



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

Re: VFA Proposal – 2011

Dear Ms. McLaughlin:

Thank you for the invitation to submit proposals to participate in a Voluntary Flexible Agreement (VFA). Northwest Education Loan Association (NELA) appreciates that the U.S. Department of Education (Department) is supporting a continued viable role for guarantors in the administration of the Title IV programs and through the wind-down of the Federal Family Education Loan (FFEL) Program. NELA proposes to serve as a Guaranty Agency Responsibility Area (GARA) I (Lender Claims Review, Lender Claims Payment, and Collections) guarantor under the VFA solicitation published in the Federal Register on May 31, 2011. Our written proposal, which we understand to be nonbinding, is attached for your review.

NELA has identified three different levels of partnering opportunities with other potential guarantor partners under a consortium as follows:

- **Level One Partner** – Under this arrangement, NELA will receive all claims from the Level One Partner and perform the activities for GARA I, while the Level One Partner will receive NELA's outstanding non-claim portfolio and perform all servicing activities required under regulation through the point of claim filing, as applicable. The Level One Partner will also continue to perform GARAs II, III and IV for its existing non-claim portfolio. The equivalent of GARA III and GARA IV responsibilities for NELA's portfolio will be performed by USA Funds.
- **Level Two Partner** - Under this arrangement, NELA will perform the responsibilities under GARA I for the Level Two Partner. The Level Two Partner will maintain the responsibilities for GARA II, III and IV for its existing portfolio through the wind-down, but will not assume these responsibilities for NELA's portfolio (as noted above, these responsibilities will be handled by the Level One Partner and USA Funds). The Level Two Partner could also be selected to provide GARA II or IV services for potential Level Three Partners within the consortium.
- **Level Three Partner** - This partner will be a guarantor that desires only to provide functions described in GARA III within the Federal Register through the FFEL Program wind-down. The Level Three Partner will transfer its defaulted loan portfolio to NELA and will transfer its non-claim portfolio to either the Level One or Level Two Partner within the consortium for servicing. This type of arrangement may be desirable to a particular guarantor that wants to cease its FFEL Program loan responsibilities, but continue to engage in the services enumerated under GARA III.

NORTHWEST EDUCATION LOAN ASSOCIATION.

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Because of the relatively small size of NELA's outstanding non-claim loan portfolio, we believe it will be neither cost-effective nor prudent to split NELA's portfolio among multiple guarantors; therefore, NELA proposes to have a single Level One Partner. NELA is aware of two separate guarantors that have expressed interest in becoming NELA's Level One Partner; the Oklahoma College Assistance Program (OCAP) and the Student Loan Guarantee Foundation of Arkansas (SLGFA). Their respective proposals are provided under separate cover submitted by those agencies. It is our intention to finalize the selection of the Level One Partner prior to formal negotiations with the Department on a VFA.

The number of potential Level Two Partners within our proposed VFA consortium will vary based on the sizes of the individual portfolios, while the number of potential Level Three Partners is unlimited.

NELA is an affiliate of USA Funds, and under the non-profit lexicon, USA Funds is the sole member of NELA. Under this structure, USA Funds today provides all operating functions for NELA in meeting the equivalent of responsibilities under GARA IV (Lender and Lender Servicer Oversight) and GARA III (Community Outreach, Financial Literacy and Debt Management, School Training and Assistance, and School Oversight). We propose that those activities remain with USA Funds outside the VFA framework outlined in the Federal Register to avoid introducing inefficiencies and unnecessary costs to the Department. We note that the Federal Register expresses concerns about the potential conflict of interest for a guarantor in performing GARA I and IV activities; however, we respectfully disagree with this perception based on the current lender oversight environment under the Common Review Initiative (CRI). The CRI is a pre-existing consortium of guarantors for conducting lender and lender-servicer compliance reviews, and we recommend that the consortium continue throughout the FFEL Program wind-down and be addressed outside of the VFA construct proposed in the Federal Register.

NELA is well positioned to serve in the capacity of a GARA I guarantor, having annually ranked in the top ten in collection recoveries as calculated by the Department since 2005. Because of its affiliation with USA Funds, NELA has the necessary scale to negotiate favorable terms with its collection vendors, which will in turn generate additional savings to the Department. For more information regarding the enclosed proposal, please contact Greg Ayers at the following address:

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Thank you in advance for considering our proposal. We look forward to discussing our proposal with you in more detail.

