- To benefit both the Department and the borrower, PHEAA requests that the Secretary waive the requirement dictating that loans can be rehabilitated only once. Permitting a borrower to access Loan Rehabilitation multiple times is an additional incentive for borrowers to make payment in order to return their loans to good standing. Allowing subsequent rehabilitations is in the best interest of the borrower and holds the promise of reducing the costs of loan defaults to the Department.
- Between 1995 and 2010, 83 percent of PHEAA-guaranteed borrowers successfully completing Loan Rehabilitation have not re-defaulted. This highlights the success of those borrowers who take advantage of Loan Rehabilitation.

Borrower Payments and Garnishments: [redacted] percent of the total amount collected

- The proposed fee is less than the fees that will be paid to the Department's third-party collection vendors for Direct Loans effective October 1, 2011.
- Establishing a borrower on a regular repayment schedule is a critical first step to improving that borrower's financial health and putting the borrower on the path to rehabilitation, thus, a lower fee is warranted to incent collectors to work toward rehabilitation for the borrower.
- Points awarded in accordance with PHEAA's performance metrics could be used to reward best performers with increased retention percentages.

Conversion to Federal Direct Consolidation: [redacted] percent of principal and interest

- The proposed fee is less than the percentage currently paid for this type of collection, and significantly less than the percentage proposed to be paid for Loan Rehabilitations.
- Federal Direct Consolidation may be the best or only option for the borrowers who cannot meet the requirements of Loan Rehabilitation. Federal Direct Consolidation provides these borrowers with a second chance at successful repayment.

Proposal for Performance-based Pricing Structure for Default Aversion Activities (GA Responsibility Area II)

The proposed pricing model is based on successfully curing delinquent student loans and returning the borrowers to good standing.

Default Aversion: [redacted] per cash cure and [redacted] per paper cure

- The proposed fee deviates from the current statutory Default Aversion Fee model to be more aligned with market prices and encourage investment in default aversion efforts to minimize loan defaults.
- The proposed pricing model emphasizes cash cures, which are a more desirable outcome than paper cures for the Secretary and the borrower, as the borrower's balance is reduced, resulting in less interest accruing going forward and enhancing the ability of the borrower to pay off the loan in the future.
- In the event of subsequent delinquencies, PHEAA believes it is in the best interest of both the Department of Education and the borrower to allow payment, under this same schedule for cures accomplished after subsequent periods of loan delinquency. This is consistent with the ultimate goals of assuring that the borrower avoids the consequences – and the Secretary avoids the costs – of loan default.

Proposal for a Revised Loan Maintenance Fee

Loan Maintenance Fee: [redacted] percent of original loan principal in "good standing"

Under the proposed VFA model, PHEAA will continue to be responsible for essential activities not directly related to collections or default aversion. Therefore, PHEAA is proposing that the Secretary pay a

Loan Maintenance Fee (LMF) at [redacted] of the rate of the current statutory Account Maintenance Fee and payable on a smaller proportion of the total guaranteed portfolio. This LMF, would be computed as [redacted] percent of the original principal outstanding of loans in “good standing” (i.e., non-delinquent, non-defaulted loans), instead of the current payment of .06 percent original principal outstanding for all loans. This proposed fee would help offset the costs of performing the following functions which are essential to PHEAA fulfilling its obligations to the Secretary:

- Maintenance of loan records, including enrollment updates, address updates, etc.
- Conversions of loans between systems.
- Accurately tracking the transfer of loans between lenders and servicers.
- NSLDS reporting and reconciliation.
- Audits and reviews as required in accordance with the Secretary’s regulations.
- Financial reporting to the Department and reconciliation.
- System maintenance, including ensuring compliance with federal regulations and federal guidance.
- Ongoing support of the Common Data Formats.
- Staff training.

Impact of PHEAA’s Performance-based Pricing Structure

Table 5 below summarizes the changes between the current payment method with the proposed payment method.

