July 26, 2011

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

Sent Via Email to: vfateam@ed.gov

SUBJECT: Voluntary Flexible Agreements - 2011

Dear Ms. McLaughlin & Team,

We are pleased to provide the Department of Education with the proposal included with this cover letter. New Mexico Student Loan Guarantee Corporation (NMSLGC) has identified Pennsylvania Higher Education Assistance Agency (PHEAA) as a partner that will enable NMSLGC to properly implement its Voluntary Flexible Agreement with the Secretary. Please see Addendum for signatures. In this regard and with the approval of the Secretary, NMSLGC will assume responsibility for the services under Responsibility Area II for loans currently guaranteed by PHEAA and by NMSLGC, and PHEAA would assume responsibility for the services under Responsibility Area I on these loans. Both agencies intend to 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 NMSLGC and PHEAA remain unchanged. NMSLGC and PHEAA will work with the Department of Education to ensure proper transfer of the relevant portfolios from one organization to the other, to ensure the greatest efficiency and cost savings, and to protect the interests of the lender, while providing the highest quality of service.

The New Mexico Student Loan Guarantee Corporation (NMSLGC) has a waiver granted by the Department of Education in 1988 which allows the New Mexico Educational Assistance Foundation (NMEAF) to retain delinquent accounts beyond the 360/450th day of delinquency if the lender is actively pursuing collection litigation. A litigated account must have the litigation actively pursued with gaps of no more than ninety (90) days. The litigation process commences when a Summons and Complaint is endorsed by the court. The litigation process terminates when either of the following occurs: [1] The account is paid in full through voluntary repayment or enforced repayment through the litigation process; or [2] the lender, acting in accordance with this policy, has not been able to reduce the delinquency of the account below 270 days and submits the account for default.

Given this unusual activity, NMSLGC wishes to have a dialogue with the Department to determine the future course of this program as it pertains to the VFA.

As requested in the Federal Register Notice of May 31, 2011 the following individual will be our contact person for this project:

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Thank you for your assistance in this matter. We look forward to your response and future discussions with the Department about our proposal.

Elwood G. Farber
President
NM Student Loan Guarantee Corporation

EXECUTIVE SUMMARY

The New Mexico Student Loan Guarantee Corporation (NMSLGC) is a private non-profit organization created by the New Mexico Legislature in 1981. NMSLGC functions as a guarantor of student loans to provide educational opportunities to students of post-secondary educational institutions. NMSLGC is focused on providing assistance to lenders to prevent default; review and pay lender claims and collect on loans for which default claims have been paid. For 30 years, NMSLGC has maintained a strong relationship with our borrowers, participating educational institutions and lender partners. NMSLGC is positioned to continue performing these activities and expand nationwide to increase volume in GA Responsibility Areas II.

Over the years, NMSLGC has proven its performance in default aversion efforts with low cohort rates. Currently, NMSLGC's cohort default rate is 5.6 percent, which is below the national average of 7.2 percent. NMSLGC partners with New Mexico institutions by providing assistance and information so that default rates can be minimized.

NMSLGC's Trigger Figure Rate has historically been below 5%.

NMSLGC is recommending the following structure for a Voluntary Flexible Agreement arrangement with the Department of Education:

I. Collections, Lender Claim Review and Payments
PHEAA will perform this function on loans guaranteed by NMSLGC that default after the effective date of the VFA.
II. Delinquency and Default Prevention
NMSLGC will perform this function for PHEAA guaranteed FFELP portfolio. NMSLGC is open to negotiate with ED fees that would allow NMSLGC to perform this function for Direct Loan Program (DLP) loans.
III. Outreach, Financial Literacy, Debt Management, School Training Assistance and Oversight
NMSLGC will continue to perform the Outreach, Financial Literacy, and Debt Management activities for New Mexico public and private higher education institutions, and students attending these institutions. NMSLGC is open to negotiate with ED fees that would allow NMSLGC to perform this function for Direct Loan Program (DLP) loans.
IV. Lender and Lender Servicer Oversight
We propose using the current Common Review Initiative to meet this initiative.

NMSLGC will return all balances in the Federal Reserve Fund to the Department of Education. Currently Federal Reserve Fund money is used to pay lender claims and to compensate the guaranty agency for default aversion activities. Under this proposal NMSLGC will negotiate with ED to structure timely claim payments to lenders and for payment of the proposed default aversion fees.

FISMA COMPLIANCE
NMSLGC currently uses for all its guarantor functions and responsibilities, the Pennsylvania Higher Education Assistance Agency's (PHEAA) OneLINK system. FedLoan Servicing (PHEAA) is an FSA TIVAS and has been certified by the Department as FISMA compliant. Preparations for NMSLGC's internal infrastructure FISMA compliance are currently underway and are projected to be completed and ready for a certification review simultaneous with the review for the New Mexico Education Assistance Foundation as a contract servicer for direct loans in early 2013.

