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Ms. Diane McLaughlin  
U.S. Department of Education  
Room 101J2  
830 First Street, NE  
Washington, DC 20002

Sent Via E-Mail

Dear Ms. McLaughlin:

Enclosed you will find the Voluntary Flexible Agreement proposal for the Student Loan Guarantee Foundation of Arkansas. The enclosed proposal outlines how partnering with the Northwest Education Loan Association will leverage our knowledge, experience and skill to gain efficiencies and improve the localized support to students, families, schools and lenders in our area of service.

My contact information is listed below:

Ronnie Nichoalds  
Executive Director  
SLGFA  
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I look forward to working with the U.S. Department of Education to develop a plan that will meet the goals as outlined in the *Federal Register* notice dated May 31, 2011.

Sincerely,

Ronnie Nichoalds  
Executive Director

Attachments

cc: Carl Dalstrom, President and CEO, United Student Aid Funds



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August 1, 2011

Mr. Arne Duncan, Secretary  
U.S. Department of Education  
LBJ Department of Education Building  
400 Maryland Ave, SW  
Washington, DC 20202

Sent Via E-Mail

Dear Secretary Duncan:

The Student Loan Guarantee Foundation of Arkansas, a private, non-profit organization, is pleased to submit a proposal to enter into a Voluntary Flexible Agreement with the Secretary of Education, as authorized by section 428A of the Higher Education Act of 1965, as amended, and as announced in the *Federal Register* notice dated May 31, 2011.

The enclosed proposal outlines how partnering with the Northwest Education Loan Association will leverage our knowledge, experience and skill to gain efficiencies and improve the localized support to students, families, schools and lenders in our area of service.

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I look forward to the opportunity of working together as we develop a plan that will meet the goals as outlined in the *Federal Register*.

Sincerely,

Ronnie Nichoalds  
Executive Director

Attachments

cc: Carl Dalstrom, President and CEO, United Student Aid Funds

# **Student Loan Guarantee Foundation of Arkansas Voluntary Flexible Agreement Proposal August 1, 2011**

The Student Loan Guarantee Foundation of Arkansas (SLGFA) proposes to serve as Guaranty Agency Responsibility Area (GARA) II – Delinquency and Default Prevention and Management guarantor under the Voluntary Flexible Agreement (VFA) solicitation published in the *Federal Register* on May 31, 2011. SLGFA is a private, non-profit organization with over 44 years of experience in administering the Federal Family Education Loan Program (FFELP).

SLGFA proposes to serve as a **Level One Partner** providing **GARA II** activities as outlined in the VFA proposal submitted by the Northwest Education Loan Association (NELA). In exchange, NELA will perform GARA I activities for SLGFA as outlined in the NELA VFA proposal.

SLGFA will continue to perform GARA III - Community Outreach, Financial Literacy and Debt Management, School Training and Assistance, and School Oversight, as well as, GARA IV- Lender and Lender Servicer Oversight for SLGFA's area of service.

## **Proposed Funding Changes/Fees:**

See the NELA proposal for proposed funding changes/fees.

## **GA Responsibility Area II (Delinquency and Default Prevention and Management)**

### **Expertise and Capacity**

SLGFA and NELA utilize the same guarantor servicing system and third-party guarantor servicer for managing our respective portfolios of defaulted loans, which will make for a smooth transition of accounts and provide uninterrupted service to both SLGFA and NELA borrowers. Our staff is proficient in the use of the guarantor servicing system as well as its subsystems.

SLGFA's default prevention staff is knowledgeable of the laws and regulations that affect FFELP borrowers as well as laws related to the Fair Debt Collection Practices Act (FDCPA). SLGFA utilizes the Borrower Pursuit System (BPS), a highly sophisticated application designed to assist Default Prevention Counselors in finding solutions for delinquent borrowers. BPS is a user-friendly system, designed to enhance the accuracy and efficiency of call documentation. BPS retrieves specific data necessary for the default prevention process using a Windows operating system.

