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I. EXECUTIVE SUMMARY

The Financial Partners Reengineering Options and Analysis effort has resulted in the identification of an estimated \$16 million in annual savings. **For now, the \$16 million in annual savings is only a preliminary estimate. Further analysis must occur to understand the likelihood that Financial Partners could realize the savings.**

During the reengineering options and analysis effort two key reengineering solutions, related to payment verification and compliance review, were identified. These solutions have the potential to reduce the dollar amount of inaccurate Payments paid and increase the amount of money collected through a reengineered review process.

The FP reengineering team undertook this analysis to achieve the goals of the Financial Partners Transformation Project. These goals, which were developed to achieve overall SFA Enterprise-wide goals, include:

- Achieve partner satisfaction by listening to and responding to our Partners' needs.
- Foster an environment for a better informed, proactive and empowered staff who can anticipate and meet the needs of our Partners.
- Lower unit cost by simplifying core processes and reducing processing time for key functions.

The main objective of the process reengineering effort was to identify recommendations to assist in achieving these goals. As a result of the reengineering options and analysis effort, four recommended solutions have been identified:

- Recommendation #1 - Fully integrate reengineered automated Guaranty Agency payment and cash management functions.
- Recommendation #2 - Fully integrate reengineered automated Lender payment and cash management functions.
- Recommendation #3 - Create an Automated Payment Verification checkpoint for GA payments, Lender payments, Loan Consolidation fees, and Sallie Mae fees. (This recommendation includes verification of payments to SFA, as well as from SFA and assumes availability of accurate source data).
- Recommendation #4 - Streamline the GA, Lender and Servicer Review process.

Additional recommendations, which are summarized in subsequent sections, include FP Channel/SFA integrated solutions and quick hit opportunities. This document provides an assessment of these recommendations, some of which have a direct impact on cost savings and some which move towards the goals of improving both customer and employee satisfaction. A preliminary cost/benefit estimate is provided for those recommendations for which cost information is available.

The next step in the reengineering process is to develop a Business Case that will validate and clarify the initial findings. Although the Business Case will further outline cost and benefits associated with recommendations, the deliverable will focus on Recommendation #3, Create an Automated Payment Verification Checkpoint, since it comprises the majority of the estimated net benefits. The Business Case will include a high level design of the reengineered Automated Payment Verification process along with an analysis of the costs, benefits and values associated with implementing this process.

The Financial Management System (FMS) is currently being designed and implemented in support of general ledger, financial management and cash management functions. Functionality in support of two recommendations, Recommendation #1, Automate GA Payment and Cash Management Functions, and Recommendation #2, Automate Lender Payment and Cash Management Functions, are impacted by this effort.

GA functionality is scheduled to be implemented in October 2000 and Lender functionality is planned to be implemented no later than October 2001. Since functionality currently being provided by the FFEL system will migrate to FMS, the FP reengineering team recommends that an analysis be completed to identify what, if any, existing functionality is not included in FMS. The analysis will also identify any remaining manual processes which could be automated. Recommendations will be made pertaining to where this additional functionality should be supported.

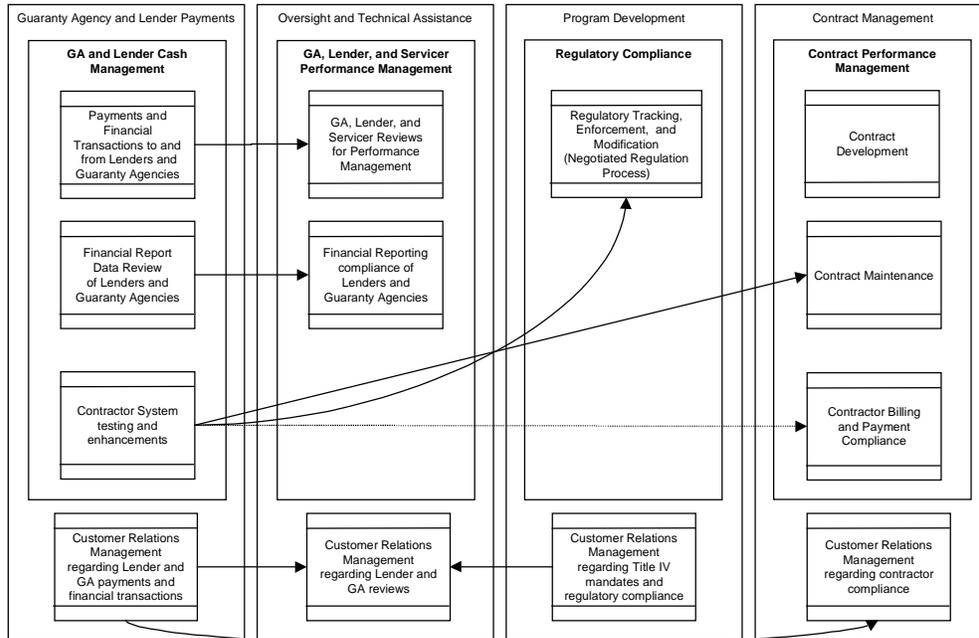
Finally, the FP reengineering team recommends that a high level process design be completed in support of Recommendation #4, Reengineer GA, Lender and Servicer Review process. A separate team within Financial Partners is reviewing the risk modeling process for potential improvement opportunities. An effort should be made to coordinate these initiatives recognizing the integration of processes shared by these efforts.

A. *Current Environment Assessment Review*

A brief review of the current environment, as assessed previously in the *Financial Partners Core Processes Current Environment Assessment*, will assist in understanding the opportunities highlighted in this document. The FP Channel Current Environment Assessment covered the four core processes and laid the foundation for this task. These processes do not represent an all-inclusive list, but were considered to be the most critical to examine for reengineering possibilities. These processes are currently being performed across four functional groups within the FP Channel operational area, as shown below in Figure I.1.

Figure I-1 Current FP Channel Core Processes Overview

Current FP Channel Core Processes Overview



As part of the transformation effort, the FP Channel seeks to provide “best in business” products and services to Financial Partners. The “best in business” processes and practices that were assessed in comparison with current FP Channel processes covered the following:

- Financial Transaction Processing/Cash Management
- Performance Management
- Customer Relationship Management (CRM)
- Knowledge/Document Management
- Contract Management

The assessments focused on the evolution of these processes over time. The findings led to preliminary identification of opportunities to eliminate certain overlaps, redundancies and in some cases, gaps in service that have occurred across the functional areas. The opportunities identified would enhance coordination and communication across the FP process workgroups and help to meet the primary goals of the FP Channel of increasing customer satisfaction, reducing unit costs and increasing employee satisfaction. Examples include:

- Enhancing customer relationship management, such as providing coordinated customer service support and technical assistance (e.g., responding to questions of FP Channel members, providing operational policy interpretation) to ensure that questions are directed to the right specialist and answered efficiently and consistently.
- Improving financial transactions processing by coordinating data entry and retrieval, resulting in improved data integrity, reduced duplicate entries and increased efficiency of data retrieval and ad hoc reporting using electronic interfaces.
- Improving and coordinating contract maintenance (i.e., systems support, billing reviews) with contract management and the user communities to ensure satisfactory contract performance.

In addition, those processes that are currently not being performed or can be enhanced are recommended to be implemented when adequate resources and automated support are made available, including:

- Implementing clearly defined performance management techniques, which may include risk modeling to determine appropriate review criteria and trend analysis for GA, Lender and Servicer reviews to identify and measure Financial Partners performance.
- Instituting knowledge management/document management processes to assist in the planning and preparation of regulatory and policy changes on a coordinated SFA Enterprise level (e.g., participating in negotiated regulations, interpreting changes in regulations, creating and publishing Dear Partner letters).

B. Approach to Reengineering

Developing the Reengineering Options and Analysis deliverable is the second stage in the effort to identify solutions to attain the FP Channel goals of increased customer satisfaction, reduced unit costs and increased employee satisfaction. During this stage, FP process workgroups identified and analyzed improvement opportunities and made recommendations on desired solutions. Detailed descriptions of these opportunities are included in *Appendix A: Summary of Improvement Opportunities*. The following steps were followed in order to develop the final recommendations included in this document:

- Review and analysis of the Current Environment Assessment
- Continued comparison of the current environment to “best-in-business” processes and practices
- Facilitation of workshops with FP process workgroups to identify improvement opportunities
- Research and analysis of options
- Definition of recommended solutions

This document will provide the FP process workgroups with the information necessary to conduct the third stage in the reengineering effort, developing a Business Case, to implement the recommended solutions.

C. Options and Analysis Overview

The recommended reengineering solutions are based upon the input received from the following FP process workgroups:

- GA and Lender Payment Process
- Oversight and Technical Assistance
- Policy and Analysis
- Contract Management

Recommended solutions were chosen based on processes which cross existing functional boundaries and provide value for the costs associated with achieving desired benefits. Only those solutions which support the attainment of FP Channel transformation goals were included. Those solutions for which cost information is available include a preliminary estimate of the associated costs and benefits. These calculations will be validated and verified in the resulting Business Case.