Table 5. Comparison of the Current Payment Method to Proposed Payment Method

Current Payment Method		Proposed Payment Method	
Account Maintenance	6 basis points based on original principal outstanding	**Loan Maintenance**	[redacted] basis point based on original principal outstanding on loans in good standing (non-delinquent, non-defaulted loans)
Collections	Borrower Payments/Garnishments 16% of total amount collected	**Collections**	Borrower Payments/Garnishments [redacted] of total amount collected
	Rehabilitation Collections 18.5% of principal, 100% of interest, and collection costs up to 18.5% of principal and interest		Rehabilitation Collections [redacted] of principal, [redacted]% of interest, and collection costs up to 18.5% of principal and interest
	Federal Direct Consolidation Collection costs up to 18.5% of principal and interest with the Department of Education retaining the first 8.5% of principal and interest.		Federal Direct Consolidation [redacted] of the principal and interest
Default Aversion	1% of principal and interest when default assistance is requested for the first time less 1% of principal and interest at the time of default if the loan subsequently defaults.	**Default Aversion**	[redacted] for a cash cure (or cancel) [redacted] for a paper cure (or cancel)

As illustrated in Table 6, PHEAA's proposed pricing structure could produce nearly [redacted] million in annual federal costs savings for guaranty agency services under GA Responsibility Areas I and II.

Table 6. Current Pricing Structure Compared to Proposed Pricing Structure for Entire Industry

		Current Model		Proposed Model	
	Basis	Revenue ($)	Effective Rate	Revenue ($)	Effective Rate
Collections					
Regular Payments	697,488,486	111,598,158	16.0%	[redacted]	[redacted]
Wage Garnishments	634,751,287	101,560,206	16.0%	[redacted]	[redacted]
Rehabilitated Loans	2,910,703,491	934,335,821	32.1%	[redacted]	[redacted]
Federal Direct Consolidation	2,008,805,990	166,730,897	8.3%	[redacted]	[redacted]
		1,314,225,082		[redacted]	
Default Prevention					
Default Aversion Fee	22,820,118,193	228,201,182	1.0%	-	NA
Default Aversion Fee Rebate	10,217,753,457	(102,177,535)	-1.0%	-	NA
Cash Cures	2,383,959	-	NA	[redacted]	[redacted]
Paper Cures	5,562,570	-	NA	[redacted]	[redacted]
		126,023,647		[redacted]	
Account Maintenance					
Original Principal Balance	401,974,773,217	241,184,864	0.06%	-	NA
		241,184,864		**-**	
Loan Maintenance					
Loans in Good Standing	339,963,582,476	-	NA	[redacted]	[redacted]
		-		[redacted]	
Total Federal Expenditures		**1,681,433,593**		[redacted]	
Federal Savings		**-**		[redacted]	

NOTE: The effective rates under collections for Rehabilitated Loans and Federal Direct Consolidation Loans are reflective of the pricing described above in Table 5, however since the basis was pulled from the FY2010 Guaranty Agency Recovery Totals it does not exactly reflect the basis that would be used to calculate retention on collections under PHEAA's proposed methodology. The effective rate in the table is PHEAA's best estimate of the industry's retention rate based on the basis included on the FY2010 Guaranty Agency Recovery Totals chart, and PHEAA's prior experience with collections and the application of collection costs to borrower balances.

SOURCE: Industry numbers are estimated based on a variety of sources, including but not limited to the FY 2010 Department of Education - Federal Student Aid Guaranty Agency Reinsurance Agreement Default Status report and the FY 2010 Guaranty Agency Recovery Totals report.

Appendix B illustrates the application of the proposed pricing structure to a $10 billion portfolio.

COMMON DATA FORMATS

As part of this submission, PHEAA has provided well-developed proposals for Common Data Formats. PHEAA believes that the immediate adoption of Common Data Formats, or layouts, is crucial to the successful transfer of loan guarantee information between guaranty agencies. These common layouts will be the linchpin for assuring the Secretary that the integrity of this data is fully protected during such transfers. Importantly, **these common formats will also assure borrowers, schools, lenders, and the Secretary that loan data is properly transferred and that errors do not occur in loan processing** that could be attributable to data loss or corruption at the time of transfer. PHEAA's experience and the experience of the other TIVAS during the conversion of ECASLA Loans demonstrate the necessity of establishing and enforcing the use of common layouts when large numbers of student loan records are transferred among different entities. PHEAA urges the Secretary to adopt and require, as soon as practicable, a set of common layouts for data transfer. The detailed data layouts provided in Appendix C and referenced in PHEAA's proposals for activities under GA Responsibility Area I have been thoughtfully developed by PHEAA's IT staff and build upon current, operational common data formats.