BPS users can counsel borrowers concerning their options, enter information about payment(s) a borrower intends to make, qualify a borrower for a deferment or forbearance and document action(s) a borrower has already taken. BPS supports the sending of regular mail and e-mail directly to the borrower. SLGFA employees receive extensive training on BPS and how to best utilize the system for optimal borrower contact.

The BPS system is also utilized by SLGFA Default Prevention Support staff to update borrower account and borrower demographic information.

During the last two fiscal years, SLGFA has seen a steady increase in our default aversion satisfactory resolution rate, also known as the SAT rate or cure rate. In FY 2010 our SAT rate was [REDACTED], and we are on track for FY 2011 to have a SAT rate that equals or exceeds [REDACTED] SLGFA has and will continue to take steps to increase our SAT rate on an incremental basis in order to equal or exceed NELA's current SAT rate. SLGFA will monitor our rate on a quarterly basis to ensure we are on target to meet our stated objective, which is to increase our SAT rate by 7% - 10%.

SLGFA will immediately implement the Activities listed in Objective 2, Attachment A, to increase our SAT rate and to document the effectiveness of the stated activities.

SLGFA will continue to monitor our default aversion activities on a weekly, monthly, quarterly and annual basis using system-generated reports to ensure that we continue to maintain and improve our default aversion SAT rate.

The NELA VFA proposal references the late stage default aversion activities currently performed by their third-party servicer. In 1997, SLGFA developed a comparable program called Project Restore. Project Restore targets borrowers for whom a claim has been filed. In addition to normal attempted counseling, additional phone counseling is directed toward these borrowers.

Upon receipt of a Notice of Default, a dedicated counselor contacts borrowers to offer them one last opportunity to avoid default. SLGFA has experienced great success with this program. Since the inception of Project Restore, SLGFA has averted more than [REDACTED] from default. In FY 2010, SLGFA's lender claim recall rate was [REDACTED] SLGFA will continue to make late stage default aversion a part of our overall default prevention plan for both the SLGFA and NELA portfolios. We are confident that our efforts in Project Restore, along with our activities listed in Attachment A, will ensure that we attain a SAT rate that equals or exceeds NELA's rate.

The other activities that SLGFA will perform on behalf of the NELA portfolio include account maintenance activities such as borrower status management and all federal reporting associated with the transferred portfolio. As stated earlier in this proposal, SLGFA and NELA utilize the same guarantor servicing system. SLGFA staff is proficient on the guarantor servicing system which will prove beneficial to borrowers as well as both SLGFA and NELA.

For a list of GARA II objectives, activities and outcomes, please see Attachment A.

### **Federal Information Security Management Act of 2002 (FISMA) Compliance**

SLGFA is in the process of finalizing its Written Information Security Plan (WISP). SLGFA's security plan contains security and control policies for all areas within SLGFA's internal operations. The plan allows SLGFA to coordinate security with third-party service providers as it relates to Personally Identifiable Information (PII). The SLGFA WISP task force administers and ensures adherence to all policies, procedures and guidelines related to information security including Privacy Incident Response Team (PIRT), Business Continuity Program (BCP) and Disaster Recovery (DR) efforts at SLGFA.

The WISP task force was created by the Executive Director of SLGFA. All policies, procedures, and guidelines outlined in the WISP document are approved by SLGFA's senior management, executive management, legal counsel and the Board of Directors.

SLGFA requires annual training to ensure all employees are aware of their security responsibilities. All SLGFA employees are provided with information regarding company policies and procedures. All SLGFA employees are required to review these policies and procedures and certify compliance with data protection and system security for SLGFA resources.

Systems, processes, and data at SLGFA have been identified and categorized using criteria established by the standards set forth in, but not limited to, FIPS publication 199 of the E-Government Act of 2002 (Public Law 107-347). Each item is designated either as a physical system, an established process, or set of data (electronic or paper). In addition to the type of designation, each item is ranked on its security risk of loss of confidentiality, integrity and/or availability. The rankings are listed as "High"- (H), "Moderate"- (M), and "Low"- (L). These rankings are based on the type of data, availability of data, and/or the transit state of data.