The analysis resulted in four recommended solutions, which include:

- Fully integrate reengineered automated Guaranty Agency payment and cash management functions
- Fully integrate reengineered automated Lender payment and cash management functions
- Create automated payment verification checkpoints for GA payments, Lender payments, Loan consolidation Fees and Sallie Mae fees
- Streamline GA, Lender and Servicer Review process

The recommended solutions support the 5 Year Performance Plan as demonstrated in Table I.1 below.

Table I.1 5 Year Performance Plan

5 Year Performance Plan	Recommended Solutions
#50 Identify GAs and Lenders that submit audit reports late and take appropriate action	Streamline GA, Lender and Servicer Review process.
#51 Respond to internal audit reports within the timeframe specified	Streamline GA, Lender and Servicer Review process.
#53 Continue to work with GAs and Lenders to maintain the quality of data in NSLDS	Streamline GA, Lender and Servicer Review process.
#54 Assign each Partner a contact point	Streamline GA, Lender and Servicer Review

5 Year Performance Plan	Recommended Solutions
within a customer service team with the know how and authority to get questions answered and problems solved	process. Fully integrate reengineered Guaranty Agency payment and cash management functions. Fully integrate reengineered Lender payment and cash management functions.
#56 Involve our Partners in the design of everything that affects them	Streamline GA, Lender and Servicer Review process.
#57 Partner with GA and Lender groups to develop guiding principles of quality service, training and TA materials, performance data, common standards and operating rules to simplify transactions	Fully integrate reengineered automated Guaranty Agency payment and cash management functions. Fully integrate reengineered automated Lender payment and cash management functions. Streamline GA, Lender and Servicer Review process.
#58 In cooperation with GAs develop electronic payment/reporting systems	Fully integrate reengineered automated Guaranty Agency payment and cash management functions.
#59 Continuously ask our Financial Partners “Are we doing a better job as your Partner?” and “What can we do next year to improve even more?”	Fully integrate reengineered automated Guaranty Agency payment and cash management functions. Fully integrate reengineered automated Lender payment and cash management functions. Create automated payment verification checkpoints for GA payments, Lender payments, Loan Consolidation fees and Sallie Mae fees. Streamline GA, Lender and Servicer Review process.

In addition, five solutions involve FP Channel components of existing SFA initiatives. It is critical that the FP Channel play a key role in developing the SFA Enterprise-wide initiatives. These recommendations include:

- Conduct review of LEAP/SLEAP processes for potential improvement opportunities.
- Implement FP Customer Relationship Management (CRM) system capability linked to Enterprise-wide CRM and Ombudsman.
- Review Enterprise-wide Program Development processes and provide a link to Financial Partners Policy and Analysis.
- Develop Knowledge Management System including common database in conjunction with document management, data warehousing and CRM.
- Link Financial Partners Contract Management with Enterprise-wide Contract Acquisition and Management process.

The final three recommendations are classified as “quick hits.” These recommendations are changes in policies that can be implemented in a relatively short time frame and do not require major reengineering of existing processes. The quick hits include:

- Reengineer publication of Dear Partner Letters by publishing on web sites and linking to industry site, e.g. NCHELP.
- Reestablish bi-weekly conference calls between SFA Program Development and FP channel staff.
- Redesign and link Financial Partners web sites for easier navigation and access to information.

D. Content Summary

The remainder of this document contains the following sections:

- **Analysis of Improvement Opportunities** – a description of each of the improvement opportunities identified by the FP process workgroups including a summary of the current business problem, recommended solutions, benefits, risks and estimated costs of implementation.
- **Solutions Overview** – an overview of the recommendations and the impacts regarding increased customer satisfaction, reduced unit costs and increased employee satisfaction. These recommendations include both FP Channel reengineering solutions, FP/SFA integrated solutions and quick hits.
- **Conclusion** – a summarization of the recommended solutions and the next steps to be pursued in the reengineering effort.
- **Appendix A: Summary of FP Channel Improvement Opportunities** – a summary of the improvement opportunities identified by the FP process workgroups
- **Appendix B: Summary of Best Practices** – a summary of the best practices that provide focus for the FP Channel core functions reengineering effort.
- **Appendix C: Summary of Related SFA Projects** – a summary of the related SFA projects that will impact the FP Channel reengineering effort and will require FP Channel coordination to ensure successful implementation.

II. ANALYSIS OF IMPROVEMENT OPPORTUNITIES

The FP process workgroups identified several improvement opportunities to assist SFA in reaching its goals of increased customer satisfaction, reduced costs and increased employee satisfaction. While the FP process workgroups focused on processes by specific organization area, the improvement opportunities focus on best practice areas to provide an overall FP Channel perspective. It is important to develop recommended solutions which cross organizational boundaries to focus on a given process from initiation through conclusion rather than on specific activities and tasks in isolation. Due to the interconnection between the FP process workgroups functional responsibilities, several of the improvement opportunities were identified by more than one workgroup and have been consolidated in this section.

The improvement opportunities are listed in the table below and categorized by functional area. Detailed descriptions of these opportunities are included in *Appendix A: Summary of Improvement Opportunities*.

Table II-1 FP Channel Improvement Opportunities

Best in Practice Area	Improvement Opportunities
Financial Transactions and Cash Management	Develop and implement Electronic Forms and Funds Transfer via FTP and Web-based applications
Financial Transactions and Cash Management	Expand processing and oversight of Sallie Mae fees
Financial Transactions and Cash Management	Re-categorize FISL portfolio
Performance Management	Develop standards and benchmarks for GA, Lender and Servicer performance review criteria to be consistent with regulatory compliance, SFA priorities and risk models
Performance Management	Establish a common database to provide easy access to required information with appropriate access to both internal and external Financial Partners
Customer Relationship Management	Develop and implement a Customer Relationship Management system to provide a single point of contact for inquiries and complaints
Customer Relationship Management	Develop a tracking system that links to the Customer Relationship Management System to provide a mechanism for

Best in Practice Area	Improvement Opportunities
	logging and tracking inquiries by source, topic, type and response
Knowledge Management	Establish a common database within the FP Channel to provide easy access to the required information with appropriate access to both internal and external Financial Partners
Knowledge Management	Establish or re-establish routine internal communications within and across FP Channel functions to ensure timely dissemination of information and provide a forum for new ideas
Contract Management	Revise the Contract Management and Task Order processes to coordinate development of requirements, contractual performance measures, contract maintenance and vendor payments across functional areas

The remainder of this section describes each of the improvement opportunities and includes a summary of the current business problems and recommended solutions, as well as the benefits, risks and estimated costs of implementing the improvement opportunity.

FINANCIAL MANAGEMENT

Improvement Opportunity #1: Develop and implement Electronic Forms and Funds Transfer via FTP and Web-based applications

Business Problem:	<ul style="list-style-type: none"> ▪ 80% of Lenders' and 100% of Guaranty Agencies' receipts are paper based ▪ Duplicate data entry and limited access to electronic data in useable format ▪ Slowed payment processing due to multiple points of entry (e.g., Lockbox, Greenville, ED)
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Enhance/expand current efforts to receive FTP/web forms from GAs and Lenders. (In the short term, this can be accomplished for Lenders using the current system) ▪ Develop edit checking at the data input source and provide online help at the point of need ▪ Provide up-to-date web-based fee and payment reports ▪ Implement electronic submission of forms, i.e., 1207, 799, 1189 and 1130
Benefits: <i>High</i>	<ul style="list-style-type: none"> • Reduce data entry (and potential for errors) for ED • Improve communications and ongoing relations with Financial Partners
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Costs could outweigh benefits for implementing under the current system rather than in conjunction with Oracle FMS system, depending on time frame for implementation ▪ Security ▪ Utilization and acceptance by customers
Estimated Costs: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Implement FTP and web-based application ▪ User training to FP Channel
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ Oracle FMS system ▪ FFEL
Process Implications	<ul style="list-style-type: none"> ▪ Develop new procedures for data entry, capture and analysis
Technology Implications	<ul style="list-style-type: none"> ▪ Develop an integrated tracking system to allow access to data and coordination of review selection across regions
Organization Implications	<ul style="list-style-type: none"> ▪ Coordinate efforts with Analysis and Oversight Group ▪ Coordinate efforts with Data warehousing and Middleware Development Projects

FINANCIAL MANAGEMENT

Improvement Opportunity #2: Expand processing and oversight of Sallie Mae fees.

