



# **Lender and Guaranty Agency Payments**

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*Current Environment Assessment*

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# *Functions*

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The Financial Partners Channel Financial Transactions process includes the following activities:

- Process lender <sup>(1)</sup> financial transactions (i.e., Form 799, Form 1207, Loan Consolidation Rebate Fees, SallieMae Off-set Fee)
- Process guaranty agency financial transactions (i.e., Form 1189, Form 1189 Addendum, Form 1130, LPIF/AMF<sup>(2)</sup>)
- Receive, research and respond to inquiries from members of the financial partners' community (e.g., on-line information, ad hoc report, borrower payment refund and operational policy inquiries and new lender set-ups)
- Initiate new systems requirements to improve partnerships with the GA and lender communities.
- Develop and implement changes to the existing FFEL system in response to legislative and regulatory program modifications
- Monitor standard financial management 'Best Business Practices' and recommend initiatives accordingly.

The Financial Transactions process focuses on:

- Ensuring that lender and guaranty agency information and reports are received and processed in a timely manner
- Ensuring payments to and from lenders and guaranty agencies are processed in a timely manner (e.g., working with FPC Contract Management to ensure overall functionality and maintenance needs of the system; working to minimize the number of reject forms being submitted by providing information and tools to partners; performing due diligence activities for delinquent partners to ensure payments are received, etc.)
- Providing support to financial partners related to submitting and processing of forms and data (e.g., providing directions on how to complete forms, providing applicable interest rate information, providing historical financial data, etc.)

*(1) - The term "Lender" or "Lenders" used in the Lender Payment functionality of this document also applies to "Servicer(s)"*

*(2) - LPIF = Loan Processing and Issuance Fee; AMF = Account Maintenance Fee*

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# ***High Level Process Flow and Requirements***

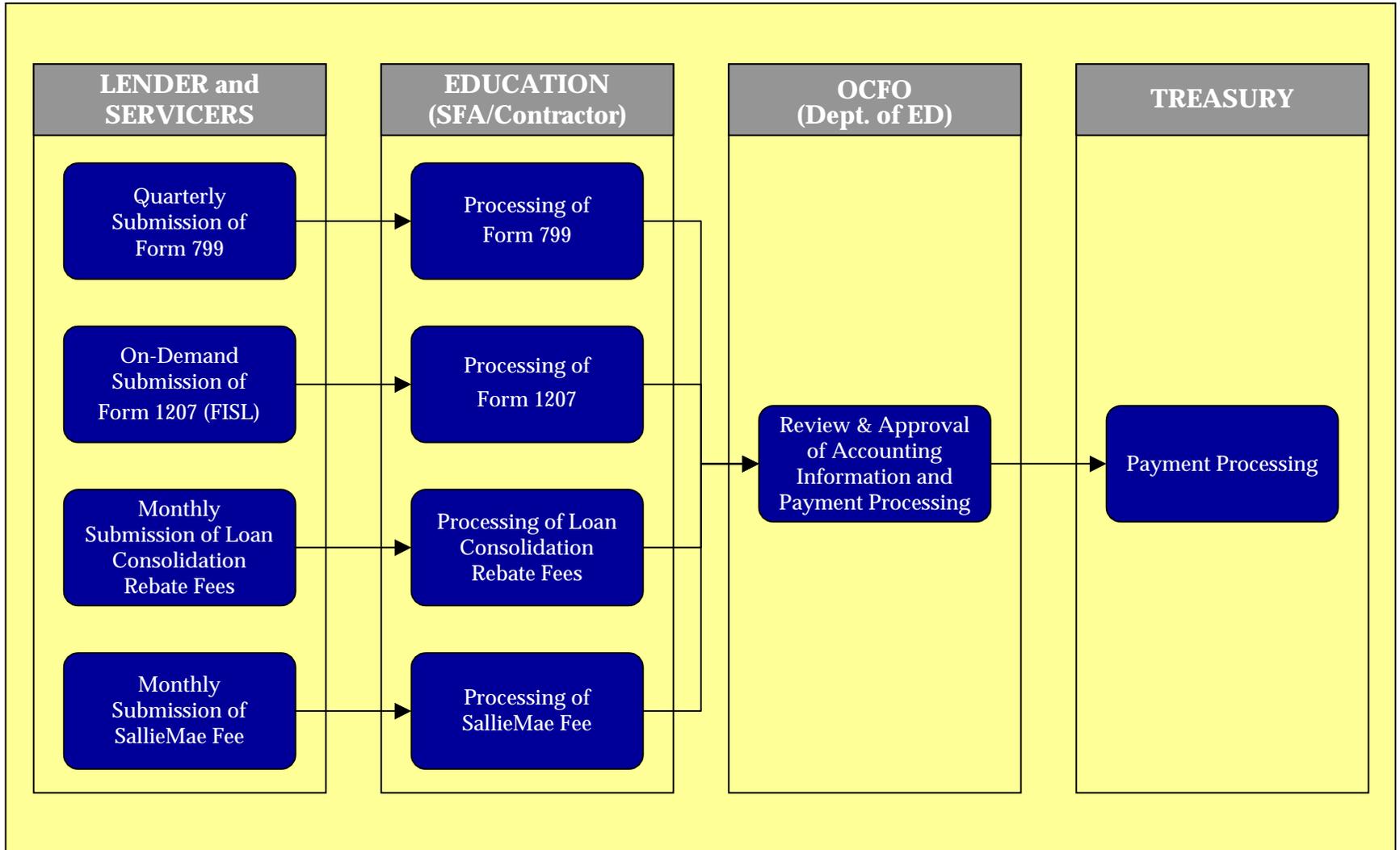
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The purpose of this section is to provide an overall picture of the processes that support the Lender and Guaranty Agency Payment functions. The section includes the process flows and high level requirements.

The process flows provide a high level view of the tasks that support the lender and guaranty agency payment functions. The flows demonstrate the general sequence of events and the outputs of those processes.

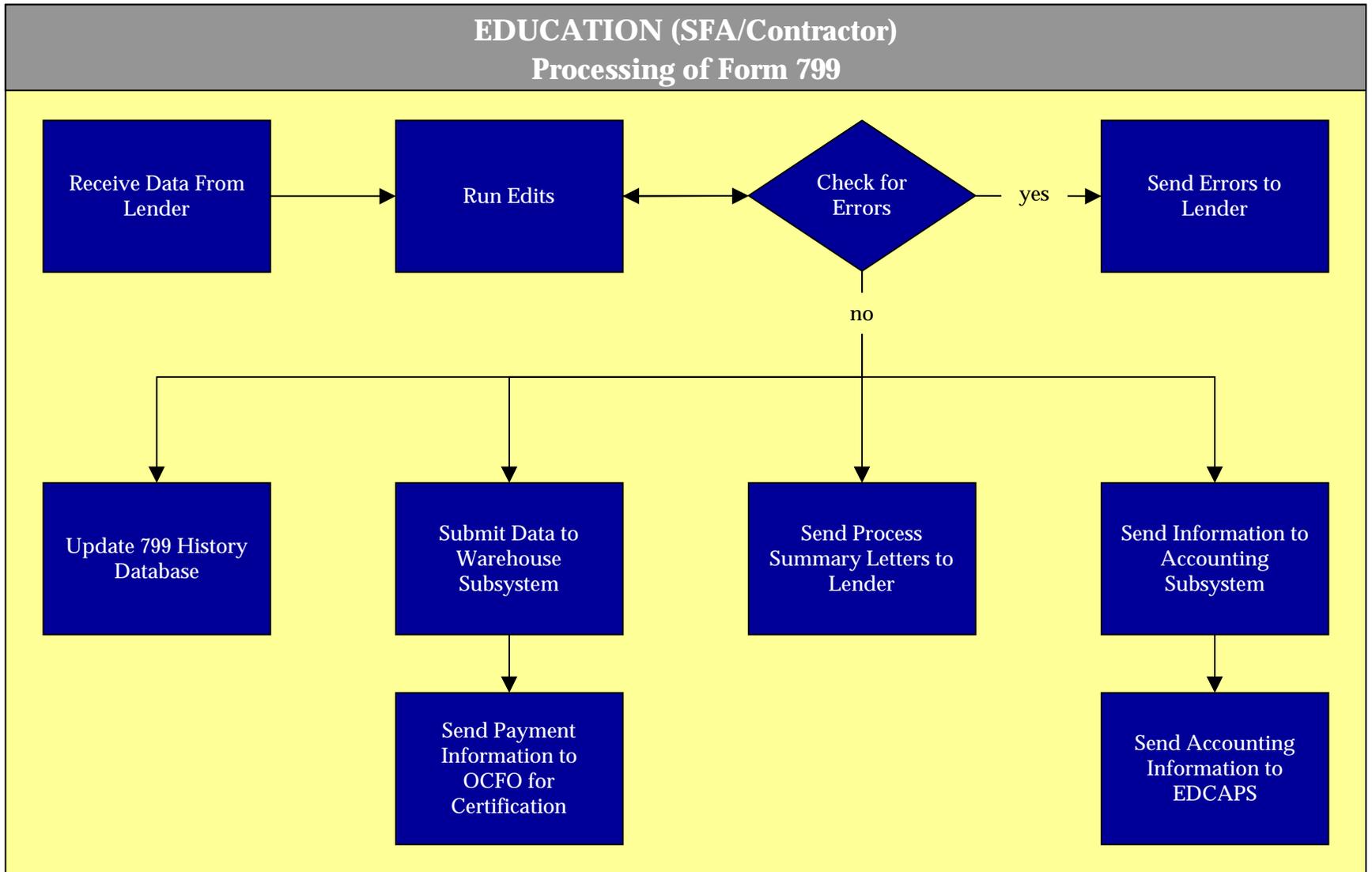
The high level requirements describe the main functions of each process step and business rules that must be followed.

