

From: Hernandez, Jana
Sent: 27 May 2014 12:01:18 -0500
To: Oknich, Mary;Walsh, Mark;Johnson, Debbe;Tessitore, Lisa;Dragoo, Janet
Subject: FW: Letter from Senator Alexander Requesting Information
Attachments: 051914 Preston to Sen. Alexander.pdf, Attachment to 051914 letter Sen. Alexander -- ACS Anomalies Spreadsheet.pdf, Attachment to 051914 letter to Sen. Alexander -- TEACH and PSLF.pdf

From: Matthew Sessa [mailto:msessa@aessuccess.org]
Sent: Tuesday, May 20, 2014 10:52 AM
To: Kang, Soo
Cc: Smith, Angie; Gibson, Karen; Hill, Katharine; Jones, Amber K.; Kane, John
Subject: Re: Letter from Senator Alexander Requesting Information
 Soo,

Attached you will find a copy of PHEAA's response to Senator Alexander's request for information on the loans transferred to PHEAA from ACS Education Solutions. If you have any questions, let me know.

Thanks, Matt

Matthew Sessa
 Vice President and Program Director, FedLoan Servicing
 PHEAA
 717.720.2248

From: "Kang, Soo" <Soo.Kang@ed.gov>
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 Cc: "Smith, Angie" <Angie.Smith@ed.gov>, "Gibson, Karen" <Karen.Gibson@ed.gov>, "Hill, Katharine" <Katharine.Hill@ed.gov>, "Jones, Amber K." <Amber.Jones@ed.gov>, "Kane, John" <John.Kane@ed.gov>
 Date: 05/06/2014 04:24 PM
 Subject: Letter from Senator Alexander Requesting Information

Dear Servicers,

I am writing today regarding a letter that you may have recently received from Senator Alexander, Ranking Member of the U.S. Senate Committee on Health, Education, Labor, and Pensions concerning the quality of loans that were transferred to you from the Direct Loan Servicer, ACS Education Solutions. Specifically, the letter requests 1) information on the number of loans transferred to you from ACS; 2) the total number of those loans with servicing anomalies; 3) a summary of the types of anomalies received, 4) a breakdown, if available, of the percent of loans categorized by each type of anomaly, 5) the amount, if any, you received in compensation for unanticipated work, and 6) copies of documentation to support the level of compensation received.

The Department often receives this type of correspondence from the Committee. Because some of you have called FSA regarding this request, we want to provide you with some information based on our experiences. As part of the Congressional oversight process, the Committee often requests specific information from us in letters similar to the one you received. We are committed to fully and accurately responding to the Committee's letters. In that spirit we encourage you to work directly with the Committee to respond to their request for information. We ask that you provide the Department with a copy of your response when it becomes available. Also, if you believe your efforts to respond in a timely matter will impact your ability to fulfill the requirements of your contract, you should contact the Committee to inform them that you will need additional time to respond. If you prefer, we will be happy to work with you, our Office of Legislation and Congressional Affairs, and the committee staff to work toward a mutually agreeable schedule.

Thank you and please feel free to contact us if you have any questions.

Soo Kang, CFCM
Executive Business Advisor
Contracting Officer

U.S. Department of Education
Federal Student Aid
202-377-3798

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Office of the President and Chief Executive Officer
1200 North Seventh Street, Harrisburg, PA 17102

May 19, 2014

The Honorable Lamar Alexander
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate
428 Senate Dirksen Office Building
Washington, D.C. 20510

Dear Senator Alexander:

In response to your letter of May 1, 2014, the Pennsylvania Higher Education Assistance Agency (PHEAA) provides the following information regarding the loans transferred to its management by the U.S. Department of Education's (ED) Office of Federal Student Assistance (FSA). The loans were transferred to PHEAA from ACS as part of PHEAA's contract with ED as a Title IV Additional Servicer (TIVAS). PHEAA conducts its operations as a TIVAS contractor under the business name "FedLoan Servicing".