Business Problem:	<ul style="list-style-type: none"> ▪ No current audit process ▪ Inadequacies in compiling review data to develop benchmarks and perform trend analysis
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Add audit feature to oversight on annual receipts of \$60-70 million to ensure data integrity and timely payments from Sallie Mae ▪ Implement payment processing via the web for Sallie Mae fees
Benefits: <i>High</i>	<ul style="list-style-type: none"> • Ensure accurate and timely receipt of Sallie Mae fees
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Required coordination with Sallie Mae for data requirements and implementation
Estimated Costs: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Develop audit/review procedures for Sallie Mae fees ▪ Implement system/database modifications for review and reporting
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ FFEL or FMS
Process Implications	<ul style="list-style-type: none"> ▪ Coordinate with FP Policy and Analysis and SFA Program Development regarding audit requirements
Technology Implications	<ul style="list-style-type: none"> ▪ Develop an integrated tracking system to allow access to data and coordination of Sallie Mae fee reviews
Organization Implications	<ul style="list-style-type: none"> ▪ Coordinate with Sallie Mae for requirements, training and implementation

FINANCIAL MANAGEMENT

Improvement Opportunity #3: Re-categorize FISL Portfolio to eliminate processing requirements for terminated loan program

Business Problem:	<ul style="list-style-type: none"> ▪ Defunct loan program requires continued processing and system maintenance
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Re-categorize to eliminate ongoing FISL loan program processing and system maintenance requirements
Benefits: <i>High</i>	<ul style="list-style-type: none"> • Reduce processing time for 1207 forms
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Costs could outweigh benefits for implementing re-categorizing or paying off the FISL program ▪ Eliminating Form 1207 will also involve re-categorizing and processing the Rehabilitation loans
Estimated Costs: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Outstanding loans in the FISL program are currently \$230 million
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ FFEL system
Process Implications	<ul style="list-style-type: none"> ▪ Develop new procedures for data entry and Payments processing for FISL loans
Technology Implications	<ul style="list-style-type: none"> ▪ Modify FFEL system to accommodate re-categorization
Organization Implications	<ul style="list-style-type: none"> ▪ N/A

PERFORMANCE MANAGEMENT

Improvement Opportunity #4: Develop standards and benchmarks for GA, Lender and Servicer performance review criteria, to be consistent with regulatory compliance, SFA priorities and risk models.

Business Problem:	<ul style="list-style-type: none"> ▪ Need risk model to focus review selection criteria for regional reviews ▪ Enhance coordination across regions regarding reviews of Lenders and Servicers ▪ Need tools to assist in compiling review data to develop benchmarks and perform trend analysis
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Coordinate the development of standard performance review criteria with the risk model development to ensure that reviews are selected and conducted consistently to provide input into trend analysis for SFA financial impact and exception processing. Such factors include: size of portfolio and performance criteria (e.g., error rates and payments volume)
Benefits: <i>High</i>	<ul style="list-style-type: none"> ▪ Increased consistency of review process and results to allow for trend analysis ▪ Increased efficiencies in the review process, allowing more time for Regional Specialists to focus on priorities (e.g., large Lenders, GAs and Servicers with errors and payments issues)
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Required coordination with other SFA Channels to achieve review criteria in coordination with risk modeling and analysis (e.g., Analysis and Oversight)
Estimated Costs: <i>Low</i>	<ul style="list-style-type: none"> ▪ Develop standards for review selection and review criteria in coordination with risk model ▪ Implement procedures for selection, review and reporting
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ Risk Modeling System
Process Implications	<ul style="list-style-type: none"> ▪ Coordinate with FP Policy and Analysis and SFA Program Development
Technology Implications	<ul style="list-style-type: none"> ▪ Develop an integrated tracking system to allow access to data and coordination of review selection across regions
Organization Implications	<ul style="list-style-type: none"> ▪ Coordinate with the SFA Program Development to re-establish bi-weekly conference calls

PERFORMANCE MANAGEMENT

Improvement Opportunity #5: Establish a common database to provide easy access to the required information, with appropriate access to both internal and external Financial Partners

Business Problem:	<ul style="list-style-type: none"> ▪ Need risk modeling tool to focus GA, Lender and Servicer selection criteria for review across regions. ▪ Need an enhanced tool to track performance and risk factors across GA, Lender and Servicers over time and by demographics (e.g., large Lenders vs. small Lenders)
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Develop an integrated database to provide tracking and analysis of review selections and review results, as well as trend analysis for risk modeling and exception process targeting (e.g., increases in payments and errors, etc.)
Benefits: <i>High</i>	<ul style="list-style-type: none"> • Easy access to the GA and Lender population demographics for consistent review sampling and scheduling across regions that are consistent with risk model criteria • Easy access to the existing data (e.g., NSLDS, FFEL, PEPS, etc.) to obtain timely and consistent GA, Lender and Servicer performance data In preparation for the reviews • Access to review results for appropriate reporting and analysis by Regional Specialists and other functional areas (e.g., GA/Lender Payment Process, Policy and Analysis, Oversight and Technical Assistance)
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Data integrity measures must be defined and enforced to ensure accuracy within the common database at implementation and periodically over time
Estimated Costs: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Develop and implement an integrated risk modeling and review tracking system that interfaces with source data required for reviews (e.g., NSLDS, FMS/FFEL)
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ KPMG Risk System ▪ NSLDS ▪ FFEL (DCS) ▪ PEPS
Process Implications	<ul style="list-style-type: none"> ▪ Develop new procedures for data entry, capture and analysis
Technology Implications	<ul style="list-style-type: none"> ▪ Develop an integrated tracking system to allow access to data and coordination of review selection across regions
Organization Implications	<ul style="list-style-type: none"> ▪ Coordinate efforts with Policy and Analysis and Oversight and Technical Assistance ▪ Coordinate efforts with Data warehousing and Middleware Development Projects

CUSTOMER RELATIONSHIP MANAGEMENT

Improvement Opportunity #6: Develop and implement a Customer Relationship Management (CRM) system to provide a single point of contact for inquiries and complaints from customers.

Business Problem:	<ul style="list-style-type: none"> ▪ Delays in updates to customer information ▪ Inconsistencies in responses to customer inquiries (resulting in customers “shopping” for the desired answer) ▪ Redundancy of effort across SFA of multiple people responding to the same question
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Enhance web, telephone and e-mail integration to bridge the self-service capabilities with SFA assisted services of the traditional call center ▪ Link to enterprise-wide Customer Relationship Management effort (See Option #7) ▪ Link web site to Common database to publish updates, regulations, forms, reports and FAQs commonly used by the FP Channel members
Benefits: <i>High</i>	<ul style="list-style-type: none"> ▪ Improved customer relationship by creating, via the Web, the level of interaction and support that person-to-person interaction offers ▪ More timely and accurate information provided to customers
Risks: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Required coordination with other SFA Channels to achieve SFA Enterprise-wide integration ▪ Security of providing appropriate access to the appropriate Financial Partners
Estimated Costs: <i>High</i>	<ul style="list-style-type: none"> ▪ Cost of developing and implementing an integrated CRM information system ▪ Cost of user training
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ N/A
Process Implications	<ul style="list-style-type: none"> ▪ Develop well-defined procedures and functional responsibilities to ensure smooth operations and dissemination of information ▪ Require operations and systems training before implementation
Technology Implications	<ul style="list-style-type: none"> ▪ Develop and implement an integrated CRM web-based information system that links with the common database that is being developed for the Data Warehouse Project ▪ Links to Legacy systems through middleware (e.g., NSLDS, FFEL, PEPS) ▪ Links to document management
Organization Implications	<ul style="list-style-type: none"> ▪ This option will need to be coordinated at the Enterprise level to ensure consistencies with other SFA Channels that are conducting similar efforts ▪ Coordinate CRM with GA, Lender and School CRM efforts to ensure consistent information to the borrowers

CUSTOMER RELATIONSHIP MANAGEMENT

Improvement Opportunity #7: Develop a Customer Contact tracking system that links to the CRM to provide a mechanism for logging and tracking queries by source, topic, type and response.

Business Problem:	<ul style="list-style-type: none"> ▪ Need tools to assist in the tracking of calls and questions to analyze the types and volumes of questions from Financial Partners ▪ Need tools to aid in the timely coordination and dissemination of answers to frequently asked questions.
Recommended Solutions:	<ul style="list-style-type: none"> • Establish a tracking system to log inquiries and complaints and their associated responses to provide a centralized system for entry and retrieval of customer inquiries • Link the tracking system to the web site to provide a mechanism for ePublishing of pertinent information and FAQs
Benefits: <i>High</i>	<ul style="list-style-type: none"> • Provide for centralized entry and retrieval of questions and answers for more consistent responses • Track queries and complaints by type, volume, turnaround time, etc. for trend analysis and identifying Financial Partners activities
Risks: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Required coordination with other SFA Channels to achieve SFA Enterprise-wide integration ▪ Security of providing appropriate access to the appropriate Financial Partners
Estimated Costs: <i>High</i>	<ul style="list-style-type: none"> ▪ Cost of developing and implementing an integrated CRM tracking system ▪ Staffing resources for data entry, analysis and reporting ▪ Cost of user training
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ N/A
Process Implications	<ul style="list-style-type: none"> ▪ Develop new procedures and lines of communication to ensure that the information is being captured, tracked and provided to all parties that would benefit from the information
Technology Implications	<ul style="list-style-type: none"> ▪ Remote access for regional offices
Organization Implications	<ul style="list-style-type: none"> ▪ Identify coordination group to capture inquiries and track data and specialists to log responses

