



**Business & Education
at Work for Maine**

August 1, 2011

Arne Duncan
Secretary of Education
U.S. Department of Education
400 Maryland Ave, SW
Washington, D.C. 20202

Dear Mr. Secretary,

Please accept the attached proposal in response to Federal Register Vol. 76, No. 104, regarding Voluntary Flexible Agreements (VFA). FAME will perform the functions for Areas I and III. In addition, FAME has discussed a potential partnership with American Student Assistance in which they would provide services related to Area II. Please see attached addendum.

FAME is a quasi-independent state agency that provides innovative financial solutions to help Maine people and businesses pursue educational and business opportunities. Created by the Maine Legislature in 1983, FAME develops and administers programs related to the financing of both higher education and business in the state of Maine. FAME provides extensive education outreach surrounding financial aid and literacy.

Thank you for your consideration of this proposal. We appreciate the opportunity to continue serving Maine students, borrowers and their families.

Sincerely,

A handwritten signature in blue ink, appearing to read "Elizabeth I. Bordowitz", with a stylized flourish at the end.

Elizabeth Bordowitz
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Finance Authority of Maine

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Area I

FAME will perform the activities related to Area I for its own loan portfolio. FAME will continue to partner with Sallie Mae as a third party vendor to provide these services. The partnership will have the capacity, scalability and infrastructure to process all Area I responsibilities.

Objectives

The purpose of Area I is to cost effectively manage collection efforts and to remain in the top tier of servicers performing these functions.

Activities and Services

The activities and services performed will include all functions currently provided under FAME's collection responsibilities. The scope of work will include functions such as tax offset processing, consolidation processing, rehabilitation sales, NSLDS reporting and credit dispute processing.

Rationale and Justification

FAME and its partner, Sallie Mae, have been strong performers in the collection area for many years. FAME has been ranked by the Department to be in the top tier regarding recoveries.

Implementation Plan

FAME will continue to work with its servicing partner as it does now to implement Area I activities. The partnership has proper systems and procedures in place for effective delivery of services and outcomes.

Expertise and Accomplishments

FAME will contract with Sallie Mae to provide the servicing platform. FAME has administered these activities as part of its duties as a FFELP guarantor effectively for more than 20 years. Its collection rates are among the best in the industry, and much of that success is a result of the strong partnership with Sallie Mae. While the average recovery rate in the industry was 29 percent, the average recovery rate for FAME was 43 percent.

Improved Services

Contracting with Sallie Mae allows FAME to continue in a successful and established infrastructure while identifying efficiencies and providing uninterrupted services to the borrowers in FAME's FFELP portfolio.

Performance Metrics

FAME will provide data to the Department that demonstrates it is in the top tier of servicers in Area I as measured by recovery rates and other appropriate measures.

Evaluation Method

FAME will continually review its performance for opportunities to improve effectiveness. The findings will be used to evaluate business processes and make adjustments as necessary. Department reports, internal reviews, audits and other similar resources will be used to help improve performance.

Financing Plan

Area I expenses will be paid through the funds received as a result of the collection retention process on the default portfolio. FAME proposes to reduce the amount of retention on rehabilitation loans to an amount that will allow this partnership to be revenue neutral to the Department. The collection retention for regular collections, administrative wage garnishment, and Direct Loan Consolidations will not change from the current rates.

The proposal eliminates the perceived conflicts of interest that the *Federal Register* references with respect to the current guaranty agency structure when a guaranty agency is responsible for both default prevention and default collections. FAME will either escrow or transfer the Federal Reserve Fund to ED at the time of the VFA. FAME proposes a just in time process similar to the prior approved VFAs. Through this process, the estimated amount of claims to be paid will be provided to ED for the transfer of the funds just prior to the claim payment. All claim payments would be made and reimbursed at [REDACTED] percent. Also, similar to the current supplemental process, through the month-end processing, the retention payments and claim amounts will be reconciled.

Explanation of Efficiencies

FAME is a top performer regarding loan recoveries and will continue its partnership with Sallie Mae to maintain efficiencies.

Impact on Viability

FAME will continue to monitor the performance of the VFA to assure the continued financial and operational viability of the partnership. FAME expects to remain financially and operationally viable under the proposed VFA.

