

# Supplemental Business Case Information For BYs 2003 & 2004 IT Useful Segments

This document collects supplemental business case information for IT useful segments. The Department Investment Review Board will use this information to determine which IT enhancements to undertake, in accordance with the Clinger-Cohen Act, and for monitoring initiative progress.

Please answer each question. Responses should be concise, and prepared at a level of detail commensurate with the initiative lifecycle phase, size/criticality, and type. Initiatives that have not been implemented or deployed will require more detailed information than an initiative in maintenance. We will use the information collected to create a baseline for the initiative.

Please type your responses in the white answer blocks of the Business Case Responses document and return the electronic copy of that document to Treva Lutes by June 7th. Please do not modify the shaded rows of the table. These rows contain special codes that we will use to populate a database automatically.

## 1. Useful Segment Name *Provide the name of the useful segment and its respective initiative.*

Useful Segment Name: Release III  
Initiative Name: NSLDS II

## 2. Useful Segment Description

*Briefly describe the useful segment in a concise, non-technical, management-oriented manner (two paragraphs maximum please).*

Longer term, attention will be focused on opportunities to provide for more timely, direct access to FFEL data from source systems supported by lenders, servicers and GAs.

### FFEL Fetch:

- Direct access to FFEL data on a real-time basis
- Use of community data providers such as ELM and Meteor

### Data Feed Reengineering:

- More timely feeds from lender/servicers to GAs
- Regulatory changes for Form 799 and Form 2000
  - Monthly vs. quarterly
  - Loan level detail to substantiate summary level information

One of the main tenets of future NSLDS Reengineering will be to focus on improving the quality of detail FFEL loan data feeds submitted to FSA. Currently, FFEL loan details are submitted to FSA through a network of 36 GAs on a monthly basis. Today, loan details pass through a series of edits along this path into NSLDS. Each GA receives data from the lenders and servicers for whom they guaranty loans, on at least a quarterly basis. Before acceptance, the GA may validate the data for format but most do not validate it for content by reconciling the data to their own system. This validation process varies from GA to GA and is completely outside the scope of the existing NSLDS. Once on the GA system, the Data Prep software extracts data from the GAs source system(s) and executes a set of edits once a month. Next, Data Prep slims down the monthly extract file to include only those records that changed since the last data submission. The extracts and edits performed on the GA system by Data Prep are common to all GAs. GAs also report on their own portfolio of loans to NSLDS. This portfolio is comprised of loans on which the GA has paid a claim to the original lender and the GA is now the holder and servicer of the loan. Existing monthly data feeds to NSLDS represent a combination of these two types of detail information for loans that have changed in the GAs system since the latest monthly submission.

Separate from the loan detail data feed to NSLDS, GAs also submit summary loan portfolio information on the Guaranty

Agency Financial Report (Form 2000) directly to the FSA Financial Management System (FMS). GAs use Form 2000 to request payments from and make payments to ED under the FFEL Program. ED also uses this information to monitor the agency's financial activities, including activities concerning its federal fund, the operating fund, and the agency's restricted account. GAs must maintain detailed records to support each entry on the Form 2000 and be able to reconstruct the entries back to individual loan, borrower or lender levels, or to specific GA level transactions. This includes keeping accurate records of reinsurance payments and collections on defaulted loans at the loan and borrower level. ED's instructions to the GAs state that records must be available for verification by the Secretary of Education or other authorized representatives of the U.S. Government.

While the two feeds created separately and are sent to different destinations, the summary information on the Form 2000 must be consistent with and comparable to relevant detail information reported to NSLDS by the GA. Currently, minimal reasonability checks are performed to verify that data consistency is evident.