PHEAA has many years of experience and success in onboarding transfers of student loans from student loan servicers. When loans are transferred to PHEAA's loan servicing system, the system performs certain edit and consistency checks to ensure that data has been transferred properly and to minimize any disruption or confusion for borrowers. PHEAA also employs a highly skilled loan conversion team to oversee loan transfers and to identify and correct errors. PHEAA used these processes during the transfer of loans from ACS to FedLoan Servicing. This enabled PHEAA to identify errors immediately upon transfer and to begin the process of correcting anomalies. Some of these corrections were necessary to ensure that the processing of the loans conformed to federal guidelines. As you are aware, many of these error corrections resulted in changes for the borrower, including, for example, increasing loan payments to ensure that loans pay off in a reasonable time, eliminating the potential for balloon payments, and the transition of borrowers from extended periods of loan forbearance to active repayment. Many of the errors identified by FedLoan Servicing were not correctable using standard automated processes and, instead, required the expenditure of significant resources to perform manual adjustments to ensure the accuracy of borrower accounts.

Below are PHEAA's responses to the specific questions included in your May 1, 2014 letter:

1. The total number of loans that were transferred to you from ACS

Since 2009, when PHEAA began servicing loans on behalf of ED, we had 8,588,090 loans for 2,343,607 borrowers transferred to us directly from ACS. The breakdown by year follows immediately below:

Year	Loans Transferred from ACS	Borrowers Transferred from ACS
2009	321,703	164,760
2010	2,026,967	794,755
2011	221	163
2012	1,026,693	232,253
2013	5,212,497	1,151,671
2014	9	5
Total	8,588,090	2,343,607

2. The total number of those loans with servicing anomalies.

Since 2009, when PHEAA began servicing loans on behalf of ED, we have identified at least 1.4 million loans transferred directly from ACS with general servicing anomalies, as detailed in the enclosed spreadsheet entitled ACS Anomalies. In addition, there are other issues, such as missing and trailing payments, that are not captured in this total.

3. A summary of the types of anomalies in the loans received, including whether an anomaly required work that was not anticipated by your contract with ED and whether each respective anomaly raised problems for borrowers and/or customer service.

The enclosed spreadsheet summarizes and defines the issues and borrower impact associated with the recognized ACS general servicing anomalies.

In addition to the general servicing transfers we received from ACS, PHEAA works under contract with ED as the sole servicer for the Federal Teacher Education Assistance for College and Higher Education (TEACH) Grant program, and the Public Service Loan Forgiveness (PSLF) Program. A separate summary of the issues associated with loans transferred from ACS and related to these two programs is enclosed with this letter.

4. A breakdown, if available, of the percent of loans categorized by each type of anomaly.

The enclosed spreadsheet includes the percentage of the loans and borrowers transferred from ACS that included a specific anomaly. These percentages are included in the last two columns of the spreadsheet.

*The Honorable Lamar Alexander
United States Senate*

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5. The amount, if any, you received in compensation for unanticipated work.

PHEAA has not yet received compensation for any manual work associated with these anomalies. FedLoan Servicing intends to apply for compensation for the work required to correct the errors associated with the items labeled "Misstated Balances" and "Missing Interest Rate Adjustments", as described in the first column of the enclosed spreadsheet. FSA has not provided permission for PHEAA to apply for compensation for any other anomalies.

6. Copies of documentation to support the level of compensation received.

To date, PHEAA has not received compensation for any manual work associated with these anomalies.

Thank you for the opportunity to provide this information. Please do not hesitate to contact Scott Miller, Director of Federal Relations, at (202) 955-0055; Matthew Sessa, FedLoan Servicing Program Director, at (717) 720-2248, or me at 717-720-2202 if you have any questions or if PHEAA can be of any further assistance.

Sincerely,

(b)(6)