Sincerely,



Karen DeVilla  
Executive Director

## **Northwest Education Loan Association Voluntary Flexible Agreement Proposal**

Northwest Education Loan Association (NELA) proposes to serve as a Guaranty Agency Responsibility Area (GARA) I (Lender Claims Review, Lender Claims Payment, and Collections) guarantor under the Voluntary Flexible Agreement (VFA) solicitation published in the Federal Register on May 31, 2011. NELA is an affiliate of USA Funds, and under the non-profit lexicon, USA Funds is the sole member of NELA. NELA is well-positioned to serve in this capacity, having annually ranked in the top ten in collection recoveries as calculated by the U.S. Department of Education (the Department) since 2005. NELA currently utilizes a third-party servicer for managing its portfolio of defaulted student loans, and will continue that relationship under the VFA. That relationship, along with its affiliation with USA Funds that began in December 2004, has resulted in outstanding performance in the collection of defaulted student loans. Attachment A provides a summary of NELA's performance in collections recoveries for fiscal years 2003 through 2010, which shows the dramatic improvement in collection rates since the affiliation with USA Funds and the use of our third-party servicer.

NELA desires to work with a consortium of guarantors to satisfy all of the Guaranty Agency Responsibility Areas described in the Federal Register notice. Our proposal envisions three different potential partnering opportunities with other guarantor partners as follows:

- **Level One Partner** – Under this arrangement, NELA would receive all claims from the Level One Partner and perform the activities for GARA I, while the Level One Partner will receive NELA's outstanding non-claim portfolio and perform all servicing activities required under regulation through the point of claim filing, as applicable. The Level One Partner will also continue to perform GARAs II, III and IV for its existing non-claim portfolio. GARA III and GARA IV responsibilities for NELA's portfolio will be performed by USA Funds.
- **Level Two Partner** - Under this arrangement, NELA will perform the responsibilities under GARA I for the Level Two Partner. The Level Two Partner will maintain the responsibilities for GARA II, III and IV for its existing portfolio through the wind-down, but will not assume these responsibilities for NELA's portfolio (as noted above, these responsibilities will be handled by the Level One Partner and USA Funds). The Level Two Partner could also be selected to provide GARA II or IV services for potential Level Three Partners within the consortium.
- **Level Three Partner** - This partner would be a guarantor that desires only to provide the functions described in GARA III within the Federal Register through the FFEL Program wind-down. The Level Three Partner will transfer its defaulted loan portfolio to NELA

and will transfer its non-claim portfolio to either the Level One or Level Two Partner within the consortium for servicing. This type of arrangement may be desirable to a particular guarantor that wants to cease its FFEL Program loan responsibilities, but continue to engage in the services enumerated under GARA III.

Because of the relatively small size of NELA's outstanding non-claim loan portfolio, it will not be cost-effective to split its portfolio among multiple guarantors; therefore, NELA proposes to have a single Level One Partner. NELA is currently in negotiations with two separate Level One Partner applicants, the Oklahoma College Assistance Program (OCAP) and the Student Loan Guarantee Foundation of Arkansas (SLGFA). Their respective proposals are being sent to the Department under separate cover. It is our intention to complete the selection of the Level One Partner prior to beginning formal negotiations with the Department.

The number of Level Two Partners within the consortium will need to vary based on the sizes of the individual portfolios, while the number of Level Three Partners will be unlimited.

One of the goals outlined in the Federal Register is to ensure guarantors are assigned responsibility areas where they have demonstrated competency in performing the activities associated with the applicable responsibility area. To that end, the Level One Partner must be able to demonstrate that its default aversion activities will ultimately meet or exceed NELA's current cure rate for default resolution in order to be selected as the Level One Partner. NELA has experienced great success over the past several years in successfully averting defaults. Attachment B illustrates our past success. NELA, through its third-party servicer, also performs late stage default aversion activities after the claim is filed. These late stage default aversion efforts have historically resulted in an average claim recall rate by the lender of at least 7% of claims filed for review and purchase. NELA desires its selected Level One Partner to have a similar late-stage delinquency program to maintain this standard.