Independent of detail loan data submissions to GAs, FFEL lenders are also required to submit a quarterly summary of their student loan portfolio data to receive interest subsidies and special allowances and to report origination/lender fees due to ED. ED will pay the interest on eligible FFEL loans that have a status of in-school, grace or authorized deferment. ED also pays a special allowance to lenders for the life of eligible FFEL loans. These payments are based on the receipt of a valid lender's Interest and Special Allowance Request and Report, or Form 799. (Note: Form 799 is currently being redesigned. The new, on-line lender reporting system (LARS) application will function similarly to the Form 2000 submission application) Unlike the data submitted by the GAs, because of timing and reporting requirements, summary information reported by a lender on the Form 799 will not necessarily be consistent with and comparable to relevant detailed information reported by the lender to NSLDS through the GA. In fact, audits performed today to enforce financial integrity can only be successfully executed on data that is at least two quarters old.

Based on discussions with internal FSA focus groups, the current model of FFEL data feeds has the following opportunities for improvement:

- The timing delay between quarterly lender/servicer loan detail submission to GAs and monthly loan detail submission by GAs to NSLDS makes the tracking of current loan details difficult to use for customer inquiries, audits and fee payment reasonability checks
- Underlying loans paid-in-full through consolidation do not tie back cleanly to their "parent" consolidated loan
- Accuracy in the reporting of defaulted loan details maintained by the GAs needs to be improved

These three opportunities should be addressed by re-evaluating the quality and quantity of data elements collected as well as the timing and sequencing of data collection from the FFEL loan community.

The major opportunity for increased data integrity is to increase the frequency of data feeds from lenders/servicers to GAs from quarterly to monthly and to align them with the quarterly reporting cycle specific to each lender. This improvement can be achieved in a number of ways; two of which are detailed in this document. Both would result in changes to the timing of Form 799 submissions and an increase in reporting frequency from quarterly to monthly. This increase in submission would be a voluntary act on the part of the lender or servicer, but could be incented by the possibility of a monthly fee remittance. Timing changes for these submissions and payments are subject to potential regulatory validation as well as FSA system (i.e., FMS) and Treasury scheduling logistics.

One option for improving FFEL data quality is to work with the GAs and lender/servicer community to fully embrace a common data exchange standard for use in data exchange between FFEL loan data providers. Acceptance of a standard, Common Account Maintenance (CAM), is well underway, but to-date has not been fully accepted and implemented by the Financial Partner community. Adherence to this standard would help raise the level of quality for data passed to GAs and ultimately to FSA.

Another option to achieve the desired improvement is to add an Integrator to the process. This FFEL Integrator would play the role of a single FFEL repository and act as the "source" of FFEL loan data for FSA. Edit checking and validation would be centralized at this location. This option would also provide a single destination for lenders, servicers, and GAs to submit FFEL loan details, eliminating a large number of data feeds between multiple GAs and lenders/servicers. Rather than each lender/servicer sending a data feed to each of its associated GAs, it would send one data feed to the FFEL Integrator. Rather than NSLDS III receiving data feeds from each of the 36 GAs, it would receive a single integrated data feed from the FFEL Integrator.

The GA would also benefit from this integration as it would receive a single feed from the FFEL Integrator rather than data feeds from multiple lenders and servicers. In addition to this reduction in data transmission burdens, this new model also provides a FFEL loan data repository where corrections, validations and reasonability checks can be performed on isolated financial partner data instead of using the data warehouse platform.

The creation of a new entity in this space raises some logistical and business questions. For example, two major open issues are, 'Who performs the role of this new FFEL Integrator?' and 'What affect will this change have on the role and contractual agreements between lenders and servicers?'. One potential candidate for the role of FFEL Integrator is the creation of a Mutual Benefit Corporation funded by GAs. During later NSLDS phases much more research and discussion will focus on these questions as well as the design impacts on the Financial Partner community.