# High Level Process Flow - Lender Payments

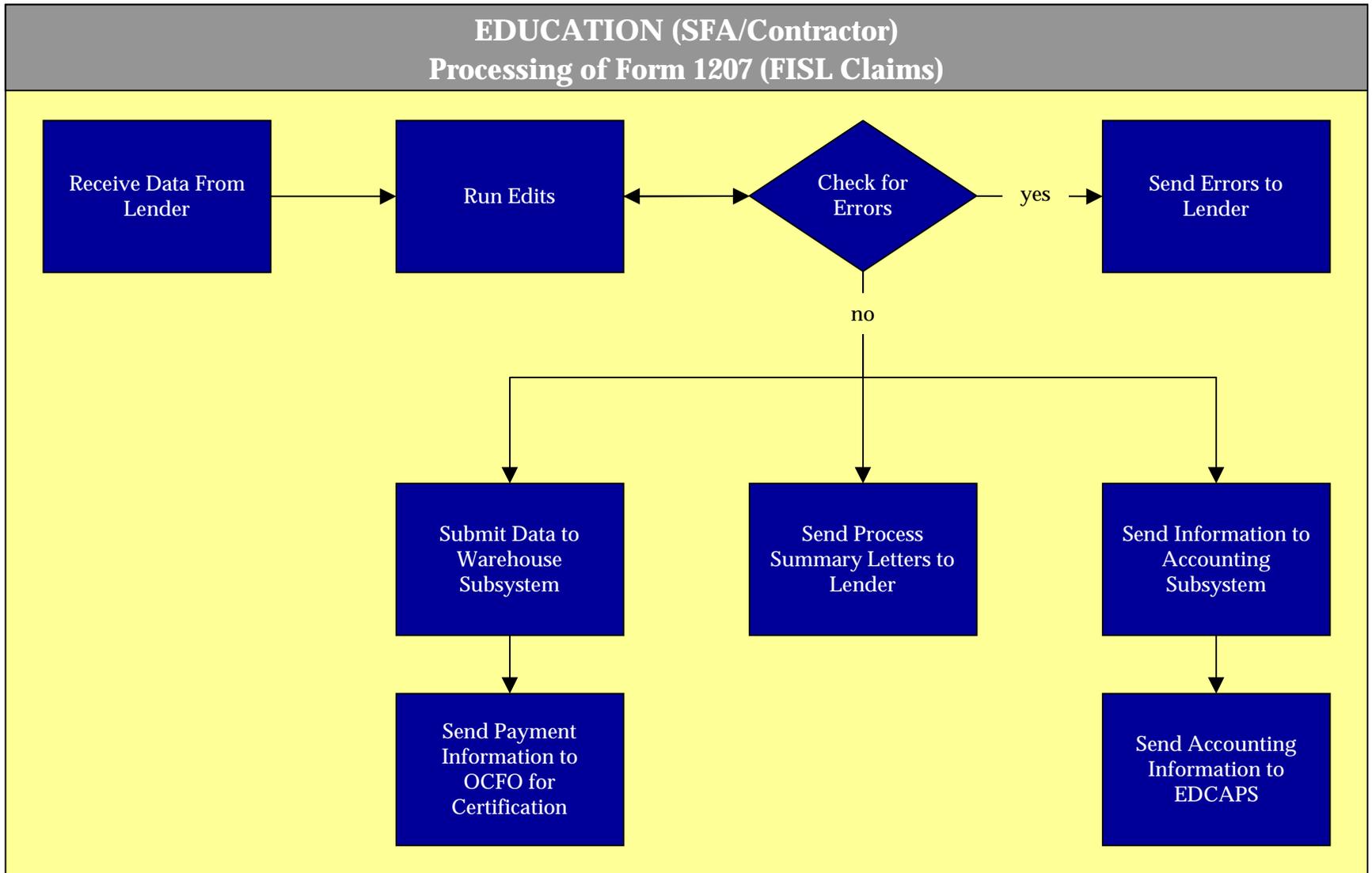


Note: OCFO = Office of the Chief Financial Officer, for the Department of Education

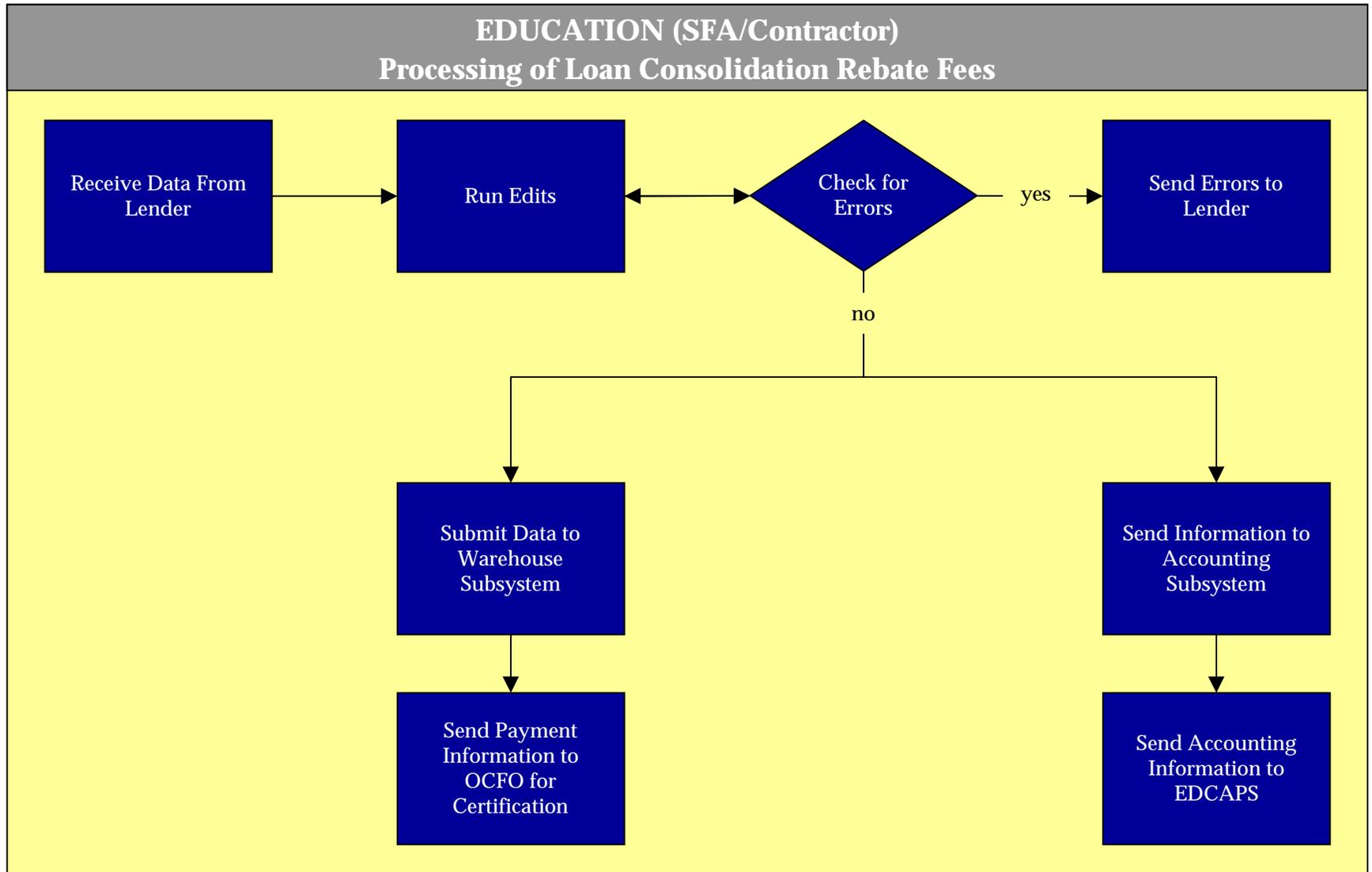
# Detailed Process Flow - 799 Form Processing



# Detailed Process Flow - 1207 Form Processing



# Detailed Process Flow - Loan Consolidation Rebate



# *Detailed Process Flow - SallieMae Fee Processing*

## EDUCATION (SFA/Contractor) Processing of SallieMae Fee

Receive Data From  
SallieMae

Send Information to  
Accounting  
Subsystem

Send Accounting  
Information to  
EDCAPS

# *High Level Requirements - Lender Payments*

## Lenders

- Prepare and submit Form 799 (Quarterly)
- Prepare and submit Form 1207 (Quarterly)
- Prepare and submit Loan Consolidation Rebate Fee Form (Monthly)
- Prepare and submit SallieMae offset Fee (Monthly)

