Appendix B

Summary of Best Practices

This Appendix summarizes the Best Practices that pertain to the FP Channel reengineering core functions and that were used as a focus for identifying the recommended solutions described in this document. The Best Practices are summarized by the following categories:

- Financial Transactions and Cash Management
- Performance Management
- Customer Relationship Management (CRM)
- Knowledge / Document Management
- Contract Management

FINANCIAL TRANSACTIONS AND CASH MANAGEMENT

Best Practice	Financial Partners Practice	Recommendations	Benefits
Electronic forms and funds transfer are identified and used consistently across the cash flow timeline and at least 80% of payments are made electronically.	Currently, 80% of lenders do not submit 799 reports via web-based electronic submission.	Implement FTP for large lenders and Web forms for small lenders. In the short term, this may be accomplished through modifications to the current system. Develop edit checking at the data input source; provide online help at the point of need; reduce data entry (and potential for errors) for ED.	Decrease cost per form processed from $30 to $1, by increasing electronically filed forms 799 and 1189. This should lead to annual cost savings of $470,000. Faster turn around time for electronic funds.
Cash flow is efficiently managed to increase availability, reduce uncertainty, and move funds faster and without loss of value to where they are needed most.	Currently not utilized by FP Channel.	Reengineer procedures, systems and regulations to provide mechanisms and incentives to increase cash flow.	$400,000 of potential interest income saved, available to allocate to other areas (e.g., student loans, taxpayers). Improved cash flow through elimination of invalid payments and charge-backs.
Review 100% of large invoices before they are paid.	Currently, system edits are performed on billing forms received, but no detailed verficiation of accuracy of data (i.e., against loan level data) is performed.	Check billing forms for accuracy before paying them; reconcile billing forms data against detailed partner data (by automated means, if possible).	$400,000 saved annually from avoiding 6-month interest float on overpayments.

FINANCIAL TRANSACTIONS AND CASH MANAGEMENT (continued)

Best Practice	**Financial Partners Practice**	**Recommendations**	**Benefits**
Single, automated clearinghouse to transfer funds.	Currently, most lenders and Gas pay using standard paper checks.	Offer electronic ACH, web-based, and automated direct payment options.	Decreased unit costs from centralized and automated clearinghouse. Faster receipt of funds and account settlement and less paper work, leading to increased customer and employee satisfaction. Reduce A/R Turnover ratio (i.e., the time taken to pay per account / time period available for payment).
Prioritize accounts and discriminate among key clients and implement an effective and efficient dispute management process.	Currently, accounts are not prioritized for efficient document and data flow.	Prioritize accounts for review and training where the large GAs and Lenders consistently have error on their forms and disputes on payments.	Improved communication with GAs and Lenders. Faster receipt of funds and account settlement, leading to increased customer satisfaction.

PERFORMANCE MANAGEMENT

Best Practice	Financial Partners Practice	Recommendations	Benefits
Performance measures have predictive power and reflect cross-functional processes within a entity.	Currently, reviews are tracked; however, there is no ability for trend analysis	Develop review schedules to focus efforts on large impact and on exception processing. Develop a review tracking system to establish baseline for trend analysis.	Increased number of top 10 lender and GA reviews conducted per region, leading to review of at least 80% of dollars at risk. Increased dollars recovered ratio ($s recovered over portfolio balance) to the industry average of 20.4%. Early detection of noncompliance, resulting in avoidance of large-scale reviews in the future.
Implement a flexible review strategy based on ongoing behavioral score of the reviewee. Review cycles should be tailored based on: type of customer, risk class, and other groupings.	Currently, the FP Channel does not use any risk model to develop target lists of lenders to review.	Develop a risk model with predictive measures to determine which financial partners need the closest monitoring and greatest scrutiny.	Facilitates consistent and objective assessment of risk, leading to better identification of lenders to review (i.e., development of target lists).
Standardize review policy, supported by detailed documentation of review procedures.	Currently, review guidelines exist for Lender and GA reviews; however not to the level of detail that they outline specific review criteria.	Revise the GA, Lender, and Servicer reviews. Specify criteria by which all should be reviewed.	More consistent review criteria across regions and across review cycles, leading to more accurate and comparable data.
Regular analysis and 'fine tuning' of review cycles should be carried out on a regular basis.	Currently, there is no retrospective analysis on past review cycles to determine what went right, and what could be improved upon.	Engage in regular analysis of past review periods to determine the processes, criteria, etc. that yielded most efficient review process.	Assures sustained focus on improving performance of oversight efforts (e.g., decreasing the time to resolve findings, the cost recovery ratio, etc.).