Potential Limitations

The partnership has extensive scalability and will not hinder performance.

FISMA Compliance

FAME has implemented a risk based information security program using National Institute of Standards and Technology standards and best practices recommendations. The security program is designed to safeguard information and to protect and defend the organization's complete digital infrastructure. As part of a contracted relationship with the Department of Education, FAME intends to comply with all necessary security guidelines and practices for managing information security as defined in the Federal Information Security Management Act of 2002.

Sallie Mae is taking part in this ongoing compliance process and reports that the guarantor system is on schedule to obtain FISMA compliance by fall 2011.

Area II

Please see attached addendum.

Area III

FAME will perform Area III responsibilities for Maine as outlined below.

Objectives

The goal of FAME's college access and financial education outreach activities is to increase the number of Maine citizens who enroll in and complete their postsecondary education in a financially responsible manner.

To achieve this goal, programs have been created for people of all ages. Newborns have the opportunity to open a college savings account with a \$500 gift; financial education materials are available for students grades K-12 and beyond; money management information and activities are presented to middle and high school students; debt management tools are provided to college students; and non-traditional students (including foster youth, homeless students, veterans and adults) are given information and assistance to help address their specific needs.

Activities and Services

Activities to promote college access and completion include:

- Promoting financial preparedness by providing financial education to elementary school, middle school, high school, college, adult, veterans and non-traditional students;
- Participating in financial aid information sessions and workshops;
- Distributing information via paper publications, online content and activities and in-person events;
- Translating targeted financial aid and financial literacy materials for English language learners and their families;
- Providing online tools, calculators and content, such as a Maine-based scholarship search, a Maine-based college search, career interest tools, an interactive money management program, financial aid award comparison worksheets and college planning advice targeted by age.
- Encouraging eligible families to apply for state-based financial aid programs;
- Providing debt management information to college students, with a focus on at risk students;
- Providing and participating in training and professional development opportunities for school counselors, college access advisors, adult education advisors and college administrators;
- Participating in college and career fairs;
- Providing FAFSA completion assistance to students and families;
- Providing aggregate data to partner organizations to support college initiatives, particularly as it relates to FAFSA completion data;
- Partnering with colleges/universities to promote persistence and success with a focus on at-risk students;
- Promoting college aspirations and savings to all Maine families, with a focus on parents of newborns as part of the Harold Alfond College Challenge program;
- Working with employers to create/expand college savings options for employees;
- Providing a toll free number for students, families, schools and colleges/universities to call when in need of financial aid/literacy assistance.

Rationale and Research

Maine's high school graduation rate is over 80 percent; however, the number of 25 to 34 year-olds who have an associate's degree or higher is only 38 percent. In a document prepared by the U.S.

Department of Education, "Meeting the Nation's 2020 Goal", Maine's college graduate rate must increase to more than 57 percent.

Studies show that financial education and FAFSA completion are key components to students enrolling in and completing their postsecondary education.

1. Ninety percent of all high school students who complete the FAFSA enroll in college within twelve months.
Source: U.S. Department of Education, National Center for Education Statistics, Education Longitudinal Study of 2002
2. "Most low-income high-school students aren't educated, either at school or at home, about the complex finances involved in attending college. So they often choose not to go to college at all, simply because they are unable to navigate the financial-aid system and their parents cannot help them."
Source: The Chronicle for Higher Education, May 9, 2010: Financial Literacy, a Key to Success for Low-Income Students
3. "One in four low-income dependent students says they didn't apply because they missed the deadline."
Source: http://www.ticas.org/files/pub/Paving_the_Way.pdf
4. "There are two ideal venues for the delivery of financial education: schools and the workplace."
Source: <http://www.nber.org/reporter/2009number2/lusardi.html>
5. "Financial education, offered as early as middle school, can teach students about the concepts, services, and products that will help them make informed choices, avoid costly pitfalls..."
Source: The Chronicle for Higher Education, May 9, 2010: Financial Literacy, a Key to Success for Low-Income Students
6. "...those with a savings account in their name were approximately six times more likely to attend college than those with no account."
Source: <http://csd.wustl.edu/AboutUs/News/Pages/Kids-with-Savings-Accounts-in-their-name.aspx>
7. "Research has also shown that financial anxieties affect academic performance, retention, and degree attainment."
Source: Student Aid Transcript Vol. 22 No. 1 Spring 2011: Dollars and Sense

Implementation Plan

All outreach activities and services are available to all Maine citizens; however, priority will be given to low-income school districts specifically related to in-person financial aid and financial literacy information workshops. Further priority will be given to school districts with low FAFSA filing rates.