As noted earlier, NELA is an affiliate of USA Funds. Under this structure, USA Funds today provides all operating functions for NELA in meeting its responsibilities under GARA IV (Lender and Lender Servicer Oversight) and for all required activities under GARA III (Community Outreach, Financial Literacy and Debt Management, School Training and Assistance, and School Oversight). We intend that those activities remain with USA Funds outside the VFA framework outlined in the Federal Register to avoid introducing inefficiencies and unnecessary costs.

We note that the Federal Register expresses concerns about the potential conflict of interest for a guarantor in performing GARA I and IV activities; however, we respectfully disagree with this perception based on the current lender oversight environment under the Common Review

Initiative (CRI). The CRI is a pre-existing consortium of guarantors for conducting lender and lender-servicer compliance reviews, and we recommend that the consortium continue throughout the FFEL Program wind-down and be addressed outside of the VFA construct proposed in the Federal Register. The fees that are listed within our proposal will include the costs associated with continuing the CRI. Rationale for this recommended course is provided in Attachment C. Should the Department not accept the continuance of the CRI outside of the VFA construct, the Level One Partner will assume GARA IV responsibilities for NELA.

The roles of each of the partners within the consortium are enumerated in the following pages of the proposal.

## **NELA – GARA I:**

NELA will perform the following activities under the consortium:

- Review and pay all claims for each consortium partner.
- Perform transfers for all active defaulted loans currently held by the consortium partners and perform all collections-related services on those loans.
- Transfer NELA's outstanding portfolio of non-claim loans to the Level One Partner for all pre-claim guarantor servicing-related activities.
- For rehabilitated loans, transfer applicable loans from NELA to the partner from which the original claim was filed and paid.
- Perform all federal reporting requirements (NSLDS, Forms 2000, etc.) for all loan guarantees transferred to NELA.

## **Objectives and Success Measurements:**

Maximizing revenue to the federal Treasury is the ultimate success metric for GARA I. As Attachment A indicates, NELA's total annual recovery rate since 2005 has been in the top echelon as compared to other guarantors in the FFEL Program. NELA's current target is to maintain recoveries via loan consolidation at no more than 40% of total recoveries and to emphasize loan rehabilitation as the preferred recovery method. Each of these objectives and metrics will continue under the VFA.

To ensure compliance by collection agency vendors performing recovery efforts on defaulted loans, each vendor will be subject to an annual program review conducted by USA Funds on behalf of NELA. The annual program review will test compliance with all current regulations governing student loan collections along with other relevant laws such as the Fair Debt Collections Practices Act (FDCPA). To incent our vendors' performance, current and future placements to vendors, along with collection bonuses, will continue to be based both on

collection rates and the compliance score from each of the vendor's program reviews. Through its third-party servicer, NELA will continue to have a dedicated call center staff to serve defaulted borrowers in resolving any issues related to their defaulted loans.

Regarding claim review and processing metrics, NELA will strive to work with its Level One Partner to ensure maintenance of the 7% lender recall rate on claim-filed loans by continuing late stage default aversion activities after the claim has been filed. All claims will be reviewed and paid, as applicable, in accordance with existing regulations.

**Proposed Funding Changes/Fees:**

As the GARA I guarantor, NELA will review and pay all eligible claims filed by consortium partners. The additional costs associated with reviewing and paying claims from partner guarantors will be factored into the proposed fees for collection retention rather than introducing a separate fee.

Because NELA's portfolio of non-claim loans will be transferred to the Level One Partner, NELA will no longer receive AMF for the loans in its current portfolio. A portion of the [REDACTED] AMF savings will be used to fund the activities assumed by the Level One Partner for the guarantor servicing requirements during both delinquent and non-delinquent periods on the NELA-transferred loans, and any remaining savings will be shared by the other partners within the consortium based on the activities each of those partners will perform. Similarly, because NELA will no longer perform default aversion activities on its portfolio, the default aversion fees that would be paid under the current guarantor funding model will be used to fund the Level One Partner's default aversion activities.