KNOWLEDGE MANAGEMENT

Improvement Opportunity #8: Establish a common database within the FP Channel to provide easy access to the required information, with appropriate access to both internal and external Financial Partners

Business Problem:	<ul style="list-style-type: none"> ▪ Need tool to aid in coordination of responses to customer inquiries and published reports ▪ Redundancy of effort across SFA including multiple people responding to the same question ▪ Data integrity issues with current data
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Coordinate efforts with the Data Warehousing project to ensure that the data required by the FP Channel is incorporated into the data warehouse and can be accessed by FP Channel members and Partners
Benefits: <i>High</i>	<ul style="list-style-type: none"> ▪ More timely and accurate information provided to Partners ▪ Improved creditability of report accuracy
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Required coordination with other SFA Channels to achieve SFA Enterprise-wide integration of a data warehouse ▪ Security of providing appropriate access to the appropriate Financial Partners
Estimated Costs: <i>Medium</i>	<ul style="list-style-type: none"> ▪ Develop data and reporting requirements for the data warehouse ▪ Staffing resources for data entry, analysis and reporting
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ Date Warehouse (new)
Process Implications	<ul style="list-style-type: none"> ▪ Define the source of data to ensure data integrity and the functional areas responsible for the data entry and update ▪ Define data and reporting requirements
Technology Implications	<ul style="list-style-type: none"> ▪ Coordinate requirements with the Data Warehousing project ▪ Ensure access to the required systems for the appropriate Financial Partners
Organization Implications	<ul style="list-style-type: none"> ▪ N/A

KNOWLEDGE MANAGEMENT

Improvement Opportunity #9: Establish or re-establish routine internal communications within and across FP Channel functions to ensure timely dissemination of information and provide a forum for new ideas.

Business Problem:	<ul style="list-style-type: none"> ▪ Need a vehicle to update all involved FP Channel members (e.g., of policy interpretation changes, new internal operational policies), particularly at remote locations ▪ Need tool to assure consistent responses to internal and external inquiries
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Develop procedures and communication channels for developing and coordinating routine meetings and conference calls that include the appropriate attendants to benefit from the topics of the meetings ▪ Define a coordinated process for developing and distributing routine written communications to interested parties (e.g., Status Reports, Newsletters) that are not redundant to existing communications
Benefits: <i>High</i>	<ul style="list-style-type: none"> ▪ More timely and accurate information provided to FP Channel, Partners, and SFA ▪ Improved inquiry response time and increased consistency of responses
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Required coordination with other SFA Channels to achieve Enterprise-wide integration communication channels
Estimated Costs: <i>Low</i>	<ul style="list-style-type: none"> ▪ Staffing resources for scheduling and coordinating meetings and conference calls
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ N/A
Process Implications	<ul style="list-style-type: none"> ▪ Coordinate with FP Policy and Analysis, SFA Program Development, and Oversight and Technical Assistance
Technology Implications	<ul style="list-style-type: none"> ▪ N/A
Organization Implications	<ul style="list-style-type: none"> ▪ Coordinate with the SFA Program Development to re-establish bi-weekly conference calls

CONTRACT MANAGEMENT

Improvement Opportunity #10: Revise the Contract and Task Order processes to coordinate development of requirements, implement contractual performance measures and review contract maintenance and vendor payments across functional areas

Business Problem:	<ul style="list-style-type: none"> ▪ FP Channel contracts do not require verification of performance measures for vendor payments
Recommended Solutions:	<ul style="list-style-type: none"> ▪ Coordinate the full life cycle of the Task Order process from requirement development through performance measures monitoring ▪ Integrate communication and coordination between contract maintenance and contractor billing process to reduce risk of payments for work not successfully completed
Benefits: <i>High</i>	<ul style="list-style-type: none"> • Improve communications and ongoing relations with FP Channel and vendors • Improve vendor performance
Risks: <i>Low</i>	<ul style="list-style-type: none"> ▪ Potential limitations for implementing changes under current contracts
Estimated Costs: <i>Low</i>	<ul style="list-style-type: none"> ▪ Implement FTP and web-based application ▪ User training to FP Channel and Partners
Systems (Vendors) Affected:	<ul style="list-style-type: none"> ▪ FFEL (current contract) ▪ FMS (potential future contract under FP Channel)
Process Implications	<ul style="list-style-type: none"> ▪ Develop procedures with routine checkpoints to ensure contract requirements and vendor performance are compared
Technology Implications	<ul style="list-style-type: none"> ▪ N/A
Organization Implications	<ul style="list-style-type: none"> ▪ Coordination with FP Channel and SFA Enterprise

III. SOLUTIONS OVERVIEW

This section contains recommendations which allow the FP Channel to obtain maximum value and achieve its objectives. The recommendations are based on the input from the FP process workgroups and the analysis of the benefits, risks and estimated costs of the recommendations. The cost/benefit numbers are conservative estimates based on preliminary assumptions.

These recommendations are grouped into three categories based on implementation method.

- Recommended Solutions – high value opportunities which cross FP Channel organizational functional boundaries requiring process restructuring.
- FP Channel/SFA Integrated Solutions - high value opportunities requiring coordination between the FP Channel and one or more other SFA areas.
- Quick Hits – opportunities which can be implemented without major process restructuring and with minimal disruption to current operations.

A. ***Recommended Solutions***

The recommended solutions described in this section focus on the processes and enabling technologies that will allow the FP Channel to better align its processes with the SFA objectives of significantly increasing customer satisfaction and reducing costs while beginning to increase employee satisfaction. These recommended solutions also present the ability to implement industry best practices, in accordance with the PBO goals of SFA. Best practices used in our analysis are detailed in *Appendix B: Summary of Best Practices*.

The recommended solutions combine the related improvement opportunities, as described in the previous section, to focus each coordinated effort on achieving the overall objectives of the FP Channel.

Table III.1 Overview of Recommended Solutions

Recommended Solution	Improve Customer Satisfaction	Reduced Unit Cost	Improve Employee Satisfaction
Fully integrate reengineered automated Guaranty Agency payment and cash management functions	●	●	◐
Fully integrate reengineered automated Lender payment and cash management functions	●	●	◐
Create Automated Payment Verification Checkpoints for GA payments, Lender payments, Loan Consolidation fees and Sallie Mae fees[1]	◐	●	●
Streamline the GA, Lender and Servicer Review process	●	●	◐

[1] Refers to verification of payments to and from SFA

- Key:**
- **High Impact**
 - ◐ **Medium Impact**
 - **Low Impact**

The remainder of this section describes each of the recommended solutions, including a brief description, a cost/benefit summary, critical assumptions and recommended next steps.

Recommendation #1 - Fully Integrate Reengineered Automated Guaranty Agency Payment and Cash Management Functions

Objectives

- Decrease the number of systems and improve system operations with updated technologies
- Reduce the number of payment entry points and manual data entry requirements
- Streamline the payment processing and reconciliation functions

Business Problems	Recommendations	Risks
<ul style="list-style-type: none"> • Current FFEL system is out-dated and costly to maintain • Current FFEL system requires redundant data entry • Currently, workarounds are required to process data and reports 	<ul style="list-style-type: none"> • Fully integrate automated GA payment and cash management functions • Improve cash management through elimination of multiple payment entry points and use of web, FTP and EFT • Reduce manual data entry 	<ul style="list-style-type: none"> • GA functional requirements must be documented and implemented in FMS • Requires coordination with CFO and other SFA channels • Data access and transfer to related systems/organization groups

Potential Benefits to SFA/Financial Partners

- Increased customer satisfaction by providing a business-to-business (B2B) environment with 100% electronic payment capability
- Increased customer satisfaction by involving Partners in the development of requirements and enhancement of forms
- Reduced unit costs by integrating reengineered and automated GA payment functionality in FMS
- Increased employee satisfaction by improving data integrity, reporting capabilities and reducing manual data entry

Solution Description

The solution in support of this recommendation is to fully automate all financial management and cash management functions in support of GA processes. The following recommendations are available to support the automation effort:

- Include all financial management and cash management functionality in the new FMS system
- Enhance the existing functionality within the FFEL system
- Design, develop and implement a new automated system in support of this functionality

The recommended solution is to leverage the FMS system and integrate all GA payment and cash management functionality. The second and third bullet recommendations are not cost effective given the required system development effort and that FMS supports the required functionality for GAs. This functionality is scheduled to be implemented in Phase 2 of the FMS project, due October 2000.

The recommended migration would ideally happen before or coincide with the expiration of the current Raytheon contract extension, in 2001, which would reduce the time, effort and costs to SFA in contract maintenance and system maintenance activities of concurrently supporting the two systems.

Cost Benefit Analysis

Currently, the FP Channel is spending approximately \$2.1 million annually on the GA allocation of the FFEL system processing, which includes almost \$100,000 in manual data entry (and re-entry) costs per year. Because of the age of the FFEL system and number of modifications made to FFEL over the past decade, the maintenance costs are significant compared to more current technology.