PERFORMANCE MANAGEMENT (continued)

Best Practice	Financial Partners Practice	Recommendations	Benefits
Track closed reviews for follow-up.	Currently, re-reviews of closed reviews (with findings) are performed but not always tracked.	Track follow-up reviews and/or technical assistance reviews conducted for partners with history of findings in prior year.	Prevention of future review findings for partners with history of findings.
Performance measures are consistently and accurately measured across samples and over time.	Currently, lenders and GAs are reviewed using multiple criteria (e.g., cohort default vs. absolute default rates).	Develop standard review criteria and procedures.	Allow objective comparisons when reviewing financial partners' compliance.
Performance measures are used effectively to communicate strategy and promote a learning environment.	Currently, review results are used to implement GA and lender-specific remedies. Results are not analyzed to identify areas for training or interpretation.	Develop coordinated reviews between GAs and Oversight group and [review] results based training for lenders and servicers.	Increased customer satisfaction due to increased focus on technical assistance and less focus on penalizing review findings.
Self-evaluations are used effectively to promote a learning environment and improve the efficiency of performance monitoring. A business considers both short-term and long-term costs and requirements of a balanced scorecard before moving forward with a strategy.	Currently, inconsistent self evaluation capabilities exist within SFA.	Self-evaluations will improve review efficiency.	Increased partnership with GAs, and Lenders, leading to increased partner satisfaction. Reduced time spent per on-site review. Decreased cost recovery ratio (i.e., the total cost incurred / time period available for payment).
Actively measure and manage guaranty agencies and leverage specialization (i.e., identify agencies which are most effective on reviewing which types of accounts).	Currently, guaranty agencies conduct lender reviews; these reviews are tracked both manually by ED staff and entered into PEPS. However, these reviews are not analyzed at an aggregate level to decipher trends by SFA.	Begin to measure effectiveness of guaranty agency reviews (of lenders) by scrutinizing their review results. If guaranty agency reviews are of sufficient quality to SFA, stop duplicating the efforts of the GAs.	Increased partnership with GAs, leading to increased partner satisfaction. Reduced cost recovery ratio for SFA, as third parties review lenders in which they have an expertise.

CUSTOMER RELATIONSHIP MANAGEMENT

Best Practice	Financial Partners Practice	Recommendations	Benefits
Enable financial partners to view (online) information, which is maintained about them.	Only limited information is available to financial partners.	Allow financial partners to have more appropriate access into FP Channel systems.	Increased autonomy for GAs and Lenders, leading to increased customer satisfaction.
Automated Call Distributor to route and switch calls according to predetermined criteria. Place calls in a holding queue when agents are busy. Provide management information (e.g., calls per hour, average call length).	Currently, an enterprise-wide Call Center exists. However, this call center does not track inquiries for financial partners (e.g., lenders, guaranty agencies, servicers, etc.).	Develop Financial Partners Channel link to an enterprise-wide integrated CRM (Customer Relationship Management) effort.	Increase the first-call resolution rate for inquiries by financial partners. Decreased call waiting time, leading to increased customer satisfaction.
Allow financial partners to inquire on whereabouts of payments via a web site and/or automated information line.	Currently, FP Channel inquiries are answered by various department staff, and routed to several different people before the partner receives an answer.	Provide up-to-date web-based fee and payment reports to improve communications and ongoing relations with financial partners. Design requirements for the GA/Lender Payments portion of the enterprise-wide CRM effort.	Empowered partners who find answers to their own questions quickly and efficiently, leading to increased customer satisfaction. Decreased time spent by FP Channel staff in researching partner inquiries, leading to increased employee satisfaction.
Customer service should provide fast, accurate and consistent problem resolution across customers and over time.	Currently, a lender or guaranty agency could contact multiple departments prior to obtaining the answer to a question.	Centralize access to specialists regarding specific inquiries and ability to reach all specialists within the organization.	Average response time to inquiry decreased. Increased percentage of calls resolved in the first inquiry. Decreased inquiry abandon rate to 2%.

CUSTOMER RELATIONSHIP MANAGEMENT (continued)

Best Practice	Financial Partners Practice	Recommendations	Benefits
Customer service systems should support and enable formal and informal networks of internal and external parties based on shared concerns and interests.	Currently, inquiries are not tracked for trend analysis and decision-making regarding communication (e.g., Dear Colleague letters).	Track inquiries by source, topic and volume to indicate trends for required information dissemination.	More timely dissemination of external communications in response to trends (in nature and volume of inquiries). Reduce number of inquiries, resulting in employee time saved.
Create a single point of contact for all incoming customer calls regarding payment and use technology to route the calls to the appropriate service representative.	Currently, partners call various staff within the FP Channel and Program Development Group, depending on their familiarity with the staff. These calls may be routed to several different persons until the caller reaches the appropriate person.	Design requirements to integrate the Financial Partners Channel with the enterprise-wide CRM effort.	Increase first-call resolution rate.