CAPACITY AND SCALABILITY
NMSLGC has the expertise and capacity to develop and implement cost-saving default prevention and outreach services to expand both regionally and nationally. The use of PHEAA's OneLINK system will enable NMSLGC to increase volume.
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GA Responsibility Area I – Lender Claims Review, Lender Claims Payment, and Collections Narrative

NMSLGC proposes that PHEAA would assume responsibility for services under GA Responsibility Area I on loans guaranteed by NMSLGC that default after the effective date of the VFA or by PHEAA. NMSLGC will retain the collection responsibilities on its default loan portfolio as of the date established during VFA negotiations with ED.

IMPLEMENTATION PLAN
NMSLGC currently uses for all its guarantor functions and responsibilities, the PHEAA OneLINK system. No significant implementation plan is necessary for PHEAA to service NMSLGC's guaranteed and defaulted portfolio because of the shared system; however, NMSLGC would need to work with PHEAA on programming changes. Items of discussion with PHEAA need to address:

- Access to NMSLGC data on existing guaranteed and defaulted portfolio
- Statistical reporting requirements for lenders and guarantor
- The exchange of data, correspondence and processes between the partners

GA Responsibility Area II – Delinquency and Default Prevention and Management Narrative

NMSLGC proposes to perform the activities associated with the GA Responsibility Area II on loans assigned from our partner agency.

NMSLGC works closely with the lenders and postsecondary institutions to provide guidance to help borrowers avoid defaulting on their student loans. NMSLGC staff makes every effort to make contact with the borrower to offer assistance and provide information that can facilitate resolution of the account. NMSLGC default aversion specialists offer borrowers advice and a range of solutions in an attempt to prevent student loan defaults.

As a result of default aversion efforts, NMSLGC's cohort default rate is 5.6 percent, which is below the national average of 7.2 percent. NMSLGC will participate with New Mexico and the guarantor partner's service area institutions by providing assistance and information so that default rates can be minimized.

NMSLGC developed, designed and deployed the moneymatters.nmslgc.org website which pulls together fundamental knowledge on topics including budgeting, identity theft, credit, banking and investing in education. The content was created to help students successfully navigate through various financial decisions.

The NMSLGC's objectives for the GA Responsibility Area II are:

- Contact and counsel to inform borrowers on solutions available to prevent default, remind them of the terms of their promissory note and the consequences of default.
- Maintain high level of performance for customer satisfaction

ACTIVITIES

Objective 1

- Perform activities to resolve delinquency
  - Call Campaigns
  - E-mail Campaigns
  - Progressive letter campaigns
  - Borrower support website to provide delinquency guidance and payment solutions

Objective 2

- On-line and email satisfaction surveys

OUTCOMES

Objective 1

- Reduction of delinquent accounts
- Aid in the minimization of cohort rates

Objective 2

- Survey the number of borrowers contacted to evaluate their level of service satisfaction

IMPLEMENTATION PLAN

NMSLGC currently performs the default aversion activities on its guaranteed FFELP portfolio. No significant implementation plan is necessary to service the partner guarantor's portfolio because of the shared system; however, NMSLGC would need to work with PHEAA on programming changes. Items of discussion with PHEAA need to address:

- Access to data on existing and new pre-claim borrower
- Access to any expanded tools to locate or counsel borrowers on delinquent debt
- Testing plan for file transmission between agencies of new pre-claim data
- Statistical reporting requirements for lenders and guarantor
- The exchange of data, correspondence and processes between the partners

PERFORMANCE MEASURES

Objective 1

- Service Tracking Measurements:
  - Track number of default aversion assistance requests for new or re-occurring requests
  - Track number of calls, emails and letters to determine cure rate of averted defaults
  - Provide the cure rate
  - Work with guarantor partner to provide two-year and three-year projected rates by school
  - Track number of Web Hits [Web Analytics Reporting]

Objective 2

- Customer Satisfaction Ratings – on-line or email surveys

FINANCING PLAN

NMSLGC proposes a cost of [redacted] per borrower per month for the default aversion services described above.

EXPANSION LIMITATIONS OR TIMING CONSTRAINTS

NMSLGC is capable of performing default prevention activities regionally and with modification, can expand nationally. PHEAA will need to perform system changes to accommodate VFA guidelines. Once negotiations are complete and necessary changes are identified, deadlines for these changes can be established.

GA Responsibility Area III – Community Outreach Program, Financial Literacy Narrative

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NMSLGC dba New Mexico Student Loans (NMSL) is the #1 outreach program in New Mexico. NMSL representatives interacted with more than 40,000 New Mexicans in the 2010-2011 school year. NMSL maintains vital partnerships with college financial aid and recruitment personnel at all New Mexico postsecondary institutions that offer Federal student aid. NMSL is in a partnership – a statewide college access consortium that includes non-profits and governmental agencies – to help increase college preparedness and graduation rates.