Upon completion of a self assessment, gaps and risks will be identified. A Plan of Action and Milestone (POAM) approach will be utilized to measure progress in eradicating the gaps and mitigating the risks. The steady progression associated with using this type of approach will result in FISMA compliance being achieved within a reasonable time frame.

SLGFA is currently working with our third-party guarantor servicer, as referenced in the NELA VFA proposal's FISMA Compliance Section, to ensure our guarantor system and subsystems meet all of the requirements as outlined in the law.

### **GA Responsibility Area III (Community Outreach, Financial Literacy and Debt Management, School Training Assistance, and Oversight)**

Below is an overview of the activities for GARA III. For a list of GARA III objectives, activities and outcomes, please see Attachment B.

#### **Debt Management**

SLGFA partners with several organizations and conducts a number of activities to fulfill the requirements as outlined in GARA III. One of our current partners is Mapping Your Future (MYF).

As a sponsor of Mapping Your Future, we are able to offer a multitude of high quality debt management tools for schools in our service area in a cost-effective manner. Students and schools have access to the following free counseling tools: financial literacy, loan management, grace period, repayment, and student loan counseling. These tools are offered online and are accessible anytime.

The products and services provided by Mapping Your Future include:

- Financial literacy counseling and money management tools
- Student loan default prevention information and services
- Online Counseling
- Counseling and Online Education powered by Mapping Your Future
- Online training and presentations powered by Mapping Your Future
- Guide to Life after High School

- Show Me The Future®
- Career exploration information and services
- Information on saving and paying for college
- A Spanish version of the site

SLGFA will work with Mapping Your Future to develop methods to analyze and determine the impact of counseling on student behaviors and attitudes.

Because student data is collected during the counseling programs, information can be collected to track the impact of counseling and determine the effectiveness of the counseling programs. The data may also be used, when combined with other sources of information (and as allowable), in longitudinal studies of student college completion and success. Any measurements that are developed will be integrated so that the process is seamless for the student.

SLGFA implemented Early and Late Stage Delinquency Activities for schools in 2008. Through the Early and Late Stage Delinquency Activities project, on a monthly basis schools are provided with letters in an electronic format, which they may mail to the delinquent borrowers. The letters provide information on school letterhead that informs the borrower of options to avoid default, consequences of default, name and number for the borrower's loan holder, and contact information (phone and e-mail) for the SLGFA Default Prevention Department. Additionally, schools receive a monthly report used to initiate a calling campaign at the school level. Thirteen of the thirty-nine schools participating in the program experienced an average 3.31% reduction in their cohort default rate from FY 2007 to FY 2008.

SLGFA is conducting a debt management pilot program with community colleges in our area of service. The goal of the pilot program is to positively affect the cohort default rate for both the schools and SLGFA. SLGFA provides the following services for these schools:

- SLGFA produces and mails a series of customized letters throughout the delinquency period that becomes increasingly stern as the borrower gets closer to default. The letters provide information on school letterhead that informs the borrower of options to avoid default, consequences of default, name and number for the loan holder, and contact information (phone and e-mail) for the SLGFA Default Prevention Department. Additionally, these schools receive a monthly report used to initiate a calling campaign at the school level.
- SLGFA has a designated default prevention counselor that works specifically with the school's delinquent borrowers. The goal is to have the borrower contacted by different entities – the lender/servicer, SLGFA and the school. Increased borrower contact equates to greater default aversion.
- SLGFA provides early assistance to those borrowers who have withdrawn or graduated or whose deferment or forbearance is scheduled to end within 30 days. Letter and phone campaigns are conducted to contact borrowers to inform them of their many options before they enter into or return to repayment. SLGFA will monitor these borrowers to ascertain if these campaigns had a positive effect on their repayment history.

- SLGFA will monitor and provide schools with an estimated cohort default rate calculation on a monthly basis (based on SLGFA guarantees).