## Education (SFA/Contractor)

- Receive interest and Special Allowance (SA) invoices from lenders and send approval/rejection notices
- Offset interest and SA payments due to ED or Treasury
- Provides lenders interest and SA authorizations to OCFO for certification and to Treasury for payment
- Maintains information on interest and SA payments made by ED
- Processes FISL claims (Form 1207) and submits authorization to OCFO and Treasury for payment
- Receive and process Loan Consolidation Rebate Fee information from lenders
- Receive and process SallieMae Fee

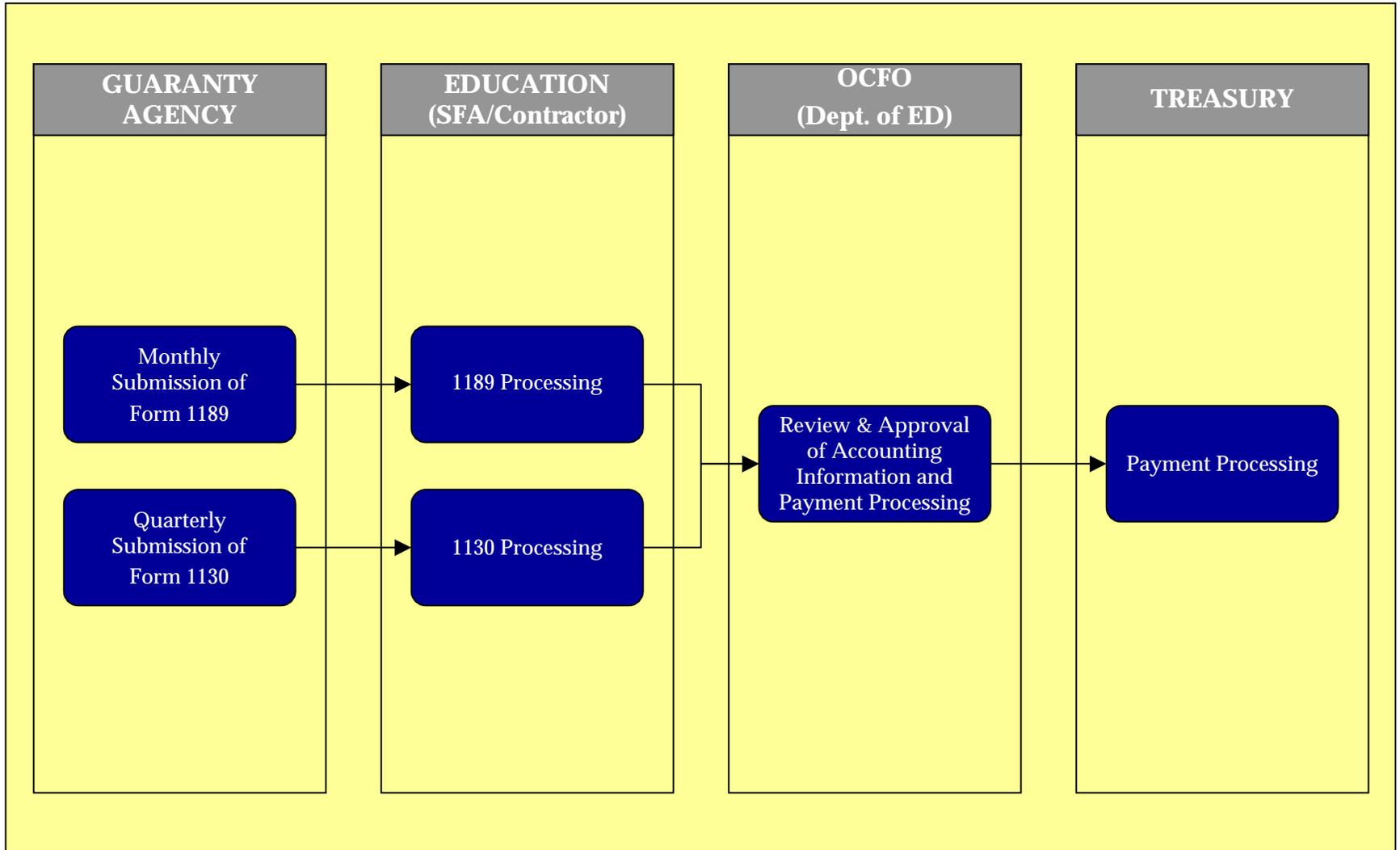
## OCFO (Dept of ED)

- Process payment certification and submit approval to Treasury
- Submit payment confirmation to SFA/Contractor

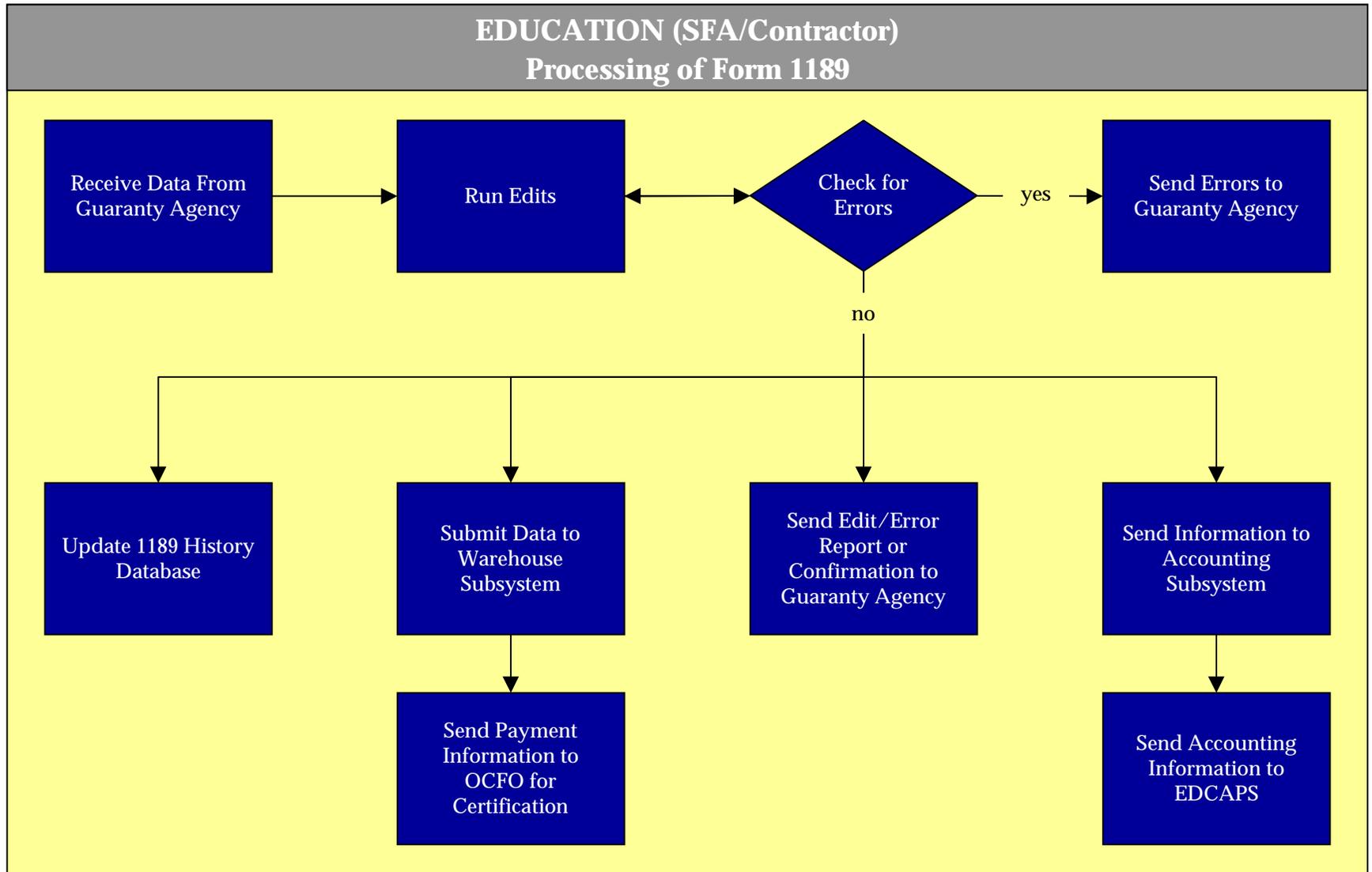
## Treasury

- Process payment information
- Payments to Lenders (EFT and checks)