Additional fee restructuring is proposed for loan rehabilitation to provide additional savings that will be allotted to the other partners in the consortium. To cover the costs associated with the transfer of loans from partnering guarantors for claim payment and collections, the default collections retention retained by NELA for the first [REDACTED] recovered via loan rehabilitation will be in accordance with existing statute (Secretary's equitable share is equal to 81.5% of the loan principal of the loans being rehabilitated). After reaching the [REDACTED] threshold, we propose to increase the Secretary's equitable share on loan rehabilitations from 81.5% of the rehabilitated loan's principal balance to [REDACTED] of the principal balance less any discount in excess of [REDACTED] needed to secure a purchasing lender.

Under the VFA, NELA will no longer have default prevention responsibility, and the consortium guarantors will have no collections responsibility. Therefore, the Federal Reserve Fund serves no real function other than potentially being a clearing account for claim payments and collections. As a result, the VFA proposes the following structural changes to the Federal

Reserve Fund, reinsurance payment and refunding of the Secretary's equitable share of collections.

- All claims are reinsured at [REDACTED]
- Claim payments will be funded by the Department via a just-in-time voucher system. A week prior to the claim purchase, NELA will provide to the Department an estimated claim purchase amount. The Department will fund to a clearing account (which could be the current Federal Reserve Fund as noted below) the weekly claim buy prior to the "buy" date. NELA will issue claim payments to the lenders from the clearing account.
- The Department's share of default collections will be deposited within 48 hours into the clearing account, and on a monthly basis this account will be reconciled and any balance owed to the Department will be transferred.
- Disposition of the FRF for all VFA consortium guarantors: The FRF will no longer be required to support the VFA guarantors' FFEL Program loan responsibilities and will be placed in escrow, and used as the VFA clearing account.

### **FISMA Compliance:**

NELA has developed and implemented a plan to ensure our internal FFELP operations, systems, and internal networks are FISMA compliant. In addition, we are working closely with our third-party guarantor servicer to implement the necessary enhancements to the guarantor servicing systems and operations so as to be FISMA compliant. We have internal staff dedicated to the implementation and ongoing maintenance, monitoring, testing and reporting activities associated with FISMA. In addition, we are currently acquiring and implementing software and hardware tools to automate the requisite monitoring and reporting processes. Further, we are securing contracts with third-party information-security vendors to provide additional monitoring, incident response, and validation/audit services. We anticipate requesting Authority To Operate (ATO) status from the Department by October 1, 2011 for both NELA and our third-party servicer.

### **Level One Partner (a single guarantor):**

A Level One Partner will transfer its existing portfolio of defaulted loans to NELA for collection services. NELA will transfer its total portfolio of outstanding, non-claim loans to the Level One Partner to not only perform the activities associated with GARA II, but also perform all required statutory and regulatory guarantor activities of the NELA non-claim loans, which would include account maintenance activities, such as borrower status management, and all federal reporting associated with the transferred portfolio. The Level One Partner would also continue to service its existing portfolio of non-claim loans. All guarantees for loans on which claims are filed will be transferred from the Level One Partner to NELA for processing. The Level One Partner could

also be selected to provide GARA II or IV services for potential Level Three Partners within the consortium. The activities of the Level One Partner are summarized below:

Level One Partner will:

- Receive a transfer of all outstanding non-defaulted loans currently guaranteed by NELA and perform all required guarantor servicing activities through the point of claim filing.
- Transfer all claims filed by lenders to NELA for claim review, payment and collections.
- Receive Account Maintenance Fees (AMF) for its existing portfolio at existing statutory levels. For loans transferred by NELA or other partner guarantors to the Level One Partner, AMF will be paid at a lesser rate.
- Perform all of the functions under GARA II, III, and IV as stated in the Federal Register for its own portfolio and perform GARA II services for the loans transferred by NELA.
- Perform all federal reporting (NSLDS, Forms 2000, etc.) for all loans transferred from NELA to the Level One Partner during the period of time that the loans are serviced by the Level One Partner.

**Objectives and Success Measurements:**

See proposals from OCAP and SLGFA for these objectives and measurements.

**Proposed Funding Changes/Fees:**

The Level One Partner would receive a reduced AMF of [REDACTED] for loans transferred from other partner guarantors to cover the servicing costs incurred on the transferred-in loans. AMF for the Level One Partner’s existing portfolio under its guarantee would continue to be paid at [REDACTED] of loans outstanding. The Level One Partner will also receive a payment for any remaining savings generated from NELA’s GARA I responsibilities.