Although the development, maintenance and operational costs of FMS have not been determined, the following benefits of integrating automated GA payment and cash management functions are anticipated:

- Significant reduction or elimination of data entry
- Increases in electronic data exchange
- Improved data integrity
- More efficient technologies

The GA/Lender FP process workgroup will continue to work with the FMS team to understand the estimated FMS costs to be allocated to the FP Channel. Additionally, future system development costs will be shared across other SFA Channels (e.g., School Channel and Student Channel), which will further offset system operations costs.

Critical Assumptions

This recommendation assumes the following:

1. All Guaranty Agency payment and cash management functions will be migrated to FMS by October 1, 2000, as described in the FMS project summary in Appendix C of this document.
2. The FFEL system will be required for inquiry only until the implementation of the FP data warehouse, as described in the Enabling Technologies projects summary in Appendix C of this document.

Recommended Next Steps

Since functionality currently being provided by the FFEL system will migrate to FMS, the FP reengineering team recommends that a detailed analysis be completed to identify what, if any, functionality is not included in FMS. The analysis would identify any remaining manual processes which could be automated.

Recommendations would be made pertaining to where this additional functionality should be supported. After FMS Phase 2 implementation, the FP reengineering team will work with the GA/Lender FP process workgroup to redesign and provide enhancement requirements to FMS.

Recommendation #2 - Fully Integrate Reengineered Automated Lender Payment and Cash Management Functions

Objectives

- Decrease the number of systems and improve system operations with updated technologies
- Reduce the number of payment entry points and manual data entry requirements
- Streamline the payment processing and reconciliation functions

Business Problems	Recommendations	Risks
<ul style="list-style-type: none"> • Current FFEL system is out-dated and costly to maintain • Current FFEL system requires redundant data entry • Currently, workarounds are required to process data and reports 	<ul style="list-style-type: none"> • Fully integrate automated Lender payment and cash management functions • Reduce manual data entry • Increase automation through web, FTP and EFT • Improved turnaround time (invoice submission to receipt of payment) • Review invoice and payment structure 	<ul style="list-style-type: none"> • Lender functional requirements must be documented and implemented by end of FY2001 • Requires coordination with CFO and other SFA Channels • Data access and transfer to related systems/organization groups

Potential Benefits to SFA/Financial Partners

- Increased customer satisfaction by providing a B2B environment with 100% electronic payment capability
- Increased customer satisfaction by involving Partners in the development of requirements and enhancement of forms
- Reduced unit costs by integrating reengineered and automated Lender payment functionality in FMS
- Increased employee satisfaction by improving data integrity, reporting capabilities and reducing manual data entry

Solution Description

The solution in support of this recommendation is to fully automate all financial management and cash management functions in support of Lender processes. The same recommendations are available to support the Lender's automation effort as documented for the Guaranty Agencies.

- Include all financial management and cash management functionality in the new FMS system
- Enhance the existing functionality within the FFEL system
- Design, develop and implement a new automated system in support of this functionality

The recommended solution is to leverage the FMS system and integrate all Lender payment and cash management functionality. The second and third bullet recommendations are not cost effective given the required system development effort and that FMS should support the required functionality for Lenders. This functionality is scheduled to be implemented in Phase 3 of the FMS project, due October 2001.

The recommended migration would ideally happen before or coincide with the expiration of the current Raytheon contract extension, in 2001, which would reduce the time, effort and costs to SFA in contract maintenance and system maintenance activities of concurrently supporting the two systems.

Cost Benefit Analysis

Currently, the FP Channel is spending approximately \$10 million annually on the Lender allocation of the FFEL system processing, which includes over \$650,000 in manual data entry (and re-entry) costs per year. Due to the age of the FFEL system and number of modifications made to FFEL over the past decade, the maintenance costs are large compared to more current technology.

Although the development, maintenance and operational costs of FMS have not been determined, the following benefits of integrating automated Lender payment and cash management functions are anticipated:

- Significant reduction or elimination of data entry
- Increases in electronic data exchange
- Improved data integrity
- More efficient technologies

The GA/Lender FP process workgroup will continue to work with the FMS team to understand the estimated FMS costs to be allocated to the FP Channel. Additionally, future system development costs would be shared across other SFA Channels (e.g., School Channel and Student Channel), which would further offset system operations costs.

Critical Assumptions

This recommendation assumes the following:

1. All Lender payment and cash management functions will be migrated to FMS by October 1, 2001, as described in the FMS project summary in Appendix C of this document.
2. The FFEL system will be required for inquiry only until the implementation of the FP Channel data warehouse, as described in the Enabling Technologies projects summary in Appendix C of this document.

Recommended Next Steps

Since functionality currently being provided by the FFEL system will migrate to FMS, the FP reengineering team recommends that a detailed analysis be completed to identify what, if any, functionality is not included in FMS. The analysis would identify any remaining manual processes which could be automated. Recommendations would be made pertaining to where this additional functionality should be supported.

Recommendation #3 - Create Automated Payment Verification Checkpoints for GA payments, Lender payments, Loan Consolidation fees and Sallie Mae fees*

Objectives

- Reduce improper payments by 1% per year
- Increase accurate receivables
- Improve efficiency and accuracy of review process
- Improve cash management on payments and fees

Business Problem	Recommendations	Risks
<ul style="list-style-type: none"> • No payments or fees verification process, which may result in improper payments and inefficiencies in the review process 	<ul style="list-style-type: none"> • Establish a payments and fees verification checkpoint prior to payment • Implement a review tracking system to link with Oversight and Technical Assistance database (PEPS or new tracking system) • Reduce policy interpretation issues regarding payments and fees 	<ul style="list-style-type: none"> • GA and Lender participation in development and implementation of new review process • Additional data requirements for payments and fees from GAs and Lenders • Changes in regulation to provide incentives for additional GA and Lender responsibilities

Potential Benefits to SFA/Financial Partners

- Increased customer satisfaction by incorporating Partners feedback into development of Automated Payment Verification checkpoint
- Reduced unit costs by reducing improper payments by approximately \$14.2 million per year
- Increased employee satisfaction by improving data accuracy

** Refers to verification of payments to and from SFA*

Current Situation

In FY 1999, over \$4 billion in payments were disbursed to Guaranty Agencies, Lenders and Servicers, as depicted below:

Guaranty Agencies	\$2,239,994,606
Lenders	\$1,834,588,548
Total Payments	\$4,074,583,154

During this same period, close to \$200 million in payments were received from Lenders and Servicers, as depicted below:

Loan Consolidation Fees	\$162,371,502
Sallie Mae Fees	\$31,600,894
Total Receivables	\$193,972,396

These savings can be largely attributed to the fact that in the existing audit process reviews are completed several months (sometimes years) after the invoices have been approved, resulting in improper payments to and from SFA. In addition, only a small percentage of invoices are reviewed, usually as a result of a GA/Lender review.

Solution Description

Best practices within the financial industry indicate that 100% of large dollar invoices should be reviewed prior to payment and all other invoices should be reviewed on a sampling basis. The recommended solution is to automate an invoice review process integrated with the payment process. Implementing an automated checkpoint review would reduce invalid payments due to an ongoing automated verification process. This solution assumes that accurate source data (i.e., loan-level data) will be available.

Since industry best practices recommends the review of large dollar invoices, all GA and Lender invoices should be verified prior to payment. Although the Sallie Mae fees are currently only \$30 million per year, these fees are expected to increase significantly within the next few years due to recent acquisitions and should also be included in the verification process. Lender invoices could be subject to a dollar amount threshold, directing large Lenders through the payment review process and recognizing that smaller Lenders may not have the capability to participate in the process due to lack of automation.

Cost Benefit Analysis

This recommendation includes establishing an automated review checkpoint for GA, Lender and Servicer payments. In calculating the cost/benefit associated with this recommendation, an industry average was used to estimate potential improper payments made by SFA. A GAO study, "Increase Attention Needed to Prevent Billions in Improper Payments," provided improper payment percentages for the following agencies:

Table III.2 Improper Payment Percentages

Agency	Improper Payments	% of Total Payments
Health and Human Services	\$12.6 billion	7.1%
Housing and Urban Development	\$857 million	4.6%
Department of Agriculture	\$1.4 billion	7%
Average		6%

While the industry is averaging 6% in improper payment disbursements, a 1% estimate is used for this calculation, representing a very conservative estimate. It is assumed that of the 1% in improper payments found, the automated checkpoint would result in preventing a minimum of 50% of the payments being made.

Due to the relatively small number of GAs (i.e. 100% or 36) and the large dollars associated with the payments, it is assumed that all GA invoices would be processed through the automated verification checkpoint. Implementing the checkpoint under these assumptions would result in an estimated savings of over \$11 million.

Table III.3 Automated Payment Verification Checkpoint GA Savings

<u>GA Savings</u>		
Payments Paid to GAs (FY99)		\$2,239,994,606
Estimated Improper Payments @ 1%		\$22,399,946
Estimated Savings as Result of Checkpoint	50% =	\$11,199,973

In addition, implementing the automated checkpoint for Lender payments could result in a potential savings of \$2.3 million as illustrated in the table below. This calculation assumes that 25% of the Lender payments would pass through to the checkpoint process due to the pre-established dollar threshold for invoice sampling. Of those invoices that pass through, the same assumption that the automated checkpoint would result in preventing 50% of the payments being made also applies.