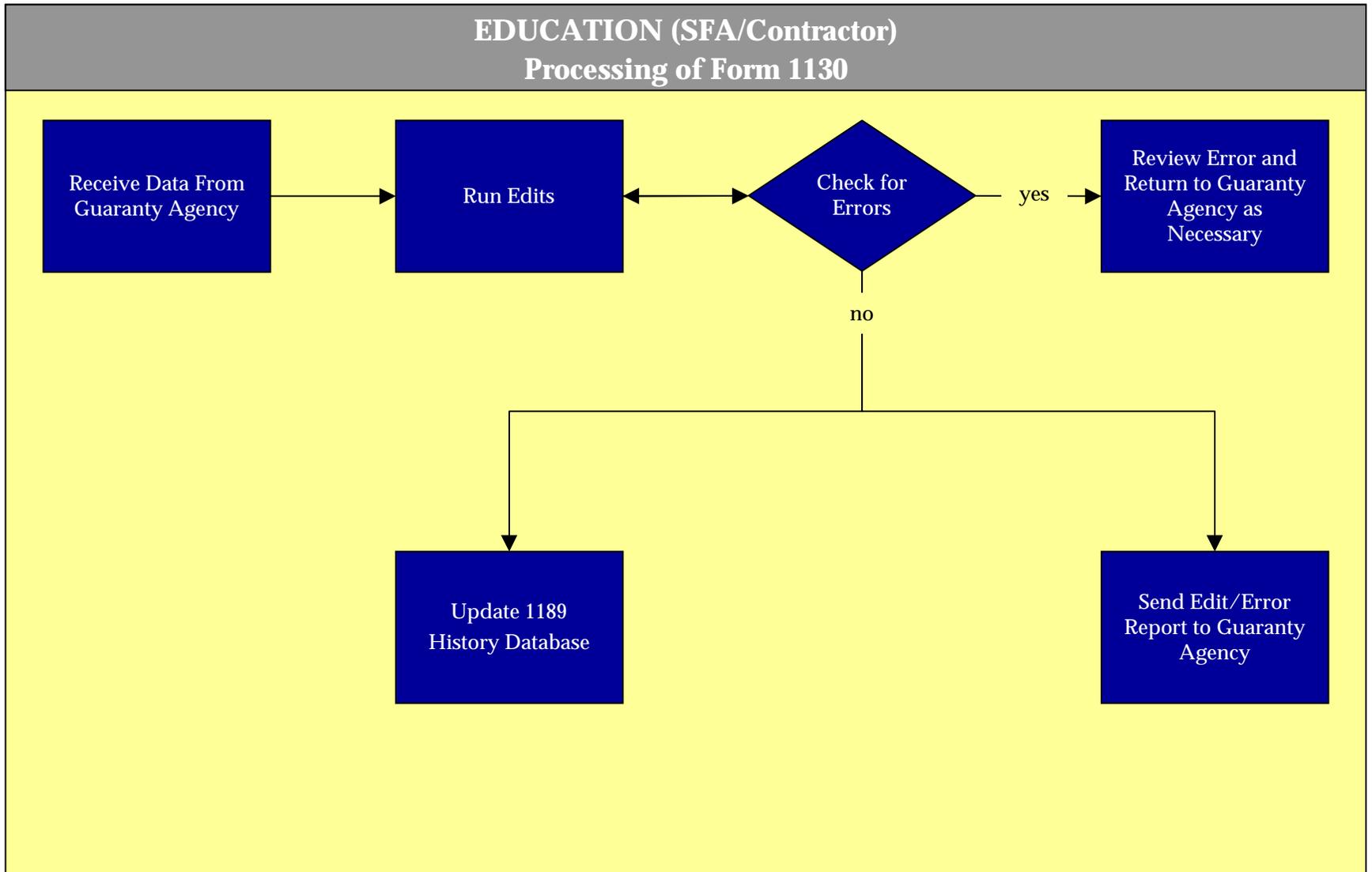
# High Level Process Flow - Guaranty Agency Payments



# Detailed Process Flow - 1189 Form Processing



# Detailed Process Flow - 1130 Form Processing



# *High Level Requirements - GA Payments*

## Guaranty Agencies

- Prepare and submit Form 1189 (Monthly)
- Prepare and submit Form 1130 (Quarterly)

## Education (SFA/Contractor)

- Receive and confirm reinsurance claim data from guaranty agencies and generate payment requests, and send them to OCFO for certification and to Treasury for payment
- Send approvals/rejections of reinsurance claims to guaranty agencies
- Maintain reinsurance claim information received from guaranty agencies
- Confirm maintenance fees and processing fees and generates payment requests and sends them to OCFO for payment through Treasury
- Process Form 1130 - Data entry processing (SFA/DC)

## OCFO (Dept of ED)

- Process payment certification and submit approval to Treasury
- Submit payment confirmation to Education/SFA

## Treasury

- Process payment information
- Payments to guaranty agencies

# *High Level Process Flow - CRM Function*

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# *High Level Requirements - CRM*

## Receive Inquiry

- Call, e-mail, fax, or mail in inquiries:
  - On-line information requests - e.g., “Where is my money?” “What was the ending balance on my last quarter’s 799?”
  - Ad hoc report requests - e.g., “How many disbursements were made last year by all lenders in New Mexico?”
  - Operational policy - e.g., “How should I report ‘x’ on the 799?”; “Why was my 799 rejected?”
  - New lender set-up
  - Borrower payment refunds from Fed Reserve (Note: from both FFEL and Direct Lending)
- Inquiries submitted randomly from:
  - Lenders/Serviceers
  - Guaranty Agencies
  - Borrowers
  - Oversight and Technical Assistance
  - Others

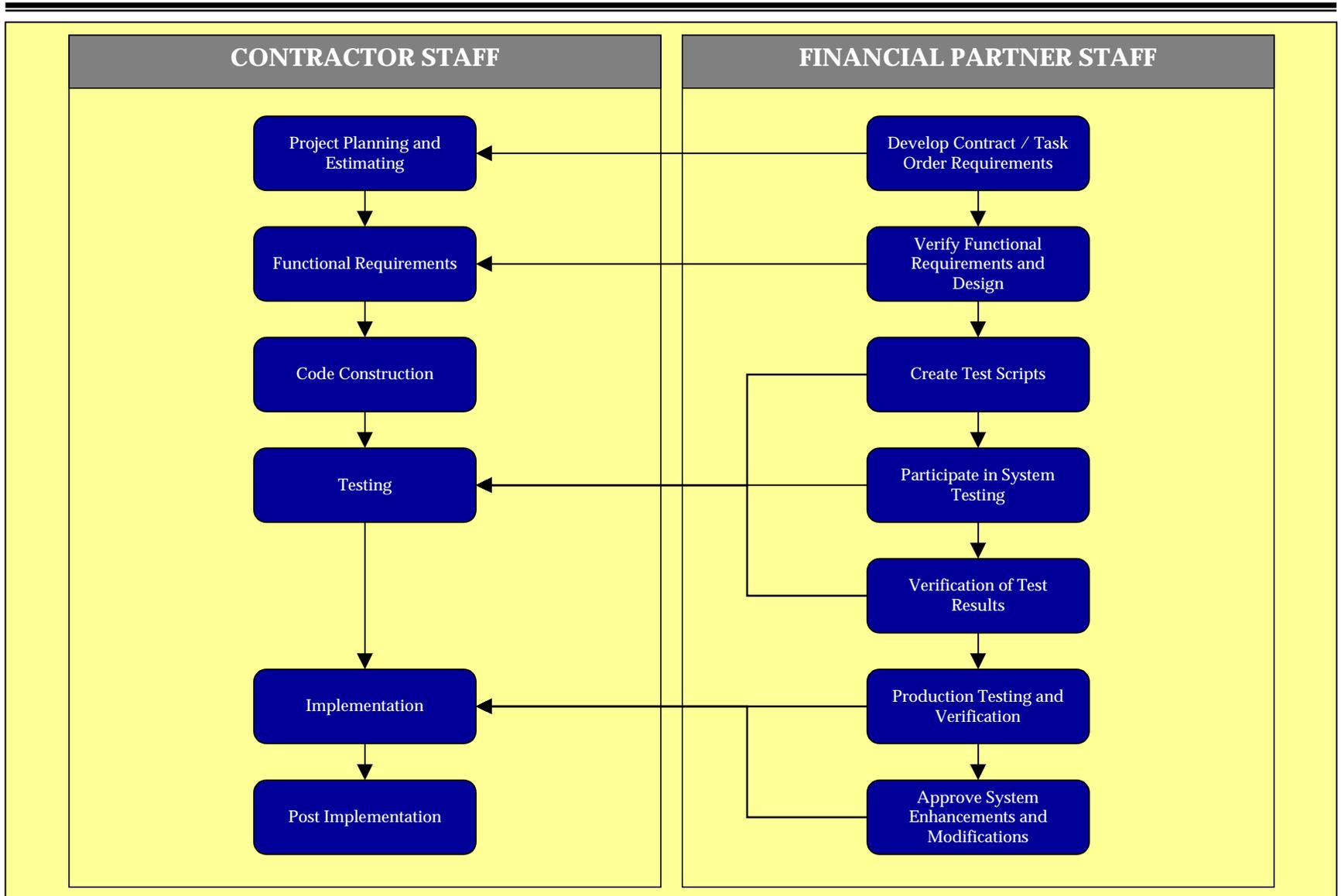
## Research Inquiry

- Research inquiries using available resources:
  - On-line systems inquiry
  - Create and run ad hoc reports from available systems
  - Research policy and previous responses
- Research borrower payments with Federal Reserve, FFEL and Direct Loan systems
- Create new lender code
  - Confirm with GA
  - Create code in FFEL system, triggering questionnaire that is sent to lender
  - Input lender information
- Contact Contractor
- Contact other areas in SFA (e.g., Policy, Accounting/CFO)
- Contact Guaranty Agencies

## Respond to Inquiry

- Provide responses:
  - Phone
  - E-mail
  - Fax
  - Letter
  - Post to web-site
  - Publish Dear Partner Letter

## High Level Process Flow - Contract Maintenance



## ***High Level Process Flow - Contract Maintenance***

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### **Task Order Planning**

- Develop business requirements
- Develop or assist in the development of the Statement of Work (SOW)
- Identify a need for a modification through discussions with the contractor and/or Contract Maintenance personnel
- Review legislative changes and identify impact and develop requirements for modifications