For activities associated with Default Aversion Assistance Requests (DAARs) received from FFEL Program lenders, the current DAF will continue in addition to a new “Repeat DAF” that is proposed in the performance of the Level One Partner responsibilities. The Department will pay fees for default aversion activities as follows:

- First Time Default Aversion Assistance Requests (DAARs): A [REDACTED] Default Aversion Fee (DAF) will be paid for first-time DAARS that are received by the Level One Partner. For loans transferred from NELA or other consortium partners and for which an existing DAAR is active, the Level One Partner will receive a DAF payment of [REDACTED].

- Repeat DAARs (RDAARs): A [REDACTED] Repeat Default Aversion Fee (RDAF) will be paid on a RDAAR that is received 12 months or more after a prior DAF or RDAF payment. No RDAF is paid on DAARs that repeat within 12 months from a prior DAF/RDAF payment. The maximum number of total RDAFs paid on an account is limited to three. No RDAF will be paid on DAARs that are active on the effective date of the VFA until after 12 months have elapsed and a new RDAAR is received.

DAF Rebate Calculation:

- Default Aversion Fee Rebate (DAFR): If an account subsequently defaults, all DAF and RDAF paid to the Level One Partner will be rebated to the Department. The rebate amount will be equal to the cumulative sum of the DAF and RDAF percentage rates paid by the Department to the Level One Partner times the dollar amount (principal and interest) of the default.
- The Level One Partner will be provided an additional incentive for keeping borrowers on an active payment track and out of delinquency. If a borrower remains in an active payment status on the previous DAAR accounts for at least 24 months, i.e., the borrower stays out of delinquency for at least 24 months and was not in a deferment or forbearance status (this would be defined as at least a [REDACTED] reduction in the principal amount owed on the prior DAAR loans), the Level One Partner will receive a credit/reduction equal to one half of the total rebate rate owed if the loan later defaults.

**FISMA Compliance:**

See proposals from OCAP and SLGFA.

**Level Two Partners:**

Under this arrangement, NELA will perform the responsibilities under GARA I for the Level Two Partner. The Level Two Partner will maintain the responsibilities for GARA II, III and IV for its existing portfolio through the wind-down, but will not assume these responsibilities for NELA's portfolio (as noted above, these responsibilities will be performed by the Level One Partner and USA Funds). The Level Two Partner will receive a portion of the remaining savings generated from NELA's GARA I activities. The Level Two Partner could also be selected to provide GARA II services for potential Level Three Partners within the consortium. The number of potential partners under this arrangement will vary based on the sizes of the individual portfolios.

## **Objectives and Success Measurements:**

(To be provided by Level Two Partners)

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

A Level Two Partner will receive a reduced AMF of [REDACTED] for loans transferred from other Level Three Partners to cover the servicing costs incurred on the transferred-in loans. AMF for a Level Two Partner's existing portfolio under its guarantee will continue to be paid at [REDACTED] of loans outstanding.

For activities associated with Default Aversion Assistance Requests (DAARs) received from FFEL Program lenders, the current DAF provided for in regulation will continue in addition to a new Repeat DAF that is proposed in the performance of a Level Two Partner responsibilities.

The Department will pay fees for default aversion activities as follows:

- First Time Default Aversion Assistance Requests (DAARs): A [REDACTED] Default Aversion Fee (DAF) will be paid for first time DAARS that are received by a Level Two Partner. A Level Two Partner will also be paid a [REDACTED] DAF for all loans transferred from a Level Three Partner for which an existing DAAR is currently active.
- Repeat DAARs (RDAARs): A [REDACTED] Repeat Default Aversion Fee (RDAF) will be paid on a RDAAR that is received 12 months or more after a prior DAF or RDAF payment. No RDAF is paid on DAARs that repeat within 12 months from a prior DAF/RDAF payment. The maximum number of total RDAFs paid on an account is limited to three. No RDAF will be paid on DAARs that are active on the effective date of the VFA until after 12 months have elapsed and a new RDAAR is received.