Table III.4 Automated Payment Verification Checkpoint Lender Savings

<u>Lender Savings</u>	
Payments Paid to Lenders (FY99)	\$1,834,588,548
Percentage Processed Through Checkpoint	25%
Dollar Amount Processed Through Checkpoint	\$458,639,637
Improper Payments @ 1%	\$4,586,396
Estimated Savings as Result of Checkpoint	50% = \$2,293,198

Assuming that all Loan Consolidation fees and the Sallie Mae fees would be processed through the checkpoint, additional savings could be realized as depicted below.

Table III.5 Automated Payment Verification Checkpoint Loan Consolidation Fee Savings

<u>Loan Consolidation Fee</u>	
Payments Paid (FY99)	\$162,371,502
Estimated Improper Payments [1] @ 1%	\$1,623,715.02
Estimated Savings as Result of Checkpoint	50% = \$851,858

Table III.6 Automated Payment Verification Checkpoint Sallie Mae Fees Savings

<u>Sallie Mae Fee</u>	
Payments Paid (FY99)	\$31,600,894
Estimated Improper Payments [1] @ 1%	\$316,008
Estimated Savings as Result of Checkpoint	50% = \$158,004

[1] Refers to improper payments made to SFA by Lenders.

Total savings as a result of implementing the payment verification checkpoint are listed below.

Guaranty Agencies	\$11,199,973
Lenders	\$2,293,198
Loan Consolidation Fees	\$851,858
Sallie Mae Fee	\$158,004
Total	\$14,503,033

The following chart outlines the estimated costs in support of this process. All cost estimates are based upon existing system development task orders of similar size and scope.

Table III.7 Automated Payment Verification Checkpoint Cost Estimate

<u>One-Time Costs</u>	
Implement Payments Review Tracking System	\$750,000
Develop new Payments Review Procedures/Guides and Train Staff	\$250,000
Enhancement to PEPS	\$750,000
Total One-Time Costs	\$1,750,000
<u>Ongoing Costs</u>	
Ongoing Payments Review @ 16 hours per review	\$ 600 per review
Estimated # GA Payments processed per year	450 Payments
Total Ongoing Costs per year	\$270,000

Table III.8 Automated Payment Verification Checkpoint Net Benefits

<u>First Year Net Benefits</u>	
Estimated Annual Savings	\$14,503,033
Less One-Time Costs	(\$1,750,000)
Less Ongoing Costs	(\$270,000)
Estimated Year One Net Benefit	\$12,483,033
<u>Ongoing Net Benefits</u>	
Estimated Annual Savings	\$14,503,033
Less Ongoing Costs	(\$270,000)
Estimated Ongoing Net Benefit	\$14,233,033

Recommended Next Steps

Given the potential net benefit to implementing the checkpoint, proceed with developing a Business Case in support of this recommendation including a high level design of the new process and analysis of the costs, benefits and value received.

Recommendation #4 – Streamline GA, Lender and Servicer Review process

Objectives:

- Utilize self-evaluation techniques in the Performance Review process to involve GAs and Lenders
- Improve efficiency and accuracy of GA and Lender review process
- Improve return on review investment (increase average collections per review and reduce turnaround time from review to closure)
- Improve review tracking and performance trend analysis

Business Problem	Recommendations	Risks
<ul style="list-style-type: none"> • Reviews are not aligned with SFA objectives • Reviews are not coordinated to target the GAs and large Lenders 	<ul style="list-style-type: none"> • Establish a 100% GA Baseline Performance Review process • Establish a Selected Lender Performance review process in coordination with Risk Modeling • Involve GAs in audits of small Lenders • Implement a Review Tracking and Document Management system to link with Oversight and Technical Assistance database in PEPS 	<ul style="list-style-type: none"> • GA and Lender acceptance of new review process • Coordination with other internal and external Financial Partners • Changes in Federal Regulations

Potential Benefits to SFA/Financial Partners

- Increased customer satisfaction by incorporating Partners feedback in the design of process improvements and self-evaluation techniques
- Reduced unit costs by improving processes to recover funds netting approximately \$1.9 million per year
- Increased customer and employee satisfaction by improving processes and procedures regarding receiving accurate information, reviewing Partners and responding to Partner inquiries

Current Situation

Regional specialists conduct approximately 200 reviews per year, resulting in an average of approximately \$38,273 collected per review. Of the 431 regional reviews conducted in the past 2.5 years, only 14 of the top 100 Lenders were reviewed. Currently, the GA’s are responsible for reviewing their largest Lenders (holding at least 2% of the GA’s loan portfolio). The GA’s and SFA have been conducting joint reviews of these Lenders even though these reviews are reported as GA and Lender reviews. The following historical data provides an overview of the number of reviews conducted in recent years:

Year	Total Lender Reviews <i>(PEPS Data)</i>	100 Largest Lender Reviews	GA Reviews of “Top 100” Lenders
1998	198	12	22*
1999	212	2	16*
2000 – First 2 Quarters	94	0	<i>*based on calendar year figures</i>

The actual time spent performing a review is not currently tracked. It is difficult to estimate the elapsed time from the beginning of the review process through closure and the ultimate collection of money. It is also difficult to estimate the future receipt of funds resulting from reviews without a baseline tracking process.

FP Channel Lender reviews are not coordinated or integrated with GA reviews of Lenders. This causes the potential for redundant efforts on the part of the FP Channel and Guaranty Agencies, with little or no additional return on the investment. Lenders reviewed by a GA would not need to be reviewed by the FP Channel, allowing the FP Channel to focus resources on reviewing other Lenders.

Solution Description

The reengineered GA and Lender review process would focus on the following items:

- Coordinating SFA reviews of Servicers using third party regulations and multi-guaranteed Lenders with GA reviews of Lenders that only have one guarantor and are not serviced.
- Implementing quality control efforts and ensuring GA reviews of small Lenders
- Coordinating reviews across regions and with headquarters to improve communication and streamline the process within the FP Channel.
- Establishing Self-evaluation techniques and performance verification checkpoints.
- Defining and establishing incentives for excellence in performance for the GAs and Lenders.

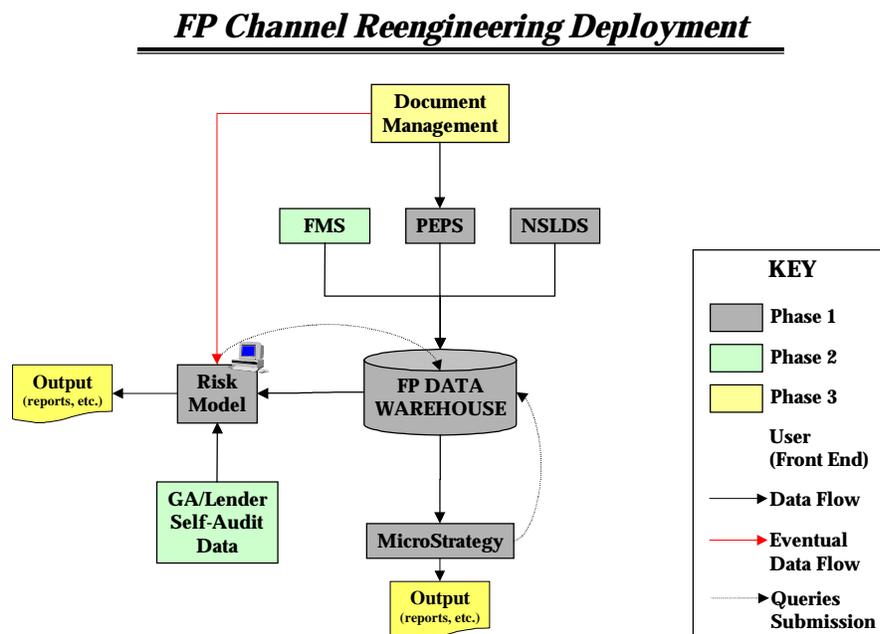
The long-term objective is to implement self-evaluation techniques in conjunction with performance monitoring and verification checkpoints by the FP Channel. The

Self-evaluation techniques apply the concepts of partnership between the FP Channel and Partners and requires a baseline of valid GA and Lender performance data. Self-evaluation techniques also require incentives for timely and accurate participation in the process.

The Self-evaluation surveys would be performed routinely and submitted electronically to the Risk Modeling and Review Tracking System, along with sample loan level data to support the responses for the specified period. Examples of required supporting data may include:

- Total loan portfolio by program, by loan status
- Due diligence activities for a statistically significant sample of delinquent and defaulted loans
- Loan disbursements by program by school for a sample of new loans

Figure III.1 Self-evaluation Processing Requirements



Cost Benefit Analysis

The cost benefit analysis was prepared using high level estimates. These figures will be validated and verified in the Business Case deliverable. Implementing a reengineered process will also result in the following non-monetary benefits:

- Reduced error rates
- Improved accuracy of future billings
- Increased program integrity

The reengineered review process has the potential to result in an estimated net increase in collections of approximately \$1.9 million per year, with an initial first-year cost of \$ 1.0 million and no additional ongoing costs. Although data is not available to assess the savings associated with reducing the elapsed time from the start of the review to closing and collecting the money, it is assumed that by streamlining the review process, savings will occur as a result of collecting the money more expeditiously.