### **Task Order Maintenance**

- Review functional requirements and design
- Design or assist in the design of test scripts
- Provide information to create documentation
- Develop test scripts
- Participate in system testing
- Perform user acceptance testing or review test results
- Determine if requirements have been met
- Provide feedback to Contract Maintenance personnel as needed

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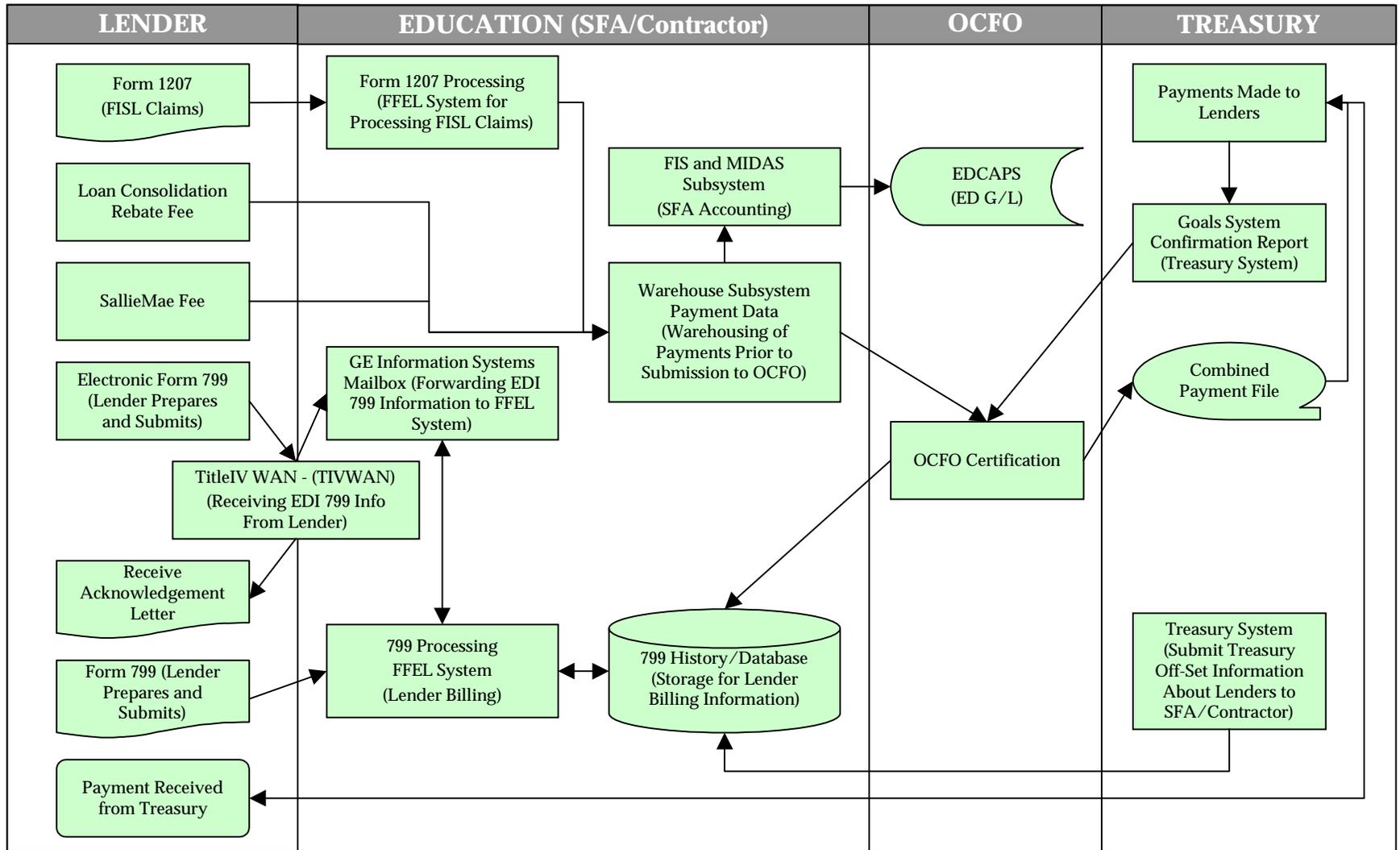
# *System Interfaces*

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The purpose of this section is to graphically depict the systems with which the lender and guaranty agency payment processes interact during normal processing.

When a lender or guaranty agency submits a form or fee to SFA/Contractor the information is processed by a number of systems which in most cases results in the transfer of information from the institution to SFA, to the OCFO, and to the Treasury. Information can potentially be passed back to the institution along the way at multiple points.

# System Interfaces - Lender Payments





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# ***Technical Flow and Architecture***

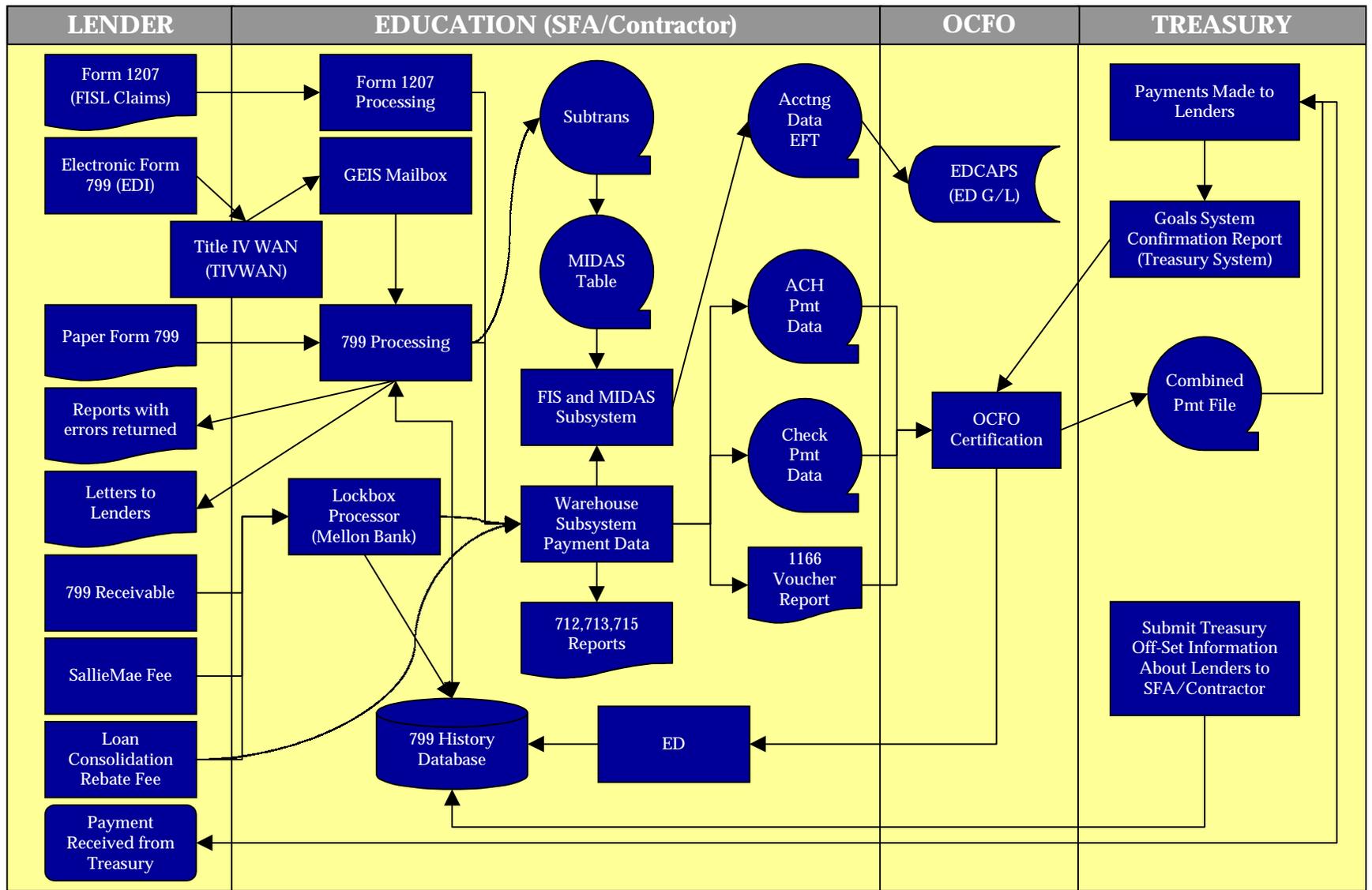
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The purpose of the technical flow is to graphically depict the flow of data from various sources through the payment processing systems.