The consolidation loan is a relatively new student aid program. Consolidation loans enable borrowers to pay off loans (in some cases even defaulted loans) through the creation of a new consolidated loan. These programs simplify loan repayment by combining several types of federal education loans, which may have different terms and repayment schedules or may have been made by different lenders, into one new loan. The interest rate may be lower on one or more of the underlying loans. In addition, the monthly payment amount on a consolidation loan is usually lower and the amount of time to repay may be extended beyond what was available in the separate loan programs. These features should result in more manageable debt and should make borrowers less prone to default. Each of these features provides great flexibility to the students and borrowers.

With this new loan vehicle came the logistical challenge of properly reflecting status and applying transactions to each loan involved in consolidation. Add to this challenge the fact that the underlying loans can be from multiple lenders and/or GAs, ED Collections, as well as the Direct Loan servicer and the potential for error and inconsistency is heightened. Finally, the NSLDS of today was not designed to handle this level of interdependence. Members of multiple FSA organizations have indicated that they need to be able to verify within NSLDS that the underlying loans of a consolidation loan are reflecting accurate status and amounts. Recent enhancements to NSLDS to address the "paid-in-full through consolidation" related status may help address this issue going forward, but the historical loan consolidation data is not adequate to meet the needs of the users. Research into potential changes to the current NSLDS data model as well as the data cleansing options should be conducted to determine the best way to accommodate the cross referencing of existing underlying loans to their related consolidation loan.

By design, the source of NSLDS FFEL data is the network of 36 GAs. To address the user community's concerns regarding data accuracy and integrity, FSA must work with this network of GAs to improve the quality and quantity of information maintained and reported by each GA. As part of the reengineering effort, the team will work with the GA community to identify areas for improvement in data accuracy in two key data collection areas:

1. Detailed defaulted loan data from GA systems
2. Loan status reporting from Financial Partners

Improving the quality of detailed defaulted loan information will enable the CFO and FP organizations to better gauge the performance of GAs as well as the financial picture of the debt serviced by each partner institution. Bettering this information will also give a head start to the FSA Debt Collections team by providing better background information if and when these defaulted loans, currently serviced by the GAs, are subrogated to ED for collection.

A critical component of eligibility information is the status of Title IV loans issued to a potential borrower. Improving the quality of this important decision-altering data element will have a large effect on the quality of eligibility data mined from NSLDS. Loan status is also used to determine and/or validate many financial payments both to and from ED with regard to its Financial Partners. More accurate reflection of loan status will have a direct effect on the quality and integrity of Account Maintenance Fee (AMF) and Loan Processing and Issuance Fee (LPIF) payments as loan status is directly related to the calculation of these fees. In addition to these fees, improvement in status information coupled with improved defaulted loan information will lead to better financial integrity regarding Reinsurance Claims paid to GAs. Improving the quality of these two critical data areas is core to improving the use of NSLDS to make credible financial and eligibility decisions.

Ultimately, as the largest source of Title IV Aid, the overall quality of data in NSLDS is very dependent on the quality of FFEL data received from lenders, servicers and GAs. Improvement in the quality of this data has already been achieved through focused clean-up efforts and process improvements on the part of GAs working with lenders and servicers as

well as the current NSLDS staff. The goal of FFEL Loan Data Feed Reengineering is to build on these efforts and continue to improve this critical FFEL loan detail information to better service NSLDS customers.

### 3. Solution Impact

*(1) What will be the impact of the useful segment on lines of business and business processes? (2) What is the impact of the useful segment on other IT initiatives? (3) Identify the direct beneficiaries, customers, users, and any additional stakeholders of the useful segment. (4) Describe how the direct beneficiaries, customers, users, and additional stakeholders are involved with the planning, development, and operation of the useful segment. (5) What are the major organization restructuring, training, and change management projects that will be required?*

1) The Solution impact of the NSLDS system is that it is the sole repository for Title IV recipients and their loans, Pell grants, Lenders, Guaranty Agencies, Servicers and Schools, making the system the focal point to house the functions listed in 2.1.

2) The NSLDS reengineering initiative is dependent on legacy and modernized interfaces including CSFB (Common Servicing for borrowers), DLSS (Direct Loan Servicing System), COD (Common Origination and Disbursement) and Consistent Answers systems (demographic data) which is scheduled to go –live approximately at the same time with NSLDS.