Table III.9 Estimated Increase in Collections Resulting from Reengineered Review Process [1]

<u>Current Collection per Review</u>		
Average Collected per Regional Review [2]	\$38,273	
Cost of Average Review [3]	<u>\$13,475</u>	
Net Collection per Review	\$24,798	
Total Reviews Completed per Year	200	
Current Collections per Year		<u>\$4,959,600</u>
<u>Estimated Increase in Collections</u>		
Current Collection per Review	\$38,273	
Estimated Increase in Collection	25%	
Increased Collection per Review	<u>\$47,841</u>	
Cost of Average Review	\$13,475	
Increased Net Collection per Review	<u>\$34,366</u>	
Total Reviews Completed per Year [4]	200	
Estimated Collections per Year		<u>\$6,873,250</u>
Net Increased Collections		<u>\$1,913,650</u>

[1] These estimates are based on prior year's data and may not predict the future.

[2] Average of net collections resulting from regional reviews for 1998, 1999, and first two quarters of 2000. This does not include reviews completed by headquarters for those years.

- [3] Assumes average actual review cost of specialists and prorated actual travel expenses for 50% large Lenders and 50% medium to small Lenders. Includes travel, computer equipment depreciation, review specialist time, and report extraction expenses averaged over fiscal years 1998, 1999, and the first two quarters of fiscal year 2000.
- [4] Assumes 200 reviews per year (no increase from current volume)

Table III.10 Short-term Costs of Implementing Reengineered Review Process

<u>One-Time Costs</u>	
Implement Review Tracking System with interface to PEPS and Risk Modeling System [1]	\$500,000
Update and enhance review procedures/guides and train staff [1]	\$500,000
Total One-Time Costs	\$1,000,000
<u>Ongoing Costs</u>	
Total Ongoing Costs	\$0

[1] Estimates based on existing task orders of similar size and scope

Recommended Next Steps

Development of a high level process design in support of the Reengineered GA, Lender and Servicer Review process. A separate team within Financial Partners is reviewing the risk modeling process for potential improvement opportunities. An effort should be made to coordinate these initiatives recognizing the integration of processes shared by these efforts.

B. FP Channel/SFA Integrated Solutions

These recommendations are critical to the future operations of the FP Channel in its transformation effort. There are existing SFA-sponsored initiatives which have been undertaken addressing these issues at an enterprise level. In most cases, the FP Channel must develop channel-specific capabilities in support of these processes which coordinate and integrate Enterprise-wide. A summary of the SFA Enterprise-wide projects are included in *Appendix C: Summary of Related SFA Projects*.

Table III.11 Overview of FP Channel/SFA Integrated Solution Benefits

Recommended Solution	Improve Customer Satisfaction	Reduce Unit Cost	Improve Employee Satisfaction
Conduct review of LEAP/SLEAP processes for potential improvement opportunities	●	◐	●
Implement FP Customer Relationship Management (CRM) capability linked to Enterprise-wide CRM and Ombudsman	●	◐	◐
Conduct Enterprise-wide Program Development review which will link to Financial Partners Policy and Analysis	◐	◐	●
Develop Knowledge Management System including common database in conjunction with document management, data warehousing and CRM	●	◐	●
Link Financial Partners Contract Management with Enterprise-wide Acquisition and Management process	◐	●	●

Key:
 ● **High Impact**
 ◐ **Medium Impact**
 ○ **Low Impact**

Recommendation #5 – Conduct review of LEAP/SLEAP processes for potential improvement opportunities

Objectives

- Review application, award calculation, compliance and drawdown processes for LEAP/SLEAP program
- Develop reengineering recommendations/solutions to automate processes for FMS Phase 3 implementation

Business Problem	Recommendations	Risks
<ul style="list-style-type: none"> • Application is manually entered • Currently use MS Database and Excel spreadsheets to calculate award amount • Award amounts are manually entered into GAPS • Reports generated from GAPS do not work properly 	<ul style="list-style-type: none"> • Automate processes: <ul style="list-style-type: none"> - Web front-end to submit application - Automated award process - Electronic transfer of information to GAPS • Improve LEAP/SLEAP report and query capabilities • Streamline review process • Review funds transfer 	<ul style="list-style-type: none"> • New processes need to be developed for October 2001 FMS implementation • Partner acceptance of new process • Coordination with Partners

Potential Benefits to SFA/Financial Partners

- Increased customer satisfaction by redesigning application process to include web-based front-end
- Reduced unit costs by reducing manual data entry
- Increased employee satisfaction by increasing ability to access and disseminate information

Recommendation #6 – Implement FP Customer Relationship Management (CRM) capability linked to Enterprise-wide CRM and Ombudsman

Objectives

- Implement a CRM system with single point of contact, Partner integration capabilities and tracking functionality
- Provide focus on Financial Partners CRM requirements
- Link to Enterprise-wide and Ombudsman efforts

Business Problem	Recommendations	Risks
<ul style="list-style-type: none"> • No single point of contact. Partners receive inconsistent information • No tracking of Financial Partners inquiries or SFA responses • No ability to analyze amount of time spent on Partner relations, opportunities for training, or consistency of SFA information to Financial Partners • Currently, workarounds are required to process data and reports 	<ul style="list-style-type: none"> • Eliminate multiple points of contact • Increased use of email communication • Link CRM and web-site to disseminate information and FAQs • Track calls by type, topic, source and response • Trend analysis • Improve communication internally (FP Channel and SFA Enterprise-wide) and with Partners 	<ul style="list-style-type: none"> • Publication and training for new procedures will require FP Channel acceptance • Additional responsibilities for SFA staff

Potential Benefits to SFA/Financial Partners

- Increased customer satisfaction by increasing customer relationship management capabilities
- Reduced unit cost and increased employee satisfaction by increasing automated functionality, access to data, and ability to disseminate information

Recommendation #7 – Conduct review of Enterprise-wide Program Development processes which will link to Financial Partners Policy and Analysis

Objectives

- Review Enterprise-wide Program Development current environment
- Document requirements for knowledge and document management
- Develop procedures and business rules
- Provide link to Financial Partners Policy and Analysis

Business Problems	Recommendations	Risks
<ul style="list-style-type: none"> • No common database for knowledge management • Knowledge base currently exists on individual PCs • Research is time consuming • Duplicate efforts among Program Development staff • Inconsistent policy interpretations are provided to Partners • Lack of tracking and trend analysis functionality • No documented procedures • Need link to Oversight and Technical Assistance as well as other SFA core processes 	<ul style="list-style-type: none"> • Document knowledge management requirements • Document procedures and business rules • Link to document management and data warehousing Enterprise-wide efforts • Link to Enterprise-wide CRM effort <ul style="list-style-type: none"> - Single point of contact - Track inquiries - Trend analysis • Improve use of web capability • Link to Oversight and Technical Assistance 	<ul style="list-style-type: none"> • Publication and training of new procedures • Communication to Partners

Potential Benefits to SFA/Financial Partners

- Increased customer and employee satisfaction by developing a Program Development knowledge management structure to improve internal and external information dissemination
- Reduced unit cost by decreasing research, inquiry and response time

Recommendation #8 – Develop Knowledge Management System including common database in conjunction with document management, data warehousing and CRM

Objectives

- Provide focus on Financial Partners Core Processes knowledge management requirements and resources
- Develop Financial Partners Knowledge Management System and procedures

Business Problems	Recommendations	Risks
<ul style="list-style-type: none"> • Same information is captured multiple times • Data is inconsistent and difficult to manage • Inefficiencies result in additional cost • No knowledge management procedures in place 	<ul style="list-style-type: none"> • Link GA/Lender payment processing, Oversight and Technical Assistance Policy and Analysis and Contract Management to FP and Enterprise-wide data warehouse, document management and CRM • Develop knowledge plan and procedures to document how core processes use and contribute to knowledge management • Identify all knowledge management input sources • Access to data across channel functions 	<ul style="list-style-type: none"> • Publication and training of new procedures • Acceptance and use of FP staff

Potential Benefits to SFA/Financial Partners

- Increased customer and employee satisfaction by improving internal and external information dissemination
- Increased employee satisfaction by developing Knowledge Management core processes input requirements and procedures for use
- Reduced unit costs by decreasing research, inquiry and response time

Recommendation #9 – Link Financial Partners Contract Management with Enterprise-wide Contract Acquisition and Management process

Objectives

- Restructure Contract Management processes to be performance-based
- Provide focus on Financial Partners Contract Management requirements

Business Problems	Recommendations	Risks
<ul style="list-style-type: none"> • Not performance-based • Quality measures are not tied to vendor payment • Duplication of efforts • Contract administration is performed on contract-specific basis 	<ul style="list-style-type: none"> • Restructure process to be performance-based • Improve service quality • Lower cost for services • Partner with contractors • Ability to adapt contracts to changing program, technology, or service requirements 	<ul style="list-style-type: none"> • Publication and training of new procedures • Communication to vendors

Potential Benefits to SFA/Financial Partners

- Increased customer and employee satisfaction and reduced unit cost by developing a performance-based contract management structure to provide flexible contracting with better outcomes for Financial Partners

C. Quick Hits

In addition to the more strategic solutions, three "quick hit" recommendations have been identified. These FP Channel short-term solutions should be considered part of the overall solution and will provide a sound infrastructure for the larger reengineering efforts. These recommended "quick hits" focus primarily on communication and coordination within SFA.