PHEAA's proposal for assigning guarantees for Claim Review, Claim Payment, and Collections is to use the Department's FFEL Assignment File Layout, currently used by guaranty agencies for subrogation. This Assignment File Record, along with a new Supplemental Data Record, will provide the information to ensure data relationship integrity, accurate NSLDS reporting, and the needed CCI Claim Review information. Optionally, an original guarantor can transmit CAM50 series records to provide CCI data for Claim Review if it is unable to provide the supplemental record as defined. Partner guarantors that cannot provide CCI data electronically in any format can submit paper submissions or imaged documents.

PHEAA also recommends the use of industry standard CAM record types to exchange data between guarantors for performing Delinquency and Default Prevention services. In this model, the original guarantor will continue to accept the DAAR as is current practice. This ensures no changes will be required for lenders or servicers. The original guarantor will then send specific CAM record types (02 and 40 series) to the guarantor performing their aversion process. In addition, PHEAA recommends that daily exchanges of updated information between the original guarantor and the aversion guarantor take place using additional CAM record types (03, 05 and 19). These data exchanges will ensure consistency and maintain data integrity between the involved guarantors.

PHEAA's proposal for Common Data Formats is summarized in Table 7 below.

Table 7. Summary of PHEAA's Common Data Formats Proposal

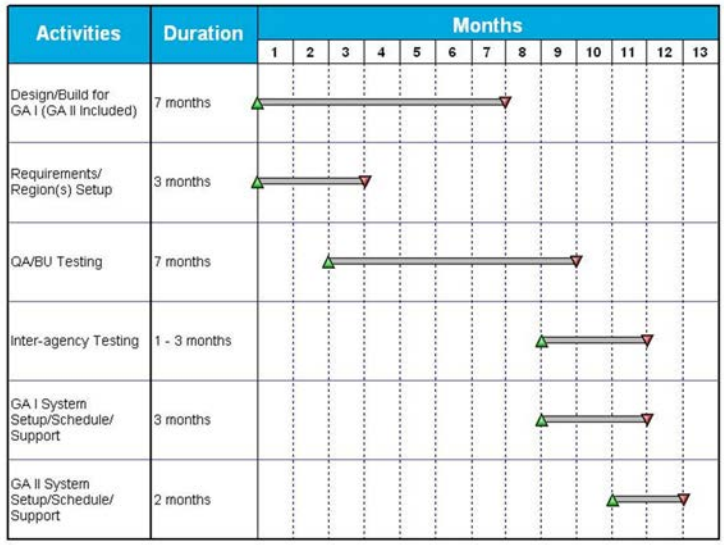
	Area I	Area II
Purpose	Accept Claims for Review, Payment, and Collection from Partner GAs	Reassign Preclaims to Partner GAs
Exchanges	Initial assignment and transfer of guarantee	Daily assignments and updates between Partner GAs
Existing	Industry standard Assignment format, CAM record types, Common Claim Form, Federal Reporting (NSLDS, Form 2000)	Industry standard CAM record types
New	GA-to-GA data exchanges (new Supplemental Data file)	GA-to-GA data exchanges (existing CAM files)

PROPOSED IMPLEMENTATION TIMELINE

Time to Delivery

PHEAA estimates an initial 7-9 month effort to design, build, and quality test the various processes specified in this document. An additional 1-3 months may be necessary for interagency testing as specified by the Department. These timelines are built on the assumption that the Common Data Formats will be adopted by PHEAA's partners and the Secretary. Changes to the proposed standards may adversely affect delivery timelines.

Figure 7. Proposed VFA Implementation Timeline



Timeline

PHEAA's Implementation Timeline to execute the proposed system and operational solutions for performance of GA Responsibility Areas I and II is summarized in Figure 7 and the accompanying Table 8. The Implementation Timeline is the sequence of activities that results in the completion of the project in the shortest period of time (critical path); all other tasks are expected to be performed parallel or within the critical path timeline.

Table 8. Critical Path

Activities	Duration
Design, Build, and Quality Test:	7 – 9 months
Production Setup & Interagency Testing with Department and/or GA Partner(s)	1 – 3 months
TOTAL PROPOSED IMPLEMENTATION TIMELINE	**8 – 12 months**

CONCLUSION

PHEAA is fully prepared to begin negotiations with the Secretary on a long-term Voluntary Flexible Agreement. As one of the largest guaranty agencies in the nation, PHEAA has the personnel, resources, systems, and infrastructure necessary to adapt to a change in the guarantor model and to implement new models that are in the best interests of borrowers, schools, lenders, and the Secretary. PHEAA proposes cost-effective solutions for all four areas of Guaranty Agency Responsibility as outlined in the May 31, 2011 Federal Register Notice.