The first school entered the pilot in May 2011, and as a result of our letter and call campaigns, the school's projected cohort default rate has decreased by [REDACTED]

SLGFA understands the importance of providing schools with effective and cost-efficient tools to develop a comprehensive debt management plan for their campus. SLGFA developed a toolkit for financial aid professionals entitled, "The ABC's of Debt Management". The toolkit, which resides on the SLGFA Web site, includes ideas and initiatives for all areas of the school's campus. These user-friendly resources will assist schools to promote debt management as a campus-wide initiative.

### **Community Outreach and Financial Literacy**

SLGFA uses a variety of resources and activities to assist middle and high school counselors in providing information for their students on college access, scholarships and financial aid. These resources and activities include, but are not limited to, our Web site, which contains links to scholarship search sites and other financial aid information, and financial aid presentations for students and their parents conducted by trained SLGFA staff members. SLGFA will be introducing a new tool for high school counselors entitled, "Counselor's Puzzle Solving Toolkit". This toolkit is designed to provide counselors with helpful hints for conducting and promoting a financial aid event on their campuses.

Mapping Your Future's, "Guide to Life after High School" is an important outreach and college preparation tool for high school students, which SLGFA will promote to high schools in our area of service. The guide offers opportunities to track student behavior and attitude changes. "Guide to Life After High School" offers counselors and educators an innovative way to meet the challenge of helping students plan for the future and deal with issues that they face while in high school.

There are four different versions of the guide, one for each year of high school:

- Guide to Life after High School: Freshman Year
- Guide to Life after High School: Sophomore Year
- Guide to Life after High School: Junior Year
- Guide to Life after High School: Senior Year

The freshman guide focuses more on choosing a career and preparing for college (academic and financial), with only an overview of financial aid. The senior guide contains more details about financial aid programs and application procedures. All guides include age-appropriate financial literacy information.

SLGFA will work with Mapping Your Future to develop methods to analyze and determine the impact the Guide had on student behaviors and attitudes.

## Other Outreach Activities

SLGFA also collaborates with Pulaski County Youth Services (PCYS) and the Arkansas Credit Union League (ACUL). Through these two organizations, we offer financial literacy training to both students and teachers.

SLGFA partners with Pulaski County Youth Services by teaching a one-week, half-day financial literacy camp known as "Youthonomics: Investing in Your Future" that is open to students in the 7<sup>th</sup> through 12<sup>th</sup> grades. The program includes topics on credit, savings, financial planning, and identity theft. On the last day of the program, participants demonstrate their knowledge by participating in an interactive simulation game that mirrors adult financial decisions.

SLGFA also participates in the ACT Prep Program sponsored by PCYS. The program provides 10<sup>th</sup> through 12<sup>th</sup> grade students with test-taking strategies as well as intense training on the four ACT subject areas: math, reading, English, and science reasoning. In an effort to expose youth to institutions of higher education, training sessions are typically held at local universities. SLGFA conducts a financial aid presentation at the end of the program, providing information on the availability of federal and state financial aid and how to apply for aid using the FAFSA and the state application process.

Through our partnership with ACUL, we are indirectly partnering with the National Endowment for Financial Education (NEFE) to offer the nationally known NEFE High School Financial Planning Program® (HSFPP). The HSFPP consists of a seven unit student manual, instructor's guide, and a dynamic suite of Web pages that offer a large, continually growing collection of resources, articles, and financial tools for teachers, students, and parents. The program guides students to take action to increase their financial IQ and is linked to education standards in all 50 states. The program is flexible and easy to use and is available at no cost to teachers or students.

The NEFE HSFPP was designed and developed around a special type of education called *performance-based learning*. With performance-based learning, students take what they learn and apply it directly in the course of each unit. Carefully designed exercises and activities move the student step-by-step toward each of the seven core competencies that the program teaches.

Because the program covers such an important aspect of every person's life, the program encourages teachers to help bring learning out of the classroom by involving parents with specially scripted e-mail messages and inviting financial professionals to meet with students to help broaden and deepen their understanding of each subject in the program.

The NEFE High School Financial Planning Program was developed by teachers and financial professionals who know how to move students from knowledge to positive actions that will help them begin their financial lives on the right foot.