DAF Rebate Calculation:

- Default Aversion Fee Rebate (DAFR): If an account subsequently defaults, all DAF and RDAF paid to the Level Two Partner will be rebated to the Department. The rebate amount will be equal to the cumulative sum of the DAF and RDAF percentage rates paid by the Department to the Level Two Partner times the dollar amount (principal and interest) of the default.
- Level Two Partners will be provided an additional incentive for keeping borrower on an active payment track and out of delinquency. If a borrower remains in an active payment status on the previous DAAR accounts for at least 24 months, i.e., the borrower stays out

of delinquency for at least 24 months and was not in a deferment or forbearance status (this would be defined as a at least a [REDACTED] reduction in the principal amount owed on the prior DAAR loans), a Level Two Partner will receive a credit/reduction equal to one half of the total rebate rate owed if the loan later defaults.

Payment of any remaining savings generated from GARA I:

The Level One and Level Two Partners will be paid any remaining savings generated from GARA I. Remaining savings will be equal to the total GARA I savings less the [REDACTED] AMF payment made to the Level One Partner for the NELA loans outstanding, less any net DAF paid to the Level One Partner for the NELA portfolio, and less any net RDAF paid. This amount will be paid based on the Level One and Level Two Partners' outstanding defaulted loan portfolio received by NELA as of the effective date of the VFA.

### **FISMA Compliance:**

(To be provided by Level Two Partners)

### **Level Three Partners:**

Partners in this category will be those guarantors that desire only to provide the functions described in GARA III within the Federal Register through the FFEL Program wind-down. A Level Three Partner will transfer its defaulted loan portfolio to NELA and transfer its non-claim portfolio to either the Level One or a Level Two Partner within the consortium for servicing. A Level Three Partner will receive funding for the GARA III activities from the reduced AMF paid on their prior portfolio. This type of arrangement may be desirable to a particular guarantor that wants to cease its FFEL Program loan responsibilities, but continue to engage in the services enumerated under GARA III. The number of potential partners under this arrangement is unlimited.

### **Objectives and Success Measurements**

(To be proposed by Level Three Partners)

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

- Level Three Partners are limited partners and will not perform any GARA I, II or IV activities.

- These guarantors will only be providing GARA III services for a limited service area and will have no FFEL Program portfolio responsibilities.
- The fee for GARA III will be [REDACTED] times the respective Level Three Partner's outstanding FFELP portfolio that is being serviced by one of the Level One or Level Two Partners. To protect consortium guarantors with small portfolios and ensure adequate funding for the services, this fee will not be less than [REDACTED] per year.
- Level One or Level Two Partners receiving the portfolios of Level Three Partners will receive a reduced AMF of [REDACTED] on these portfolios but not less than [REDACTED] per year to cover the costs of FFELP borrower management activities for the Level Three Partners' portfolios.

### **FISMA Compliance**

(To be provided by Level Three Partners)

### **VFA Funding Structure Summary:**

Attachment D provides a high level summary of the proposed funding structure for the consortium. The fees noted within are provided only as a baseline for initial discussion between the Department and the consortium guarantors. The actual fees paid under the VFA construct will depend upon the portfolio sizes of each of the consortium guarantors and the service areas covered by each VFA agreement.

### **Closing:**

This proposal provides the following advantages:

- Consolidates collections and claims processing with a guarantor, NELA, with a record of excellent performance,
- Provides the opportunity to continue needed services to schools and students in the partners' service areas,
- Provides the opportunity to redistribute defaulted loan portfolios of guarantors who are unable to continue to manage this responsibility effectively to a guarantor with sufficient capacity, and the capability to perform the work at less cost to the taxpayers.

**Attachment A**  
**Northwest Education Loan Association (NELA)**  
**Historical Collection Recovery Statistics**

| Fiscal Year Ending | Total \$ Collected | Beginning Inventory | Recovery % | Year-end Ranking* |
|--------------------|--------------------|---------------------|------------|-------------------|
| 2003               | \$47,594,562       | \$283,057,780       | 16.81      | 34th              |
| 2004               | \$48,164,982       | \$231,946,736       | 20.77      | 33rd              |
| 2005               | \$85,633,902       | \$215,059,445       | 39.83      | 3rd               |
| 2006               | \$114,978,697      | \$195,189,509       | 58.91      | 1st               |
| 2007               | \$71,011,989       | \$156,672,370       | 45.33      | 3rd               |
| 2008               | \$79,195,682       | \$164,644,012       | 48.1       | 3rd               |
| 2009               | \$65,038,829       | \$189,413,786       | 34.34      | 6th               |
| 2010               | \$78,350,489       | \$223,012,004       | 35.13      | 5th               |

\* As calculated by the U.S. Department of Education







## Attachment C

### Rationale for Continuation of the Common Review Initiative

All 32 guaranty agencies currently participate in the Common Review Initiative (CRI). CRI provides 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 of the CRI structure, which we believe provides the most effective and efficient means to conduct lender and lender servicer oversight.