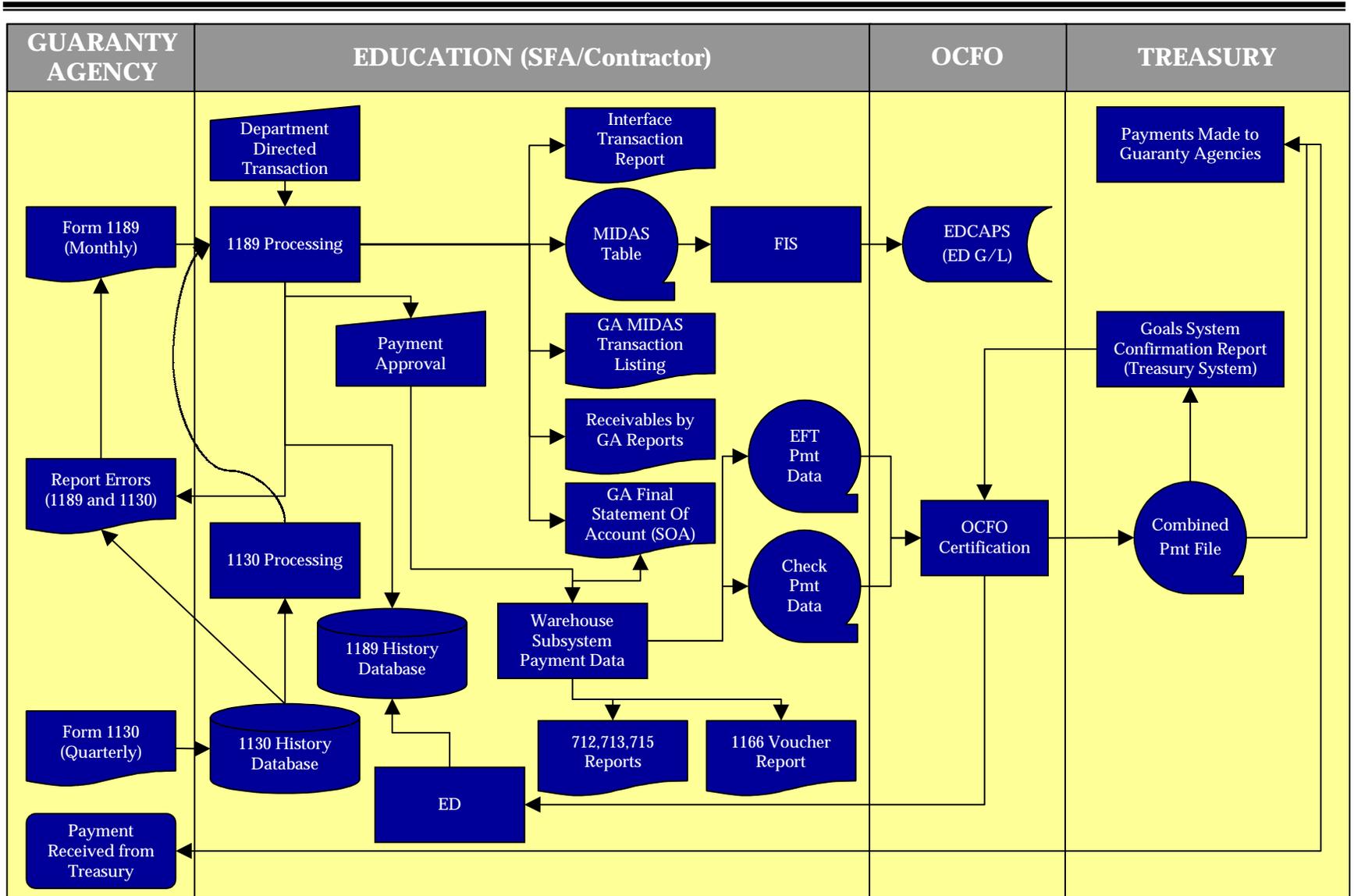
Data is submitted by the lenders and guaranty agencies to the SFA FFEL system in both paper and electronic form. All lender data and most guaranty agency data is processed by Raytheon. Some guaranty agency data is processed by SFA staff. Output is then sent to a number of other systems and entities.

The purpose of the technical architecture slides are to graphically depict how the software and hardware interact in order to process lender and guaranty agency payments.

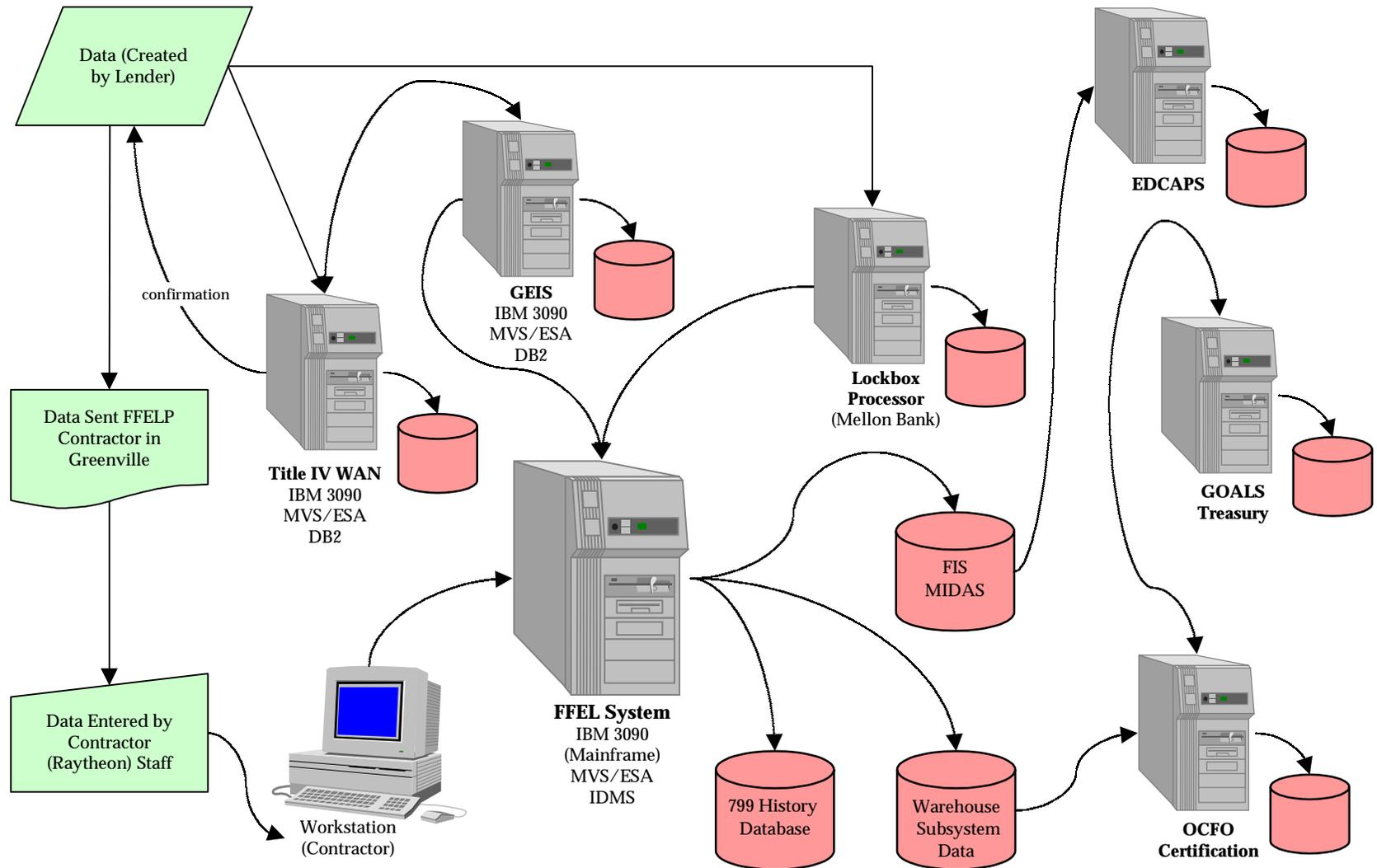
# *Lender Payment Technical Process Flow*