Through our partnership with these organizations, SLGFA will develop an outcome measurement system that produces quality data to demonstrate the level of participant knowledge and behavioral changes.

### **School Training and Assistance and School Oversight**

SLGFA offers a variety of training modules to educate schools in our area of service in the administration of Title IV student aid programs. SLGFA has a highly-skilled and knowledgeable training staff that has extensive experience in administering Title IV student aid programs. On-site training will be conducted on a quarterly basis or upon request by a school. SLGFA can conduct one-on-one training for school personnel and/or conduct an assessment of the schools' policies and procedures to ensure compliance with Title IV student aid regulations.

SLGFA will continue to conduct mandated comprehensive program reviews for schools located in our service area as outlined in 34 CFR 682.410(c).

Additionally, SLGFA provides regulatory guidance to schools via e-mail and phone calls. We will monitor the types of questions received to determine future training and/or to determine if a school is experiencing difficulty in the administration of Title IV student aid programs. Upon such a determination, SLGFA will offer to assist the school through one-on-one training for staff or by conducting an assessment of the school's policies and procedures.

For a list of our GARA III objectives, activities and outcomes, please see Attachment B.

### **GA Responsibility Area IV – Lender and Lender Servicer Oversight**

SLGFA will conduct mandated comprehensive program reviews for lenders and lender servicers in our area of service as outlined in 34 CFR 682.410(c). SLGFA supports the continuation of the Common Review Initiative (CRI). We believe CRI provides the proper checks and balances that will alleviate the conflict of interest concerns expressed in the *Federal Register*, dated May 31, 2011. Please see Attachment C.

## **Attachment A**

### **GA Responsibility Area II (Delinquency and Default Prevention and Management)**

#### **Objective 1 for Default Prevention**

To continue to utilize Project Restore to complement SLGFA's default prevention efforts to increase our SAT resolution rate for the SLGFA and NELA portfolios

##### Activities for Objective 1

SLGFA will:

- Maintain and improve our current claim recall rate of [REDACTED]
- Develop procedures for communication of proper data elements between NELA and SLGFA
- Provide training for Project Restore staff on various consumer laws to ensure compliance standards are being met
- Conduct additional call and letter campaigns to targeted borrowers to satisfactorily resolve the delinquency

##### Outcome for Objective 1

The SAT rate will continue to improve as a result of the additional activities of the Project Restore staff.

#### **Objective 2 for Default Prevention**

Incrementally increase the SAT rate by 7% to 10% during the defined VFA time frame

##### Activities for Objective 2

To increase borrower contact for the SLGFA and NELA portfolios, SLGFA will:

- Expand office hours to accommodate different time zones
- Track and analyze calling times to determine best results of contact times
- Track and analyze borrower behaviors that may negatively impact borrower contact
- Explore and utilize commercial skip tracing tools to locate borrowers with an invalid mailing address, phone number or e-mail address
- Explore and utilize current technology as allowed by law to augment borrower contact
- Increase the number of SAT resolutions that utilize payments and deferrals by continuing to counsel borrowers on the advantages of selecting the appropriate repayment or deferral plan while utilizing forbearance as a last resort
- Restructure our account assignment plan to base assignments on three criteria: (1) dollar amount of the account; (2) days of delinquency of the account; and (3) counselor performance
- Track and analyze our SAT rate on a quarterly basis to ensure we are on target to meet our stated objective

Outcome for Objective 2

SLGFA will develop reports which will reflect SLGFA's SAT performance and will provide such reports as required by the Secretary.

**Objective 3 for Default Prevention**

Increase the SAT rate by an average of 4.5% for each default prevention counselor by the end of the defined VFA time frame

Activities for Objective 3

SLGFA will:

- Monitor and track weekly and monthly SAT rate reports by default prevention counselors to determine progress toward the stated objective
- Provide additional training for counselors not on track to meet the stated objective

Outcome for Objective 3

SLGFA's SAT rate will reflect an average increase of 4.5% for each default prevention counselor by the end of the defined VFA time frame.