Training for school counselors, college access advisors and college/university staff will occur on a regular basis, including a one-day in-person workshop and monthly webinars.

Additional assistance will be available to colleges/universities to help create financial literacy programs in an effort to increase college persistence and completion rates. Priority will be given to institutions with the lowest graduation and highest student loan default rates.

Families will be encouraged to save for college and special emphasis will be directed to families of newborn babies so they may take advantage of a \$500 grant to open a 529 college savings account. Employers will be urged to support their employees by providing tuition assistance through contributions to a 529 account.

A student portal will be created to allow for customized student support and improved data collection and analysis. Through the portal, students can view the State of Maine financial aid opportunities available, apply for these programs and view student specific information.

Expertise and Accomplishments

The college access and financial education team currently consists of five members with more than sixty years combined financial aid experience. They are members of state, regional and national organizations related to college access, financial aid and financial education, and several have been recognized for their contributions promoting college access and financial aid by some of these same organizations:

- Maine Jump\$tart Coalition for Financial Literacy
- Eastern Association of Financial Aid Administrators
- National Association of Financial Aid Administrators
- Maine Adult Education Association
- College Goal Sunday USA
- College Access Challenge Grant Advisory Board
- Maine College Access Network

In addition, FAME has customer service representatives who provide counseling and information via telephone and e-mail. These representatives are managed by FAME's senior authority on the FFEL program and receive training by the college access and financial education team members.

Success of FAME's college access and financial education programs in AY2010-2011 is evidence by:

- Participating in 28.9 percent more events than the prior year
- An increase in attendance rates of 13.8 percent at these same events
- High school seniors filing the FAFSA by May 1 increased to 56.3 percent
- FAME's cohort default rate remaining at 6.1 percent, which is below the national average
- Over 13,000 phone calls and e-mails were received by customer service representatives
- 60 employers have created college savings plan initiatives for their employees
- 4,698 Maine babies had a 529 college savings account opened on their behalf
- Over 140,000 publications printed and distributed
- More than 50 percent of the school districts participated in a FAME education related event

Improved Services

FAME's college access and financial education initiatives will improve services to all constituencies in the FFEL program. The outreach services proposed are largely based upon services currently rendered by FAME, which already provides vast benefits to borrowers, lenders, schools and the Department of Education. Through financial literacy training commencing well before college financing decisions are

made, and continuing through financial aid counseling to students and their families on filling out the FAFSA and available scholarship and borrowing options as they approach high school graduation, borrowers are able to make better decisions when it comes to borrowing, especially in light of potential careers in which they may have interest.

FAME often helps lenders with guaranty, loan servicing and collection issues on FFEL loans prior to claims being made, aimed at improving loan delivery, minimizing claims and claim denial. In the same vein, the Department benefits because those same borrowers are less likely to default and require a claim. Colleges/universities are benefited by better cohort default rates, and by more students being informed of their borrowing options when initially enrolling, leading to higher retention rates. Moreover, FAME has historically educated school financial aid officers on Title IV issues. While FAME is currently providing most of these services outside of the VFA, the proposed VFA creates a sustainable funding model that would ensure these services continue to be delivered, and the ability to augment these services.

Performance Metrics

The success of FAME's outreach initiatives and activities will be measured by the following key performance indicators. The goal for each metric will be determined on an annual basis.

1. The percentage of high school seniors who submit the FAFSA by May 1 each year.
2. The number of Maine citizens with an associate degree or higher.
3. The number of attendees participating in workshops, trainings and other activities.

Evaluation Methods

The key performance indicators will be measured using various approaches, all of which utilize third party verifiable data.

1. ISIR data will be analyzed each year to determine the FAFSA completion rate for high school seniors.
2. The number of Maine citizens with a college degree will be monitored using data from the U.S. Census Bureau's American Community Survey.
3. Attendance information will be collected at events and used to determine actual college enrollment and graduation rates by comparing to NSLDS, student loan clearinghouse or another similar database.