3) The stakeholders for this Initiative will be:

- FSA and other federal agencies (OMB, GAO) – will be able to use accurate data for budget forecasting, policy analysis, at a lower operating cost. Additionally, will be able to maintain the centralized repository at a lower operating cost.
- Financial partners (GAs, lenders, and servicers)
- Schools and students – they will receive more accurate information on student aid tracking, eligibility.

4) Applicable stakeholders to the future phases of work have been involved in planning and discussing the initiative.

5) N/A

### 4. Mandatory Requirement

*Is this useful segment, or the business process it supports, required by legislation, regulation (CFR citation), or other guidance (e.g., OMB Circular, Presidential Management Memorandum)? If so, please cite the specific section number, name, and language of the requiring provision. Additionally, if the business process is required, then please indicate the extent to which the useful segment supports the business process and compliance with the requiring provision.*

The Higher Education Amendments of 1998, Sec. 483 B [20 U.S.C 1092b], established FSA as a Performance Based Organization (PBO) within the Federal Government charged with modernizing the delivery of student financial aid. The underlying goal was to improve services to millions of students and the postsecondary institutions they attend. As one of the main objectives of this designation, Congress mandated that FSA implement a common, open, integrated system for student financial aid delivery. The NSLDS II reengineering phase is being implemented to support this mandate.

The Higher Education Act of 1965 congressionally mandated the need for a national student data repository. NSLDS currently performs this function in conjunction with the existing data marts.

### 5. Consequence of Not Funding the Useful Segment

*Describe the adverse impacts on business operations or future costs if the useful segment is not funded.*

*The business case is improved when an operation or business process is highly dependent on the useful segment or delaying the useful segment will result in significantly higher costs in the future.*

In the case that this Initiative is not funded, FSA will face the following consequences:

1. Gaps in data integrity and financial integrity
2. Low reusability of NSLDS data due to current legacy platforms
3. Relatively high operating costs related to NSLDS
4. Inefficient customer service due to lack of modernized analytical tools

## 6. Benefits

*Please describe the benefits associated with the useful segment, including how the investment reduces costs or improves efficiencies.*

*Benefits are the advantages or gains the useful segment produces for customers, the public, or the Department. Benefits can include increased efficiencies, improved customer satisfaction, reduction in costs, increase in revenue, or improved public access to ED information.*

Benefits to implementing the NSLDS Reengineering initiative will include:

- Reduced FSA operating costs associated with NSLDS.
- Improved financial integrity.
- Improved quality and usability of NSLDS information, benefiting the Department and other NSLDS users in the financial aid community.
- Balanced FSA data needs with burdens placed on the financial aid community.
- Improved usability of NSLDS data repository through new tools.
- Efficient use of data resources available within FSA and from the financial aid community.

## 7. Crosscutting Initiative

*Indicate which Principal Offices the useful segment supports. If the useful segment supports the entire Department, then simply select that item. If the useful segment supports entities outside of the Department, then in addition to selecting "Entities outside of the Department," please identify the agencies and organizations affected by this useful segment.*

- Entire Department
- Office for Civil Rights
- Office of Educational Research and Improvement
- Office of Elementary and Secondary Education
- Office of English Language Acquisition
- Office of Postsecondary Education
- Office of Special Educational and Rehabilitation Services
- Federal Student Aid
- Office of Vocational and Adult Education
- Office of the Chief Financial Officer
- Office of the Chief Information Officer
- Office of the General Counsel
- Office of Inspector General
- Office of Intergovernmental and Interagency Affairs
- Office of Legislation and Congressional Affairs
- Office of Management
- Office of Public Affairs
- Entities outside of the Department

## 8. Audit Finding

*Does the useful segment close an audit recommendation? If so, please describe the recommendation and note the audit name or number.*

No