## **Attachment B**

### **GA Responsibility Area III (Community Outreach, Financial Literacy and Debt Management, School Training and Assistance, and Oversight)**

#### **COMMUNITY OUTREACH**

##### **Objective 1 for Community Outreach**

Partner with area high schools that serve a high population of African-American, Hispanic or low-income students to increase their college-going rate by 5% over a four-year period

##### Activities for Objective 1

SLGFA will:

- Promote the use of Mapping Your Future's "Life After High School Guide"
- Assist students on campus in searching for scholarships, completing the FAFSA and state aid applications
- Develop a speakers' bureau comprised of educated and successful community individuals that schools may utilize for student assemblies

##### Outcome for Objective 1

SLGFA will annually survey students, counselors and teachers to rate the effectiveness of the Guide, assistance provided to students, and the speakers' bureau.

#### **FINANCIAL LITERACY**

##### **Objective 1 for Financial Literacy**

Promote the utilization of the National Endowment for Financial Education's (NEFE) High School Financial Planning Program® (HSFPP) curriculum in middle and high school classrooms through participation in the "Train the Trainer" workshops

##### Activities for Objective 1

SLGFA will:

- Provide "Train the Trainer" workshops on an annual basis
- Offer continuing education units (CEU's) to all certified participants

##### Outcome for Objective 1

At the end of the academic year, SLGFA will survey attendees to determine if 20% of those participating in the "Train the Trainer" workshops utilized the materials and resources in teaching financial literacy in their classrooms. Additionally, the survey results will be used to determine the amount of increase in their students' knowledge of financial literacy skills.

## **Objective 2 for Financial Literacy**

Increase involvement in college TRIO programs in our area of service to enhance the knowledge of their students in the areas of financial literacy skills and college access

### Activities for Objective 2

SLGFA will:

- Promote financial literacy and college access services through the Arkansas Association of Student Assistance Programs and campus TRIO directors
- Conduct presentations and provide resource materials to support financial literacy and college access

### Outcome for Objective 2

SLGFA will annually survey TRIO personnel and students to determine the effectiveness of SLGFA's financial literacy and college access resources.

## **Objective 3 for Financial Literacy**

Increase the use of financial literacy counseling for student loan borrowers by 10% on college campuses in our area of service

### Activities for Objective 3

SLGFA will:

- Promote the use of tools provided by Mapping Your Future (MYF), National Endowment for Financial Education (NEFE) or other cost-effective tools
- Offer assistance to schools in planning financial literacy activities

### Outcome for Objective 3

SLGFA will establish and use measures that analyze and determine the impact of effective financial literacy counseling on student behaviors and attitudes.

## **DEBT MANAGEMENT**

### **Objective 1 for Debt Management**

Identify colleges in our area of service whose cohort default rate exceeds 10% and partner with them to reduce the cohort default rate by an average of 2%

### Activities for Objective 1

SLGFA will assist schools in developing a comprehensive debt management plan by providing them with the following resources:

- Monthly Early and Late Stage Delinquency letters and reports

- Training for financial aid staff on developing a call campaign for their delinquent borrowers
- Assistance in analyzing their cohort default rate data to identify trends and at-risk students

Outcome for Objective 1

Schools who partner with SLGFA will experience a reduction in their cohort default rates as a result of utilizing SLGFA resources.

**SCHOOL TRAINING AND ASSISTANCE AND SCHOOL OVERSIGHT**

**Objective 1 for School Training and Assistance and School Oversight**

Assist schools in our area of service in training their staff in the administration of the Title IV student aid programs by providing them with self-directed training modules via our Web site

Activities for Objective 1

SLGFA will:

- Develop user-friendly training modules for schools to utilize to train staff in the administration of Title IV student aid programs
- Make training materials available in an electronic format via SLGFA's Web site

Outcome for Objective 1

SLGFA will survey financial aid staff to determine the level of effectiveness and usefulness of the training modules.