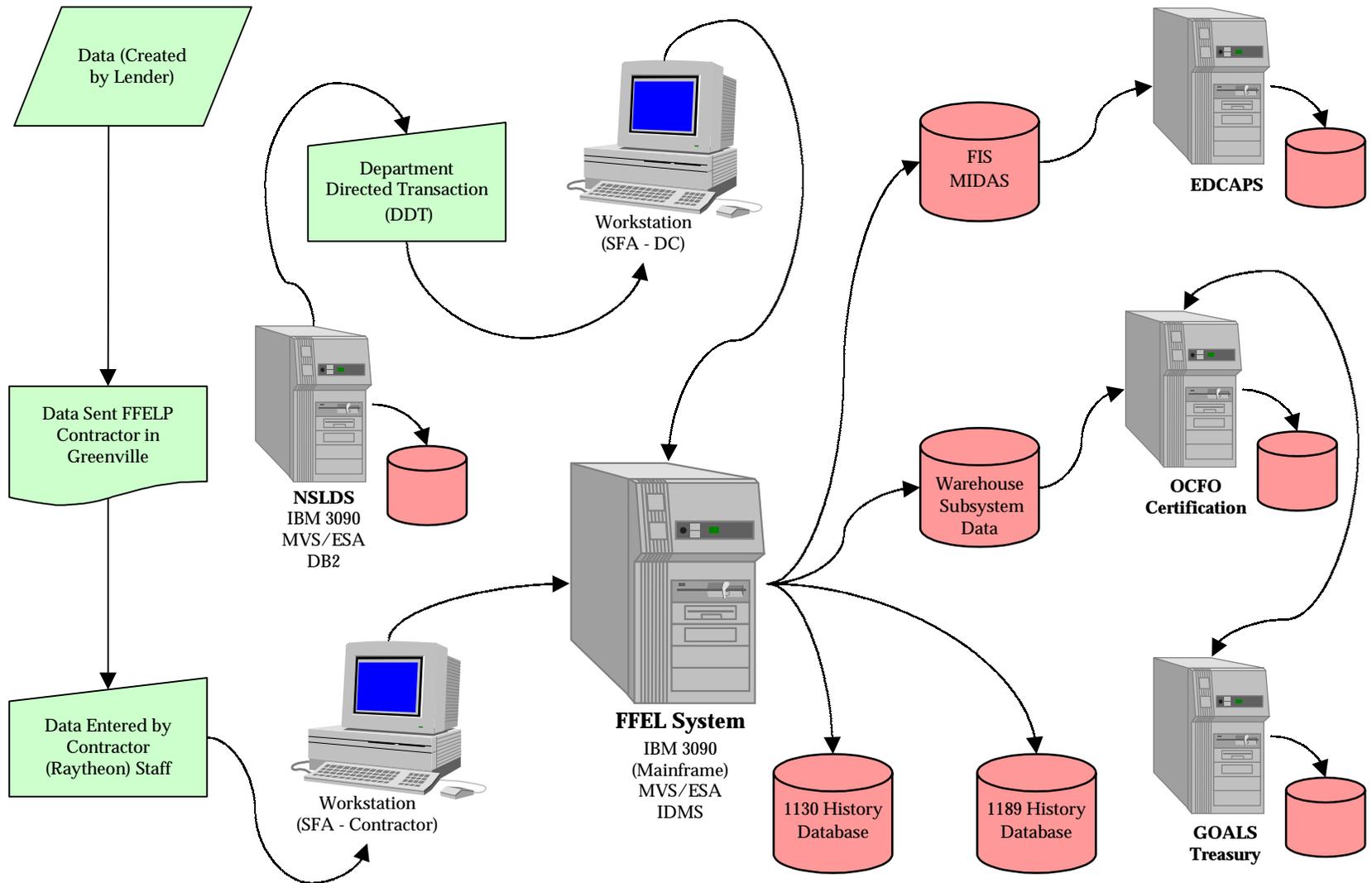
# Guaranty Agency Payment Process Flow



# High Level Technical Architecture - Lender Payments



# High Level Technical Architecture - GA Payments



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# *Process Metrics*

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This purpose of this section is to establish metrics that will provide a basis for comparison between pre-reengineering and post-reengineering processes.

These metrics are subject to change as the reengineering team identifies new metrics and details upon further analysis of the Financial Transactions processes.

These metrics are based on the FPC Fiscal Year (FY) which begins on October 1 and ends on September 30. FY2000 calculations are based on information available from October 1, 1999, through May 10, 2000.

The metrics measured include:

- Number of forms submitted
- Number of FTEs required to complete the process
- Key personnel costs
- Allocated Contractor Costs

# ***Process Metrics - Lender Payments (FY99)***

## **Key Volume and Costs Associated with Lender Payment Processing**

<b>Process</b>	<b>Volume</b>	<b>FTEs (1)</b>	<b>Key Personnel Costs (2)</b>	<b>Allocated Contractor Cost</b>
<b>Form 799 Processing</b>	<b>18,992</b>	<b>2</b>	<b>\$148,000</b>	<b>\$10,102,756 (3)</b>
<b>Form 1207 Processing (FISL)</b>	<b>1,294</b>	<b>.25</b>	<b>\$18,500</b>	<b>-</b>
<b>Loan Consolidation Rebate Fee Processing</b>	<b>3,499</b>	<b>.25</b>	<b>\$18,500</b>	<b>-</b>
<b>SallieMae Fee Processing</b>	<b>12</b>	<b>- (4)</b>	<b>- (4)</b>	<b>-</b>
<b>CRM (Customer Support)</b>	<b>Ongoing (5)</b>	<b>1.5</b>	<b>\$111,000</b>	<b>-</b>
<b>TOTAL</b>	<b>-</b>	<b>4.0</b>	<b>\$296,000</b>	<b>\$10,102,756</b>

(1) Time spent are estimated average times

(2) Assumed \$74,000 total annual compensation per FTE (including benefits)

(3) Allocated Contract costs represent the Lender Payments portion of the Federal Family Education Systems Division/Raytheon Contract (Contract #PM92001001, Schedules A, B, C, and E)

(4) FTE calculations and key personnel cost for this process are minimal and have been included as part of the key personnel cost for Form 799 Processing

(5) Call/Inquiry volume figures currently are not captured

# Process Metrics - Guaranty Agency Payments (FY99)

## Key Volume and Costs Associated with Guaranty Agency Payment Processing

Process	Volume	FTEs (1)	Key Personnel Costs (2)	Allocated Contractor Cost
Form 1189 Processing	432	2	\$148,000	\$2,059,867 (3)
Form 1189 Addendum Processing	- (4)	1	\$74,000	-
Form 1130 Processing	159	1	\$74,000	-
SPA (5)	36	-	-	-
LPIF/ACA (6)	36	1	\$74,000	-
AMF (7)	36	1	\$74,000	-
<b>TOTAL</b>	-	6.0	\$444,000	\$2,059,867

(1) Time spent are estimated average times

(2) Assumed \$74,000 total annual compensation per FTE (including benefits)

(3) Allocated Contractor Costs represent the Guaranty Agency Payment portion of the Federal Family Education Systems Division/Raytheon Contract (Contract #PM92001001, Schedules A, B, C, and E)

(4) Form 1189 Addendum was not implemented until 1Q FY2000

(5) SPA = Supplemental Pre-claims Assistance

(6) LPIF = Loan Processing and Issuance Fee

(7) AMF = Account Maintenance Fee

# Lender Payment Process

## Detailed Metrics

<b>LENDER PAYMENTS</b>	FY1998			FY1999			FY2000 to date		
	Volume	Amount	Cost	Volume	Amount	Cost	Volume	Amount	Cost
	<b>FISL Claims (1207) (1)</b>								
Forms Received									
<b>Paid</b>	1,526	\$6,375,738		548	\$2,324,745		195	\$924,574	
Rejected									
<b>FORM 799</b>									
<b>BILLINGS</b>									
<i>Received</i>									
<b>Total Volume</b>	21,518	\$2,030,899,943		18,992	\$1,832,263,803		n/a	\$0	
<i>Billings Breakout</i>									
Electronic	3	\$65,450,192		10	\$124,897,520				
Paper	21,515	\$2,069,833,638		18,982	\$1,831,392,735	\$ 30.00			
<i>Rejected</i>	3,687			3,523			n/a		
<i>Billings Detail</i>									
<i>Billings Resulting in Payments</i>	16,129	\$2,135,283,829		12,664	\$1,956,290,255				
<i>Billings Resulting in Receivables</i>	1,928	\$104,383,887		2,444	\$124,026,453				
Zero Billing	3,464			3,884					
Agency Offsets	264	\$507,930		88	\$193,669				
Gross Interest Calculated		\$2,462,248,355			\$2,406,948,378				
Gross Special Allowance Calculated		\$285,256,191			\$154,820,206				
Gross Origination Fee Calculated		\$701,337,577			\$725,242,856				
Gross Amount Billed		\$2,046,166,969			\$1,836,525,728				
Billings Using Tax-Exempt Codes	500	\$411,597,373		399	\$414,099,626				
Receivables Offset	634	(\$1,252,562)		908	(\$2,772,720)				
<b>COLLECTIONS</b>									
Total Volume	4,692	(\$252,579,771) \$ -		5,899	(\$291,784,830) \$ -		n/a	\$0 \$ -	
<b>PENALTY INTEREST</b>									
Penalty Payments Approved	-	\$0		-	\$0				
<b>MAINTENANCE</b>									
Total Volume	737	n/a \$ -		4,234	\$ -		n/a	\$ -	
<b>CANCELLATIONS</b>									
Total Volume	131	\$9,519,033		275	\$28,600,739		-	\$0	
<b>LOAN CONSOLIDATION REBATE FEES</b>									
Total Volume	2,619	\$170,631,909		2,439	\$162,371,502		n/a	\$0	
<b>SALLIEMAE FEE</b>	12	\$38,259,532		12	\$31,600,894		8	\$33,959,533	