KNOWLEDGE/DOCUMENT MANAGEMENT

Best Practice	Financial Partners Practice	Recommendations	Benefits
Knowledge management should focus on critical issues of organizational adaptation and competence, combining data and information processing with learning and open dialog.	Current program development functions focus on responding to inquiries rather than directing the provision of knowledge to internal and external partners.	Establish an overall knowledge management plan at the enterprise level to provide consistent information in a standard format.	A public that is empowered to research their own inquiries, which results in a decreased number of weekly inquiries to the Program Development group.
Organizational information / databases should be accessible to organizational members who require the information to fulfill their responsibilities.	Dear Colleague and Partner letters and Action Letters are currently published on an ad hoc basis. These are sent directly to interested parties and published on a web site.	Increase enterprise level development, dissemination and coordination of information to lenders, guaranty agencies and other financial partners (e.g., link ED web sites, integrate database to record and track inquiries and problems by various criteria).	Number of weekly inquiries decreased, resulting in employee time saved.
A Knowledge Management System should gather data and information together in context so that it is explicit, (rather than tacit) and enables appropriate internal and external users to interpret and apply the information consistently across all regions and organizations.	Currently, electronic information is accessed from databases where it is not explicitly put into context. Rather, the user must already understand the context of the data in order to interpret and apply it . Also, the only shared information that is explicitly put into context are paper-based documents or e-mails that reside on individuals' hard drives and are cumbersome to share.	Use imaging to store data in its original context (usually unstructured data) and index them in a centralized repository so that all appropriate personnel can access, sort, and query them (the documents may be imaged, electronic, or e-mails).	Decreased time to research an inquiry.

KNOWLEDGE/DOCUMENT MANAGEMENT (continued)

Best Practice	Financial Partners Practice	Recommendations	Benefits
A Knowledge Management system should have the ability to access, sort, and query the organization's accrued knowledge by meaningful criteria to allow personnel and external partners to quickly access information (e.g., regulatory interpretations) they need to perform their daily functions.	Currently, the majority of regulatory interpretations are either paper-based or reside on individuals' pcs; therefore, others have little ability to access, sort, or query the information.	Use a document management system that indexes both structured and unstructured documents and stores in a centralized repository so that all appropriate personnel can access, sort, and query them (the documents may be imaged, electronic, or e-mails).	Enable internal and external parties to research their own questions, leading to a decrease in the number of inquiries received per week. Promote efficient research, leading to reduction in average length of time to research inquiry.

CONTRACT MANAGEMENT

Best Practice	Financial Partners Practice	Recommendations	Benefits
Performance-based servicing contracts (PBSCs) should emphasize the purpose of the work to be performed rather than how it should be performed. PBSCs should include positive and negative incentives to motivate contractor efforts and discourage inefficiency.	Performance-based contracts are beginning to be developed for new contracts. Only positive incentives are currently applied to specific contracts.	Continue to implement performance-based contracts for both new and existing contracts (especially for sole source extensions and large dollar value contracts). Develop incentives that support AQLs and are consistent with the appropriate contract type (e.g., fixed price, cost reimbursement, value-based pricing).	Improved Vendor performance. Reduced risk of overpayments to Vendors. Reduced time required for contract maintenance . Improved Vendor performance.
Organizations should develop enterprise-wide Quality Assurance Plan (QAP) that details the standardized Acceptable Quality Levels (AQLs) and key performance indicators (KPIs) by which contractors will be measured.	Quality Assurance Plans are developed for specific contracts but not directly tied to contractor payments. Quality indicators are currently applied to specific contracts, but not at the enterprise level.	Develop QAP standards as well as consistent, objective, and comparable enterprise-wide measurements of contractor performance that can be tailored to contract type and payment structure.	Objective method to measure contractor performance that allows objective, "apples-to-apples" comparisons.
Organizations should monitor performance of all vendors against defined AQLs and KPIs.	Contract Performance monitoring does not currently exist.	Establish an enterprise level QA team to consistently monitor contractor performance in coordination with billing function.	Earlier issues identification and resolution. Ability to incent contractors based on performance history, trends.
Contract administration should be a coordinated effort across departments and offices and reinforced by management at the enterprise level.	Contract administration is currently performed on a contract-specific basis.	Program, QA, Contract Administration and Billing should be coordinated at the enterprise level for consistency across contracts.	Reduced time and resources expended on contract administration activities.

CONTRACT MANAGEMENT (continued)

Best Practice	Financial Partners Practice	Recommendations	Benefits
Conflict resolution processes should be defined consistently (at the enterprise level) for all contracts and focus on the least costly and most expeditious methods possible.	Conflict resolution procedures are currently defined on a traditional basis (e.g., claims and litigation).	Focus conflict resolution on prevention through open communication and facilitation of disputes through mediation and arbitration.	Reduced number of disputes. Reduced effort to resolve disputes.
Management direction and support for PBSCs should be at the highest agency levels possible.	ED Management currently supports performance-based contracting.	Implement at enterprise level to ensure consistency across departments and functions.	Staff across SFA recognize importance of monitoring vendor performance, and competitive bidding. Staff aware of "bottom line" goals. Staff across all channels follow similar acquisition strategies.
Public documentation, including RFPs, contractor performance standards, etc., should be disseminated and received electronically, where possible.	Specific public information is provided electronically through department-specific web sites.	Continue to implement and standardize publicly available information at the enterprise level.	Empowerment of external partners to obtain information and answer their own questions, leading to increased customer satisfaction and reduced employee time required to answer routine questions.