Financing Plan

Savings from Area I are expected to fund these services.

Explanation of Efficiencies

Using data available on NSLDS or a similar database will provide objective data to determine the areas of the state with the highest need. Staff will be able to concentrate their time and efforts to reach the lowest performing counties, schools and colleges/universities. The programs in the highest performing areas can be replicated as a promising practice and shared with others.

Impact on Viability

FAME is a financially strong and viable organization and manages over \$6.0 billion in assets. The organization maintains a healthy cash flow and balance sheet to accomplish its business and education missions. A primary goal is to invest cash flow back into programs and services that support Maine

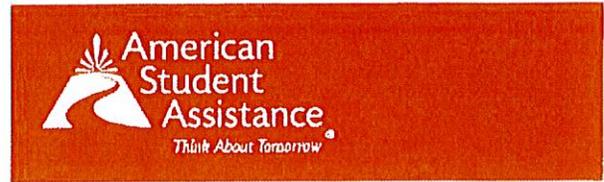
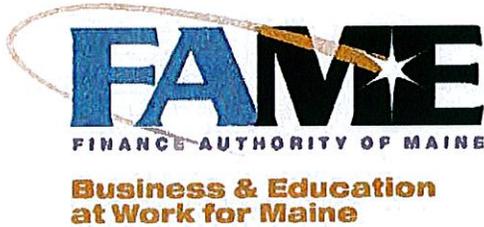
citizens. Much of FAME's revenue is generated through fee income and investment earnings from a wide range of business and education programs. This revenue is used to cover operating expenses and to provide new resources for initiatives such as grant programs, subsidized loan programs, financial literacy and outreach. In this proposal, the focus is on Area III only and FAME will stop providing services in the other areas. As part of this proposal FAME will return the Federal Reserve Fund to the Department of Education and no longer be responsible for any loan services and loan losses. The fee for service for Area III combined with other revenues sources will allow FAME to fulfill its mission to reach Maine citizens as soon as they are born (The Harold Alfond College Challenge) and continue well into adult life.

Potential Limitations

FAME currently delivers its Area III services beyond its existing portfolio. Its financial literacy efforts are directed to all school-aged children in Maine, and its financial aid counseling efforts are directed to all college bound students in Maine, whether or not they ultimately borrow under FFELP. FAME responds to loan servicing issues raised by any citizen of Maine with a FFELP loan or any non-resident attending a Maine educational institution with a FFELP loan. FAME has occasionally guaranteed loans outside its Maine services area, on a limited basis. Its core mission is to assist Maine borrowers, but there is no statutory limitation on providing services to others outside Maine. A VFA requiring FAME to provide services outside Maine would require approval of its board of directors, a process that would not be expected to exceed 2 months. It is anticipated that some benefit to the Agency or to Maine students, families or businesses would be a critical component to approval.

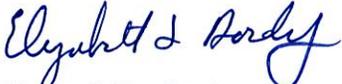
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VFA PROPOSAL ADDENDUM
August 1, 2011

The Finance Authority of Maine (FAME) and American Student Assistance (ASA) have discussed a partnership that would enable FAME and ASA to enter into a more comprehensive Voluntary Flexible Agreement with the Secretary. Contingent upon agreement of the parties and the approval of the Secretary, ASA would assume responsibility for the services under Guaranty Agency Responsibility Area II, for loans currently guaranteed by FAME or by ASA. FAME would assume responsibility for the services under Guaranty Agency Responsibility Area III for the state of Maine and ASA would assume Area III responsibilities for both Massachusetts and the District of Columbia. Another component of this potential partnership arrangement may include FAME undertaking Responsibility Area I services for its Maine portfolio only. Both agencies would provide services in accordance with the compensation schedule and performance metrics described in their individual proposals as submitted to the Secretary. All other portions of the responses to the Federal Register Notice provided by FAME and ASA remain unchanged. ASA and FAME will work with the Department of Education to ensure proper implementation of the arrangements, to ensure the greatest efficiency and cost savings, and to protect the interests of the lender, while providing the highest quality of service.


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Finance Authority of Maine


Paul Combe
President and Chief Executive Officer
American Student Assistance