James L. Preston

JLP/lag

051914 Preston to Sen. Alexander

Enclosures

ACS Anomalies

Servicing Anomaly	Overview	Unanticipated Work	Compensation	Volume & Borrower Impact	Anomaly % of ALL ACS Loans Transferred	Anomaly % of ALL ACS Borrowers Transferred
Balloon Payments	As we received transfers from ACS, we recognized an anomaly where loans/borrowers were passed to us with scheduled final payments that were so extreme as compared to the monthly payments that we commonly refer them to as 'balloon payments.' This anomaly primarily occurs for borrowers on Graduated repayment schedules where the payments begin low and gradually increase with time. The regulations require that no one payment 'tier' on a Graduated schedule exceed another tier by more than 3 times (the '3x rule'). The volume described under this scenario includes borrowers we found with final (or other tier) payments that exceeded the 3x rule by more than \$5.	Yes	No	<p>280,371 Loans for 102,751 Borrowers - For borrowers with a scheduled balloon payment, we have redisclosed the repayment schedule, which, for some, resulted in a significant change or increase in their monthly payment amount due, though it prevented their final payment from violating the 3x rule (by more than \$5.00). The most extreme balloon payment we found was passed to us in a transfer from ACS in 2010 for a borrower with an initial monthly payment of \$351.47, so the maximum scheduled payment for this borrower's Graduated repayment schedule should not have exceeded \$1,054.41. The final payment due for the borrower based on the assigned repayment schedule was \$79,369.04 (more than \$78k higher than allowed by Regulation). Additional information is provided below on how many loans fell into the below buckets (dollar amounts represent the amount by which the 3x rule was violated in each instance).</p> <p>\$5-\$24.99 = 32,148 \$25-\$99.99 = 126,157 \$100-499.99 = 95,644 \$500+ = 4,999</p>	3.26%	4.38%
Due Date Cluster	During the ACS PUT transferred loans (2009 and 2010), the vast majority of borrowers came to us assigned to the due date of 14th of the month.	Yes	No	<p>216,275 Borrowers were assigned to us from ACS in the 2009 and 2010 PUT Transfers - 33.11% of all PUT loans transferred to us from ACS with active due dates (653,230) had a due date of the 14th of the month. For comparison, only 2.77% of all PUT loans transferred to us from ACS with active due dates had a due date of the second, which is the next highest due date cluster we saw. This resulted in spikes in operational work, delinquencies surrounding that due date, and increased mail and email volume around the middle of each month. To a borrower, this may have meant longer hold and process times and other decreased service levels.</p>		9.23%
Misstated Balances	As a result of borrowers transferred to us from ACS for servicing, we had a number of borrowers escalate and/or dispute their balances. Primarily, borrowers who escalated were to us with inflated balances compared to what they expected to have. As these borrower concerns were recognized, we escalated the individual cases to FSA for review. FSA later issued CR 2165, defining a population of loans (833) that they found to have misstated balances. The CR resulted in our recalculation and adjustment to the appropriate balance for these borrowers.	Yes	We expect to receive \$241,150 compensation for FSA CR 2165.	<p>833 Loans - Based on the balance discrepancies, we did see a number of borrowers escalate (particularly those with falsely inflated balances). After we performed the applicable recalculations and adjustments, we notified the borrowers and thoroughly documented each account to ensure that loan counselors could appropriately counsel these borrowers. Since FSA CR 2165, we believe we have identified an additional 793 loans with inflated balances and are currently reviewing the individual accounts with FSA.</p>	0.01%	
Missed Interest Rate Adjustments	We were notified that interest rate adjustments had been received by ACS from Loan Consolidation, but not performed on some loans prior to the transfer of those loans to us for servicing. FSA issued CR 1963, defining a population of loans (2,133) that were found to have incorrect interest rates as a result of missed adjustments. The CR resulted in our adjustment to the appropriate rate.	Yes	We expect to receive \$99,540 compensation for FSA CR 1963.	<p>2,133 loans - Though there were delays in these borrowers having the correct interest rate, their rates have since been adjusted for the appropriate time period. All interest accrual and payment application has also been adjusted.</p>	0.02%	
Loans not Paying off in Term	As we worked to onboard loans transferred from ACS, our system would flag (for evaluation and redisclosure) any borrowers that were determined to be repaying under repayment terms that would not result in the payoff of their loans on time. These repayment schedules would then be systematically or manually re-established.	Yes	No	<p>1,063,667 Loans for 502,337 Borrowers - We notify borrowers anytime we perform a redisclosure, including redisclosures we perform if we determine that a loan will not be paid off within term based on a repayment schedule assigned by a previous servicer. Although much of this repayment schedule monitoring is handled systematically, borrowers quickly escalate if/when their repayment schedule is adjusted, which leads to additional calls and complaints.</p>	12.39%	21.43%