Outreach representatives coordinate with high school counselors to provide and customize financial aid workshops, college fairs, parent information sessions, and one-on-one assistance in completing the Free Application for Federal Student Aid (FAFSA). Outreach representatives also provide training to New Mexico Elementary, Secondary and Postsecondary Educators and Students.

NMSL's objective for GA Responsibility Area III is:

- Promote financial literacy to educate and support low income, first-generation, underrepresented students and their families and educators in New Mexico that would not otherwise receive web or in-person information about postsecondary education benefits and opportunities, planning and career preparation; financing options; debt management; and the preparation for completing the Free Application for Federal Student Aid (FAFSA)

ACTIVITIES

- Web Services
  - Financial Literacy Website
  - Interactive Tutorials and Videos
  - Electronic Library Downloads
  - Email Services
    - Activity Reminders
    - News Feeds (Newsletter)
  - Self Help Tools (Q&A)
  - Activities Calendar
  - Knowledge Sharing Blog
  - On-line Surveys

- Collateral Services
  - Publications – Bilingual (English & Spanish)
    - Financial Literacy Guide
    - Financial Aid Handbook
    - FSA Materials
    - Posters, Bookmarks, Flyers, etc.

- In-Person Assistance
  - Workshops that include Audience Participation Activities
    - College Prep
    - Financial Aid
    - Financial Literacy
    - FAFSA Completion
    - Career Exploration
    - Debt Management
  - Toll-Free Line Service
  - Email Support Service
  - Chat Support Service
- Professional Training for Students and Educators

OUTCOME

- Increased public knowledge on financial literacy as it pertains to the attainability and affordability for college access
- Increases college preparedness and graduation rates.

IMPLEMENTATION PLAN

NMSLGC dba NMSL currently performs the activities listed above for FFELP portfolio, therefore; no significant implementation plan is necessary. NMSLGC dba NMSL has already completed the changes to all collateral materials in English and Spanish to include information about Direct Loan program.

PERFORMANCE MEASURES

- Service Tracking Measurements:
  - Provide the number of graduating high school seniors
  - Provide cost per graduating high school senior

- Number of Phone calls serviced
- Number of E-mails serviced
- Number of Web Hits
- Number of Chat sessions
- Number of in-person student interactions at events
- Number of publications distributed
- Number of students parents, schools and educators served in New Mexico
- Customer Satisfaction Ratings

▪ In order to provide accurate measurements, FSA must provide NMSL access to FSA data:
  - Number of low-income students using National School Lunch Free & Reduced Program
  - Number of students who complete and submit FAFSA
  - Number of student who compare institutions before selecting college and academic program
  - Number of students who compare financial aid awards before selecting college and academic program

FINANCING PLAN

[redacted] per graduating high school senior due to the large rural area of New Mexico that have little or no access to web services.
As there are no longer new originations in FFELP the financial literacy and outreach services will mainly be provided to potential Direct Lending borrowers. As of today, the current revenue structure can fund these activities. Revenues generated from GA Responsibility Area I and II will decline as FFELP portfolios decline. Continuation of these activities is subject to a fee negotiated with ED.

EXPANSION LIMITATIONS OR TIMING CONSTRAINTS
Through this VFA proposal, NMSLGC dba NMSL will enhance the Community Outreach and Financial Literacy programs by implementing new web service features which will complement our existing one-on-one and group counseling for students and their families. Program features will include various interactive support technologies. NMSLGC is positioned to perform these responsibilities nationwide.

GA Responsibility Area IV – Lender and Lender Servicer Oversight

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). Our VFA application proposes continuation and enhancement of the Common Review Initiative, which we believe 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 we recognize 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, we believe 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. We believe 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 LID'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." We question whether replacing CRI with another process will continue these goals, or result in any greater effectiveness or efficiency. This is particularly true given that we assume 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 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.

VFA PROPOSAL ADDENDUM
August 1, 2011

New Mexico Student Loan Guarantee Corporation (NMSLGC) has identified Pennsylvania Higher Education Assistance Agency (PHEAA) as a partner that will enable NMSLGC to properly implement its Voluntary Flexible Agreement with the Secretary. In this regard and with the approval of the Secretary, NMSLGC will assume responsibility for the services under Responsibility Area II, for loans currently guaranteed by PHEAA or by NMSLGC, and PHEAA will assume responsibility for the services under Responsibility Area I for these loans. Both agencies intend to 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 PHEAA and NMSLGC remain unchanged. NMSLGC and PHEAA will work with the Department of Education to ensure proper transfer of the relevant portfolios from one organization to the other, to ensure the greatest efficiency and cost savings, and to protect the interests of the lender, while providing the highest quality of service.

James L Preston

Elwood G. Farber	James L. Preston
President	President and Chief Executive Officer
New Mexico Student Loan Guarantee Corporation	Pennsylvania Higher Education Assistance Agency