**Objective 2 for School Training and Assistance and School Oversight**

Enhance the regulatory knowledge and expertise of financial aid professionals in our area of service

Activities for Objective 2

SLGFA will:

- Provide on-site Title IV student aid training on a quarterly basis to enhance the general regulatory knowledge and expertise of financial aid professionals
- Support the Arkansas Association of Student Financial Aid Administrators by actively participating in committees, conferences and training efforts

Outcome for Objective 2

SLGFA will develop and utilize a post-assessment tool that measures the knowledge and expertise level of financial aid training participants.

### **Objective 3 for School Training and Assistance and School Oversight**

Assist schools in the proper administration of Title IV student aid programs

#### Activities for Objective 3

SLGFA will:

- Conduct an assessment at the request of the school of the school's policies and procedures to determine that compliance standards are being met

#### Outcome for Objective 3

A 3 month follow-up will show that schools have improved their administration of Title IV student aid programs.

### **Objective 4 for School Training and Assistance and School Oversight**

Continue to conduct mandated comprehensive program reviews for schools located in our area of service as outlined in 34 CFR 682.410(c)

#### Activities for Objective 4

SLGFA will:

- Follow current procedures for selecting schools for review
- Follow established policies and procedures for conducting the reviews

#### Outcome for Objective 4

SLGFA will follow up with the school within 6 months of the close of the review to determine if noted deficiencies have been corrected.

## Attachment C

### GA Responsibility Area IV – Lender and Lender Servicer Oversight

SLGFA's Voluntary Flexible Agreement (VFA) application proposes the continuation and enhancement of the Common Review Initiative (CRI), which we believe provides and should continue to provide the most effective and efficient means to conduct lender and lender servicer oversight. All thirty-two guaranty agencies currently participate in CRI. CRI provides a system for guaranty agencies to fulfill their lender and lender servicer oversight responsibilities as set forth in 34 CFR 682.410(c)(1)(i) without a duplication of services.

CRI already embodies the principles Federal Student Aid (FSA) is attempting to accomplish through the VFA initiative – scale, efficiency and avoidance of potential conflicts. CRI was initiated in January 2004 following interim approval by FSA. The CRI process continues to improve and was given a permanent approval status by FSA on December 21, 2007.

CRI is governed by the CRI Council, which meets monthly via teleconference. Through these calls, FSA officials may be actively involved in the administration and oversight of CRI by actively participating in the monthly calls. Through this process, 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).

This request enhanced 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 assisted FSA with the 2008-2009 review and reconciliation). FSA has worked with the CRI Council to develop mutually agreeable measures of CRI effectiveness, also consistent with the VFA Notice.

While we recognize that the VFA Notice states that a guaranty agency that assumes responsibility for GA Responsibility Area I may not assume responsibility for lender and lender servicer oversight, we believe the structure of CRI addresses the concerns about potential conflicts of interest. As stated, FSA has been and will remain fully involved in setting the CRI agenda and its operating rules and procedures.

CRI Reviews are conducted by a team of well-trained and highly-skilled individuals from multiple guaranty agencies. No single agency is responsible for an individual review. This eliminates the potential for conflicts of interest.

Generally, a CRI work team conducts a desk audit followed by an on-site review. The number of desk reviewers varies depending on the size of the review and the number of lender ID's involved. Usually six individuals from different agencies comprise the on-site team. No more than two members of the on-site team represent a single agency. Additionally, the team lead and co-lead cannot represent the same organization. All reports, after review by a quality assurance team, are provided to FSA.

In 2007, FSA stated that, "CRI reduces the review redundancy and improves the quality of reviews." As the FFEL Program transitions and loan servicing becomes more concentrated at a reduced number of servicers, an opportunity exists to make the process even more efficient by focusing reviews at the servicer level. The CRI Council's participation with the lender and

lender servicer oversight portion of the VFA Notice enhances the possibility for expansion of the categories of reviews that are conducted.

Replacing CRI with another process would not enhance the effectiveness or efficiency of lender and lender servicer oversight. The current CRI system has FSA approval and already produces the efficiencies being sought through the VFA process. That is why we propose that each VFA, including ours, 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; our costs are funded from general revenues. The true cost for our performance of Responsibility Area IV through continuation of CRI and other required activities needs to be properly compensated through the VFA.