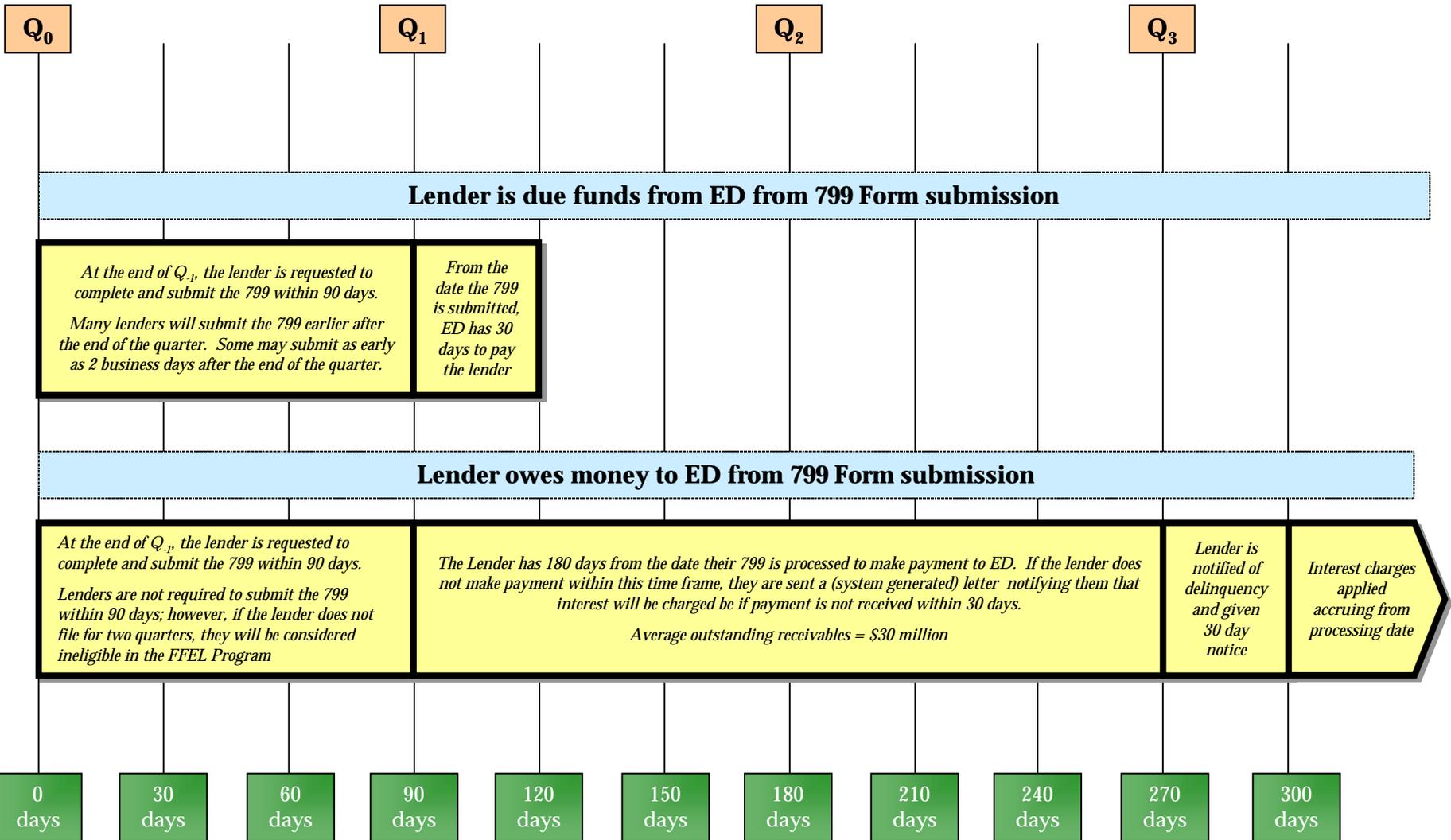
(1) - Outstanding FISL volume estimated at 1,130,072 loans ,totaling \$233,044,092 outstanding

# *Guaranty Agency Payment Process*

## *Detailed Metrics*

<b>GUARANTY AGENCY PAYMENTS</b>									
	<b>FY1998</b>			<b>FY1999</b>			<b>FY2000 to date</b>		
	Volume	Amount	Cost	Volume	Amount	Cost	Volume	Amount	Cost
<b>Form 1189</b>									
Number of Forms Received	460			450			36		
Number of Forms Rejected	61			67					
Claims Paid	7,752	\$ 2,370,630,876		-	\$ 2,239,994,606			\$ 942,337,697	
<b>SPA</b>									
Number received		\$ 66,743,895			\$ 27,849,724				
<b>LPIF/ACA</b>									
Number received		\$ 169,926,241			\$ 166,417,918			\$ 75,769,551	
<b>AMF</b>									
Number received		n/a			\$ 137,158,321			\$ 71,428,115	
<b>Form 1189 Addendum (1)</b>	n/a	n/a	n/a	n/a	n/a	n/a	36		
Number received	n/a	n/a	n/a	n/a	n/a	n/a			
Number rejected	n/a	n/a	n/a	n/a	n/a	n/a			
<b>Form 1130</b>									
Number received	36			36			36		
Number rejected	15			9			13		
<i>Note: (1) Form 1189 Addendum was not implemented until FY2000</i>									

# Lender Payment Receipt Process Timeline



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# *Comparative Assessment*

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## Objectives

This section provides a summary comparison of best practices to current Financial Partner Channel practices, and then identifies reengineering opportunities for improvements. The ranking provided indicates the degree to which current FPC practices are consistent with best practices.

- = Current FPC practices are consistent with the best practice standard with opportunities for enhancements to fully utilize the capabilities
- ◐ = Current FPC practices partially meet the best practice standard with opportunities for improvement in the area.
- = Current FPC practices are not consistent with best practice standard with major opportunities for improvement in the area.

## Summary

Lender and guaranty agency financial reporting and payment processing will benefit significantly from reengineering opportunities that focus on electronic reporting and payment processing to and from lenders and guaranty agencies with automated tracking and reconciliation processes. Additional opportunities include reducing turnaround time for accounts payable and receivable for all types of fees and payments to better manage cash accounts, and providing up-to-date web-based fee and payment reports to improve communications and ongoing relations with financial partners. Efforts should include enhanced security, such as encryption and digital signatures, standardizing electronic funds transfer, and reengineering efforts to streamline the data flows across systems in order to:

- Reduce contractor costs
- Improve vendor relations by providing consistent requirements across contracts and over time
- Improve financial performance and cash management

# *Comparative Assessment*

<b>Best Practice</b>	<b>Current FPC Practice</b>	<b>Ranking</b>	<b>Opportunity</b>
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 can be accomplished using 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.
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 FPC.	○	Reengineer procedures, systems and regulations to provide mechanisms and incentives to increase cash flow.

- Key:
- *Current FPC practices correspond with best practices*
  - ◐ *Current FPC practices partially follow best practices*
  - *Current FPC practices do not correspond with best practices*

# *Comparative Assessment*

<b>Best Practice</b>	<b>Current FPC Practice</b>	<b>Ranking</b>	<b>Opportunity</b>
All reconciliations are automated using electronic bank files including journal entries between treasury and accounting groups.	Reconciliations are currently based on manual entry or re-entry of data.	●	Enhance systems and procedures to eliminate duplicate data entry and automate reconciliations.
Allow financial partners to inquire on whereabouts of payments via a web site and/or automated information line.	Currently, FPC inquiries are answered by department staff.	○	Provide up-to-date web-based fee and payment reports to improve communications and ongoing relations with financial partners.
Financial transactions are converted to ACH or wireless to eliminate check fraud and improve timeliness of reconciliation procedures.	80% of lenders' and 100% of guaranty agencies' receipts are paper based.	●	Develop a standard for electronic financial transactions. Establish goals of 80% transactions made electronically with 99% hit rate for electronic transactions. Enhance systems to eliminate duplicate data entry and capitalize on available technology.

- Key:
- *Current FP practices correspond with best practices*
  - ◐ *Current FP practices partially follow best practices*
  - *Current FP practices do not correspond with best practices*

# *Comparative Assessment*

<b>Best Practice</b>	<b>Current FPC Practice</b>	<b>Ranking</b>	<b>Opportunity</b>
Public documentation, including required forms and instructions (e.g., 799, 1187, 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 a centralized site, including current interest rate data, FAQs, statistics, and commonly requested policy and legislative information
Data file security, such as encryption, is used to transmit payment information.	Encryption currently is used for EDI files.	◐	Implement as part of infrastructure to web-based financial transactions processing for financial partners.
Imaging is used consistently to reduce paper and increase dissemination of information.	Imaging is currently not utilized extensively for the purposes of paperwork reduction.	◐	Develop additional processes, e.g., scanning, to use imaging to reduce paperwork and easily retrieve archived documents (e.g., promissory notes).

- Key:
- *Current FP practices correspond with best practices*
  - ◐ *Current FP practices partially follow best practices*
  - *Current FP practices do not correspond with best practices*

# ***Comparative Assessment***

<b>Best Practice</b>	<b>Current FPC Practice</b>	<b>Ranking</b>	<b>Opportunity</b>
Ability to identify the complete relationship with an "entity" (e.g., customer, student, client, etc.).	"Entities" may have different identifiers depending upon the system.	◐	Assign a unique number to each "entity" on an enterprise-wide (e.g., customer, client, student) that will identify that entity regardless of the application system.
A single source within the Department, which contains data common to multiple systems.	Same data resides in multiple systems and the data is inconsistent between the systems.	◐	Develop a database which contains the information which is common to multiple systems and which needs to be consistent between those systems.
Redundant cash management capabilities are established (e.g., alternate phone lines, operation of PCs independently from LANs) to ensure smooth daily operations.	Currently, electronic cash management capabilities not utilized by FPCs .	○	Implement as part of infrastructure to ensure continuous financial transaction processing as the remaining lenders and GA's move to electronic funds transfers.

- Key:
- *Current FP practices correspond with best practices*
  - ◐ *Current FP practices partially follow best practices*
  - *Current FP practices do not correspond with best practices*

# *Comparative Assessment*

<b>Best Practice</b>	<b>Current FPC Practice</b>	<b>Ranking</b>	<b>Opportunity</b>
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 FPC systems.

- Key:
- *Current FP practices correspond with best practices*
  - ◐ *Current FP practices partially follow best practices*
  - *Current FP practices do not correspond with best practices*