Servicing Anomaly	Overview	Unanticipated Work	Compensation	Volume & Borrower Impact	Anomaly % of ALL ACS Loans Transferred	Anomaly % of ALL ACS Borrowers Transferred
Consecutive Forbearances	As a result of research and individual account examples, we found borrowers who had been on consecutive forbearances while serviced at ACS, at times in excess of 5 consecutive years.	Yes	No	56,296 Loans for 21,144 Borrowers - While we can assist borrowers to certify deferments or other situations in the past on a case-by-case basis, we can do little to mitigate the interest that accrued and capitalized as a result of forbearance abuse. For some borrowers, early exhaustion of forbearance makes successful repayment more difficult by limiting the options they have to suspend payments if unexpected situations arise later in repayment.	0.66%	0.90%
Bankruptcy Settlement Info Missing	Though not in high volumes, we have discovered 20 accounts to date where bankruptcy settlements were reached, but ACS did not provide the necessary information for us to properly service the accounts.	Yes	No	57 Loans for 20 Borrowers The total principal balance for these loans totals \$925,824.72. Based on the delays in us receiving the bankruptcy settlement information, these borrowers were assigned repayment schedules (etc.) that did not take the agreed-upon settlement information into consideration. In most cases, this meant we were billing the borrowers for more than the settlement would call for, causing the borrower undue hardship and violating the terms of the bankruptcy settlement.	0.00%	0.00%
Misrepresented Collateral Files	We discovered a collateral file issue with the November 2013 and January 2014 ACS transfers after borrowers alerted to us the concern. When we researched the individual accounts, it appears that ACS passed files to us for archiving that should have been noted as 'work in progress.' Had the files been noted as 'work in progress,' we would have had processing staff apply deferment, forbearance and repayment schedule changes to borrowers who had returned forms to ACS, so the transfer would not have disrupted the processing of their applications.	Yes	No	At Least 794 Borrowers - Borrowers may have experienced undue hardship as a result of our delay in processing, or been forced to reapply unnecessarily.		0.03%
PSLF Qualifying Payment Exceptions	In 2010, FSA approved a one-time override of ACS's PSFLF qualifying payment counter for a limited number of borrowers who claimed they were misinformed when establishing a repayment plan on new Direct Consolidation Loans. The guidance was primarily for borrowers who were advised to go on extended repayment plans and applied to borrowers who came forward and met the following conditions: 1. Had a new Direct Consolidation Loan between October 2007 and January 2012; and 2. Were on a Consolidation Standard Repayment Plan with a term greater than 10 years. In 2012 when FedLoan Servicing became the sole servicer for PSLF, had the loans for the predetermined 'exception' list transferred to us for review. As we understand it, these borrowers were must have made contact to ACS or FSA by June 4, 2012 in order for the override to be considered. However, there have been additional borrowers identified after the June 4, 2012 date which have since been approved by FSA to fall under exception processing.	Yes	No	301 Borrowers - For borrowers who made payments while on the ineligible repayment plan, the borrower was required to take two actions within 90 days of receiving notice to have their payments count: (1) Submit a completed Employment Certification Form (ECF) for any periods of time in the past (from the date of the letter) during which they were employed by a qualifying employer, and (2) Change their repayment plan, if they had not done so already, to one of the eligible repayment plans. Only payments made during months of valid employment and during the following qualifying payment credit window were counted for the override: Oct 2007/consolidation date (whichever is later) to Jan 2012/date identified (whichever is sooner) After each borrower reacted, we calculated the number of PSLF qualifying payments based on the following formula: Sum of all payments made on non-eligible repayment plan during credit window divided by the monthly installment amount on the first eligible repayment plan the borrower switched to. Notification was sent to the borrower providing confirmation of the total number of qualifying payments on their Direct loans as of the date the letter was sent.		0.01%
Trailing and Missing Payments	On multiple occasions, ACS identified financial transactions that were not completed prior to the transfer or loans to us for servicing. These payments and transactions ranged from those received during the transfer period, to those that may have been received months or (in some cases) even years before the transfer. For example: - In July 2011 and March 2012 NSF adjustments were received from ACS that (in some cases) had effective dates more than one year old. - In September 2013 a large number of payments were identified by ACS that had not been applied to borrowers' accounts.	Yes	No	As a result of the trailing or missing financial transactions, borrowers often see inappropriate delinquencies, delays in posting/crediting of their payments, and generally feel wronged by their servicers. Each individual borrower claim must be researched (which sometimes requires the borrower to provide evidence of payment) just as each clean-up requires manual work and adjustments.		