PHEAA has the scalability, expertise, experience, personnel, and infrastructure to serve the Secretary as a top performer in collecting defaulted student loans. PHEAA can also serve as a partner in averting student loan defaults, a source of information on early college awareness and financial literacy, and a supplier of other necessary services, such as mandated program reviews and the maintenance of borrower records. In each of these areas, PHEAA has the existing capacity to absorb significant increases in volume and the resources to expand each area to meet the needs of the Secretary.

PHEAA is committed to ensuring that borrowers continue to receive consistent, high-quality customer service in their interaction with guaranty agencies under this proposal. PHEAA has identified potential partners to perform default aversion, assuring PHEAA that borrowers with loans under PHEAA's guarantee will be provided with the tools and support they need to return the loans to good standing and, most importantly, to avoid loan default**.** PHEAA is open to additional partnership arrangements that may be identified subsequent to the submission of this proposal. If the Secretary determines that PHEAA cannot perform services for both GA Responsibility Area I and II without adhering to conflict of interest guidelines, PHEAA will focus its efforts on GA Responsibility Area I.

The absence of a defined national standard for data exchanges represents a significant area of risk in implementing and sustaining a reliable, interoperable VFA structure. PHEAA's proposal includes a Common Data Format solution that should be mandated to ensure data exchanges are standard and reliable and meet the specific needs of guarantors performing diverse functions.

PHEAA has identified several items that are crucial to achieving the Secretary's goal of an orderly wind-down of FFELP operations and successful implementation of the VFA concept. Specifically, PHEAA recommends that the Secretary:

- Immediately adopt and enforce Common Data Formats to enable the seamless movement of student loan data among guarantors and ensure the integrity and protection of that data.
- Agree to a procedure for guarantors to return their Federal Reserve Funds to the Secretary and a new process for the payment of lender claims on insured loans.
- Approve appropriate partnership arrangements that are in the best interests of borrowers, schools, lenders, and the Secretary.

PHEAA looks forward to working with the Secretary and Federal Student Aid to finalize a Voluntary Flexible Agreement.

APPENDIX A: REQUEST FOR REGULATORY WAIVERS

PHEAA is requesting that the Secretary waive the following regulatory provisions to facilitate a Voluntary Flexible Agreement

GA Responsibility Area I

1. §682.401(b)(4)(v) A guaranty agency must inform the borrower that he or she may only obtain reinstatement of borrower eligibility under Loan Rehabilitation once.

   PHEAA requests a waiver of provision (v) which limits a borrower to obtaining reinstatement of borrower eligibility under this section only once. It is a significant borrower benefit to allow the borrower to rehabilitate the loan. This concept is further discussed in response to GA Responsibility Area I.

2. §682.401(b)(7) (iv) The guaranty agency may, in determining whether to enter into a guarantee agreement with a lender, consider whether the lender has had prior experience in a similar Federal, State, or private nonprofit student loan program and the amount and percentage of loans that are currently delinquent or in default under that program.

   In the case of a loan on which the guarantee transfers to PHEAA, PHEAA requests a waiver of the requirement to obtain a guarantee agreement with the lender. PHEAA will obtain a list of eligible LIDs from partner guarantors. In addition, a CAM agreement will be obtained from any lender that files claims electronically.

3. §682.401(b)(18) Except in the case of a transfer of guarantee requested by a borrower seeking a transfer to secure a single guarantor, the guaranty agency may transfer its guarantee obligation on a loan to another guaranty agency, only with the approval of the Secretary, the transferee agency, and the holder of the loan.

   PHEAA requests a waiver of the requirement for the loan holder to approve the transfer of the guarantee to ensure the division of services in GA Responsibility Areas I and II.

4. §682.401(b)(29) A guaranty agency shall establish and submit to the Secretary for approval, procedures to ensure that consolidation loans are not an excessive proportion of the guaranty agency's recoveries on defaulted loans.