Table III.12 Overview of Quick Hit Benefits

Recommended Solution	Improve Customer Satisfaction	Reduce Unit Cost	Improve Employee Satisfaction
Reengineer publication of Dear Partners Letters using the web with link to industry (e.g., NCHELP).	●	◐	●
Re-establish bi-weekly conference calls between SFA Program Development and FP Policy and Analysis	●	◐	●
Redesign and link Financial Partners web-sites for easier navigation and access to information	●	◐	◐

Key:
 ● **High Impact**
 ◐ **Medium Impact**
 ○ **Low Impact**

Quick Hit #1: Reengineer publication of Dear Partners letters. Publish on web site with link to industry sites (e.g., NCHELP)

The current publication process takes between 6 months and one year. It currently costs over \$8,000 to develop, publish and send a Dear Partners Letter to the Lender community. By publishing Dear Partners letters on the SFA web site or emailing the letter to the Partners, the FP Channel can save approximately \$5,000 annually in publishing costs.

Quick Hit #2: Reestablish bi-weekly conference calls between SFA Program Development and FP channel staff

Bi-weekly conference calls will improve overall communication. The primary purpose is to enable SFA staff to provide timely, clear and consistent responses to partner inquiries. By providing a direct mechanism for regional and Partner input, the enterprise-wide Program Development staff will have a better understanding of the impacts of their decisions and work on the FP Channel, regional staff and Partners. These calls will assist in addressing the following challenges being faced today:

- Difficulty in responding to Partners inquiries quickly and consistently
- Lack of coordination in timing and notifying Financial Partners regional staff of policy and regulatory changes

The following benefits will be realized by reestablishing these calls:

- Ability to provide timely, clear and consistent responses to Partner inquiries and clearly explain and articulate SFA's position on issues that affect the Partners
- Regional staff are better prepared to respond to Partner inquiries when new regulatory/policy changes are implemented
- Regional staff and Partners feel that their input is valued by headquarters
- Policy and Analysis and Program Development staff in headquarters realize the implications of their decision at the regional level

Quick Hit #3: Redesign and link existing Financial Partners web sites for easier navigation and access to information

Currently, navigating through the FP Channel web sites can be confusing for those unfamiliar with the various layouts. By redesigning and increasing the number of links between the various web sites and publishing a "site map," FP Channel and other SFA staff will be able to find the information they need more efficiently, resulting in more timely responses to Partner inquiries. Better organized web sites will also encourage external users, (e.g., Lenders, Guaranty Agencies) to use the internet more frequently to research questions independently, resulting in a decreased number of inquiries to the FP Channel and time savings for FP Channel staff.

D. Next Steps

The recommended next steps in the reengineering process for the FP Channel are categorized by implementation method.

Begin development and implementation of Quick Hits

- Reengineer publication of Dear Partner letters. Publish on web site with link to industry.
- Re-establish bi-weekly conference call between SFA Program Development and FP channel staff
- Redesign and link existing Financial Partners web sites for easier navigation and access to information

Conduct review of Financial Partners processes and procedures in support of Enterprise-wide initiatives.

- Conduct review of LEAP/SLEAP processes for potential improvement opportunities
- Implement FP Customer Relationship Management (CRM) capability linked to Enterprise-wide CRM and Ombudsman
- Conduct Enterprise-wide Program Development review which will link to Financial Partners Policy and Analysis.
- Develop Knowledge Management System including common database in conjunction with document management, data warehousing and CRM
- Link Financial Partners Contract Management with Enterprise-wide Contract Acquisition and Management Process

Develop Business Case for Key Recommendations:

The Business Case will focus on the Automated Payment Verification recommendation since it comprises the majority of the estimated reengineering benefits. The Business Case will further analyze this recommendation, including a high level design of the “to be” reengineered process along with an analysis of the costs, benefits and values associated with implementing the revised process.

Since FMS is being designed and implemented to support the automated GA and Lender payment and cash management functions, the FP reengineering team recommends that an analysis be completed to identify what, if any, functionality is not included in FMS. The analysis would identify any remaining manual processes which could be automated. Recommendations would be made pertaining to where this additional functionality should be supported.

Finally, the FP reengineering team recommends that a high level process design be completed in support of the Reengineered GA, Lender and Servicer Review process. A separate team within Financial Partners is reviewing the risk modeling process for

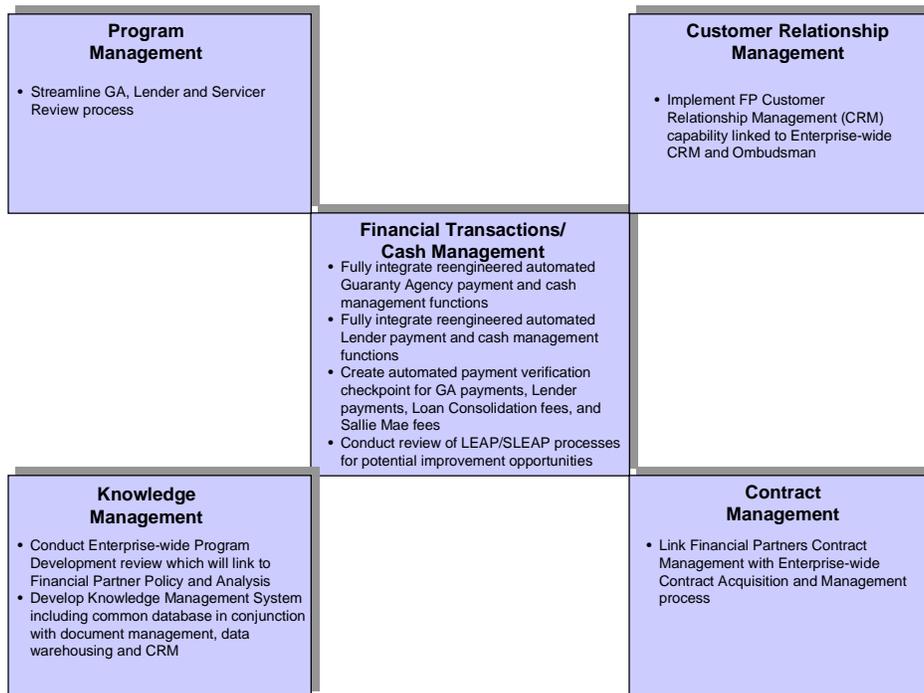
potential improvement opportunities. An effort should be made to coordinate these initiatives recognizing the integration of processes shared by these two processes.

IV. CONCLUSION

Based on this analysis, there are relevant reengineering opportunities available to the FP Channel which would result in significant value and achieve stated transformation goals. The recommended solutions will move the FP Channel towards increasing customer satisfaction, reducing unit costs and increasing employee satisfaction. As depicted in Figure IV.1, these recommendations are not confined to organizational boundaries, but impact major functional areas which touch all aspects of the organization.

The recommendations included in the document can provide cost savings and added value to the FP Channel through Partner understanding. Two of these recommendations resulted in the identification of an estimated \$16 million in annual savings (see Table IV.1 for breakdown). In addition, the FP Channel/SFA Integration Solutions and the Quick Hits will also result in increased customer satisfaction, reduced costs and increased employee satisfaction once implemented.

Figure IV.1 – Recommendations by Functional Area



The reengineering recommendations included in the document can provide cost savings and added value to the FP Channel. These savings are conservative estimates based upon preliminary assumptions and are summarized in the following table:

Table IV.1 Estimated Net Savings

Reengineering Solutions	Potential Annual Savings
1. Fully integrate reengineered automated GA payment and cash management functions	TBD
2. Fully integrate reengineered automated Lender payment and cash management functions	TBD
3. Automated Payment Verification Checkpoint process for GA payments, Lender payments, Loan Consolidation fees, and Sallie Mae fees [1]	\$14,200,000
4. Streamline the GA, Lender and Servicer Review process	\$1,900,000
TOTAL	\$16,100,000

[1] Refers to payments to and from SFA

In addition, the FP Channel/SFA Integrated Solutions and the Quick Hits will result in increased customer satisfaction, reduced costs and increased employee satisfaction once implemented.

The Business Case deliverable, the next stage in the process reengineering project, will focus on further analysis and confirmation of the savings, including an evaluation of the key assumptions that the estimates are based upon.