Summary of Issues Related to the Transfer of TEACH Grant and Public Service Loan Forgiveness Files from ACS to FedLoan Servicing

Federal Teacher Education Assistance for College and Higher Education (TEACH) Grant Program

The TEACH Grant Program is a program that provides merit-based grants to students who agree to teach full-time for four years at a low-income school in such high-need fields as mathematics, science, foreign language, bilingual education, special education, or reading. The four years of required service must be completed within eight years of the student graduating or leaving the TEACH Grant program of study. For students who fail to fulfill this service requirement or notify the Department of Education in a timely manner of their continued employment in a qualifying field and location of teaching, grants are converted to Direct Unsubsidized Stafford Loans, with interest accrued from the date the grants were disbursed. PHEAA serves as the exclusive servicer for TEACH, under contract with the U.S. Department of Education's (ED) Office of Federal Student Assistance (FSA). PHEAA's responsibilities include managing the teaching certification process, grant-to-loan conversion process, and conversion dispute process.

Following the award of the TEACH Grant Servicing contract to PHEAA, FSA began routing newly disbursed TEACH Grant awards directly to PHEAA from the Consolidation and Origination Disbursement (COD) System in mid-July 2013. FSA also coordinated the transfer of the existing TEACH Grant servicing portfolio from ACS. To transfer the grant records, the existing file format for transferring federal loans (EA27) was leveraged. Unfortunately, the EA27 format does not account for many of the program details necessary to support TEACH Grant servicing (in particular, service obligations for TEACH Grant). As a result, PHEAA partnered with ACS and FSA to prepare and deliver supplemental files that contained many of the details that were otherwise missing. Throughout the process of evaluating proposed supplemental file formats, several sample files were identified and reviewed. The sample files obtained were small and did not cover as many situations as arose in the actual transfer. On receipt of the live transfer file, PHEAA noted a large number of anomalies, questionable data, and scenarios that had not been anticipated. This led to additional manual work and, in some cases, manipulation of data to match the requirements of the TEACH Grant program. In an attempt to minimize the impact on the transferred TEACH Grant recipients, PHEAA proposed, and was granted authority, to impose a 60-day grant-to-loan moratorium or "hold" on grant-to-loan conversions. This gave TEACH Grant recipients with active certification due dates more time to react to the transfer in servicing and identify inaccurate data. While this helped to mitigate concerns, PHEAA is still experiencing examples of borrower confusion and servicing issues as a result of the transfer.

During implementation, PHEAA asked for historical grant records for all TEACH Grants that had been converted to loans with ACS because of the anticipated need to research grants that had been converted to loans in error. Unfortunately, this data/detail could not be provided. Because this data is not available, manual work, historical file review, and data manipulation is necessary to reverse incorrect grant-to-loan conversions that were performed by ACS. PHEAA is currently working with FSA in an attempt to obtain this data in an automated fashion.

Public Service Loan Forgiveness (PSLF) Program

PHEAA serves as the exclusive servicer for PSLF under contract with ED and FSA. PHEAA's responsibilities include confirming qualifying employment, managing PSLF transfers, counting qualifying payments towards loan forgiveness, and providing counseling to interested borrowers.

Before PHEAA began to service PSLF, the program was publicly announced, but the program requirements were not well publicized to students and student loan servicers. As a result, PHEAA has encountered borrower frustration and confusion. This is especially true among borrowers who are found not to have been complying with program rules regarding qualifying payments (payments that conform to program rules and count towards eventual loan forgiveness). PHEAA has encountered numerous Direct Loan borrowers, serviced at ACS, who were told that payments made on certain repayment plans (that were not eligible plans) would qualify towards loan forgiveness, when eligible plans are clearly defined in statute and regulation. It is not clear that sufficient guidance was provided by ACS to its customer service representatives on the rules surrounding PSLF eligibility.

Servicing of PSLF is further complicated by the lack of necessary data elements in the existing file format for transferring federal loans (EA27). For example, the payment history, historical billing, and repayment plan information needed to evaluate a borrower's PSLF qualifying payment history is not available in the file format, resulting in the need to manually process supplemental files. Payment counting is, in large part, a manual process. In many cases, borrowers have had more than one servicer, which leads to multiple files, payment counting delays, and a more extensive manual workload. This can cause borrowers to experience extended delays before they learn whether their past payments count towards loan forgiveness. FSA has taken some steps to require that the most recent servicer of a borrower's loans pass this data in a more usable manner, but many of these borrowers were serviced by ACS at some point in their history and ACS was never required to provide this supplemental data.