   In lieu of the statutory provision, PHEAA has proposed, as part of its response to GA Responsibility Area I, compensation models and performance metrics that provide significant incentive for PHEAA to emphasize Loan Rehabilitation as the preferred form of resolution for a defaulted borrower. The existing statutory provision is redundant to these models and metrics, which PHEAA believes will be very effective and enable the Secretary to evaluate the performance of PHEAA and other guarantors.

5. §682.402 (j) Mandatory purchase by a lender of a loan subject to a bankruptcy claim. (1) The lender shall repurchase from the guaranty agency a loan held by the agency pursuant to a bankruptcy claim paid to that lender, unless the guaranty agency sells the loan to another lender, promptly after the earliest of the following events.

   PHEAA requests a waiver of the requirement for the lender to repurchase a loan pursuant to a bankruptcy claim paid to the lender. Many lenders that are no longer making FFELP loans are not interested in or able to repurchase such loans. PHEAA recommends that if the original lender does not repurchase the bankruptcy claim within 30 days, the loan be transferred to the Secretary and serviced as a federally owned FFELP loan.

Return of the Federal Reserve Fund

6. §682.401(b)(14) Guaranty liability. The guaranty agency shall guarantee— (i) 100 percent of the unpaid principal balance of each loan guaranteed for loans disbursed before October 1, 1993; (ii) Not more than 98 percent of the unpaid principal balance of each loan guaranteed for loans first disbursed

on or after October 1, 1993 and before July 1, 2006; and (iii) Not more than 97 percent of the unpaid principal balance of each loan guaranteed for loans first disbursed on or after July 1, 2006.

These provisions are inconsistent with PHEAA's proposal to return the Federal Reserve Fund to the Secretary and should be waived. PHEAA also believes that the performance-based compensation models included in this proposal are an effective substitute and provide an offset for any incentives presumed to result from these provisions.

7. §682.401(b)(15) Guaranty agency verification of default data. A guaranty agency must meet the requirements and deadlines provided for it in subpart M of 34 CFR part 668 for the cohort default rate process.

   These provisions are inconsistent with PHEAA's proposal to return the Federal Reserve Fund to the Secretary and should be waived. PHEAA also believes that the performance-based compensation models included in this proposal are an effective substitute and provide an offset for any incentives presumed to result from these provisions.

Other

8. §682.401(f)(3) The guaranty agency shall ensure that the information required by this subsection is available to the public by November 5, 2006 and is— (i) Free of charge; and (ii) Available in print.

   PHEAA requests a waiver of the requirement to make this information available in print. Due to technological advances, PHEAA believes this information is more effectively provided in electronic forms that may be downloaded and printed by schools and students.

APPENDIX B: PRICING STRUCTURE COMPARISON ($10 BILLION PORTFOLIO)

Current Pricing Structure Compared to Proposed Pricing Structure for a $10 Billion Portfolio

		Current Model		Proposed Model	
	Basis	**Revenue ($)**	**Effective Rate**	**Revenue ($)**	**Effective Rate**
Collections					
Regular Payments	17,351,549	2,776,248	16.0%	[redacted]	[redacted]
Wage Garnishments	15,790,824	2,526,532	16.0%	[redacted]	[redacted]
Rehabilitated Loans	72,410,103	23,243,643	32.1%	[redacted]	[redacted]
Federal Direct Consolidation	49,973,434	4,147,795	8.3%	[redacted]	[redacted]
		32,694,218		[redacted]	
Default Prevention					
Default Aversion Fee	567,700,257	5,677,003	1.0%	-	NA
Default Aversion Fee Rebate	254,188,923	(2,541,889)	-1.0%	-	NA
Cash Cures	59,306	-	NA	[redacted]	[redacted]
Paper Cures	138,381	-	NA	[redacted]	[redacted]
		3,135,114		[redacted]	
Account Maintenance					
Original Principal Balance	10,000,000,000	6,000,000	0.06%	-	NA
		6,000,000			
Loan Maintenance					
Loans in Good Standing	8,457,336,259	-	NA	[redacted]	[redacted]
				[redacted]	
Total Federal Expenditures		**41,829,332**		[redacted]	
Federal Savings		**-**		[redacted]	

NOTE: Guarantor Responsibility Areas I and II would be performed by different guarantors under the proposed model.

APPENDIX C: COMMON DATA FORMATS

See separate pdf document for Appendix C.