CRI already embodies the principles FSA is attempting to accomplish through 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 since then, and was approved by FSA on an ongoing basis on December 21, 2007, at which time FSA found that the process satisfies a guaranty agencies' obligations to review lender and servicers. FSA officials are involved in the administration of FSA. 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 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.

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 fully address the concerns about potential conflicts of interest which 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 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 aware of statutory and regulatory requirements by lender and lender servicers is partly 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 the review, thus eliminating the potential for conflicts of interest. Initially, 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 the on-site team. No more than two members of the team come from a single agency, and the lead and co-lead reviewers 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 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. This is particularly true given that we assume that not all guaranty agencies will be subject to this VFA. Unless we are authorized to continue 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 a provision allowing continuation of the Common Review Initiative, with appropriate enhancements.

## Attachment D

### NELA VFA Proposal Funding Changes

| Fee Type                                   | Current Statutory Fee  | VFA Proposed Fee |   |
|--|--|------------------|---|
|  |  | Area 1 – NELA    | Level One, Two & Three Partners   |
| Account Maintenance Fee (AMF)              | 0.06% times outstanding loans  | NA               | <p>██████ on existing portfolio</p> <p>Level One receives at least ██████</p> <p>Level Three Partners would only receive a fee equivalent to ██████ times outstanding loans in their portfolio.</p> <p>Remainder of savings is paid to the Level One and Two Partners.</p>  |
| Default Aversion Fees (DAF)                | 1.0% DAF Fee on 1 <sup>st</sup> time Default Aversion Assistance Request (DAAR) filing | NA               | <p>No change - ██████ DAF Fee on 1<sup>st</sup> time Default Aversion Assistance Request (DAAR) filing</p> <p>New - ██████ Repeat DAF paid on repeat DAAR that is received 12 months after a prior DAF or repeat DAF fee has been paid, limited to three times. No repeat DAF if DAAR filed within 12 months of successful resolution</p>   |
| Default Aversion Rebate & Rebate Incentive | 1.0% DAF rebate applied to principal and interest of default amount                    | NA               | <p>Rebate fee equal to cumulative sum of DAF and repeat DAF fee percentages previously billed under the VFA times total default claim amount</p> <p>Rebate Incentive for keeping borrowers on an active payment track and out of delinquency. If a borrower remains in an active payment status on the previous DAAR accounts for at least 24 months, i.e., the borrower stays out of delinquency for at least 24 months and was not in a deferment or forbearance status</p> |

|                                    |  |  |  |
|------------------------------------|--|--|--|
|                                    |  |  | (this would be defined as at least a [redacted] reduction in the principal amount owed on the prior DAAR loans), the Level One and Two Partner will receive a credit/reduction equal to [redacted] of the total rebate rate owed if the loan later defaults. |
| Collections Fees:                  |  |  |  |
| Cash/AWG collections               | 16% retention on payments received                         | No change  | NA   |
| Consolidation                      | 18.5%, 8.5% netted back to ED, net retention 10%           | No change  | NA   |
| Rehabilitation                     | Remits to the Secretary 81.5% of principal                 | Tiered Approach:<br>Tier 1: First [redacted] in rehabilitations per current statutory provisions;<br><br>Tier 2: Rehabilitations above [redacted], remits to the Secretary [redacted] of principal less any discount in excess of [redacted] needed to secure a purchasing lender. | NA   |
| Claim Processing Fees              | None (currently covered by AMF)                            | Covered by the retention on collections  | NA   |
| Reinsurance & Federal Reserve Fund | 100% on specialty claims, 98%/95% on default claims        | [redacted] on all claims paid along with just-in-time payment  | NA   |
|                                    | Pay claims & DAF Minimum Reserve Ratio requirement of .25% | Clearing account for receiving reinsurance and depositing Secretary's equitable share.<br>No min reserve ratio.<br>Excess reserves are returned to ED.   | NA   |