DEPARTMENT OF EDUCATION - STUDENT FINANCIAL ASSISTANCE

VOLUNTARY FLEXIBLE AGREEMENT (VFA)

PERFORMANCE METRICS – **FINAL**

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Document Control

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I. Background

Representatives from the Modernization Partner Program ("Mod Partners") are assisting Student Financial Assistance ("SFA"), collectively "the Engagement Team," with developing performance measures for the Voluntary Flexible Agreement ("VFA") program. VFA contracts incorporate and modify the existing agreements between the Department of Education ("Education," "ED" or "the Department") and the guaranty agencies ("GAs") participating in the Federal Family Education Loan ("FFEL") program.

VFAs incorporate and modify the existing FFEL agreements between ED and the participating guaranty agencies. Established by the Higher Education Amendments of 1998 (P.L. 105-244) (HEA Amendments), the new agreements test new and innovative methods for carrying out the types of activities currently required of guaranty agencies in order to find more efficient and effective means of managing the FFEL program. There are four active FFEL guarantors that have entered into VFAs with ED:

- American Student Assistance [ASA]
- California Student Aid Commission [CSAC]
- Great Lakes Higher Education Guaranty Corporation [GLHEGC]
- Texas Guaranteed Student Loan Corporation [TGSLC]

The Secretary published a notice in the Federal Register on July 28, 1999, inviting proposals for VFAs from all interested guaranty agencies. Nine proposals were submitted and evaluated on the basis of various criteria including transferability, efficiency, use of new technology, and expected benefits. After extensive negotiations on the terms of the agreements, ED determined that the four agreements that were selected were cost-neutral, as required by section 428A(b)(2)(B) of the Higher Education Act of 1965, as amended (HEA).

Each of the four VFAs test different innovations within the FFEL program. The innovations have a common theme – to improve the efficiency of collections and to shift incentives from back-end collection of defaulted loans to the avoidance of defaults in the first place. Specifically,

- ASA's VFA focuses on "portfolio wellness" -- an approach that promotes the idea that an improved relationship between the borrower and the loan servicer or guaranty agency can remedy default and delinquency problems;

- CSAC's VFA implements programs that place a greater emphasis on default prevention and improving the collection process;

- GLHEGC's VFA replaces all of the Federal payments to the agency with a single performance-based fee indexed to the agency's ability to get delinquent borrowers to make payments and avert default; and

- TGSLC's VFA comprehensively modifies its payment structure to tie payments to improved performance, with increased emphasis on pre-delinquency and default aversion, in addition to locating, rehabilitating, and collecting on defaulted loans.

If successful, these approaches will support ED's overall goal to improve the integrity of the loan program through continued reductions in defaults. In its Report to Congress on the status of the VFA Program, ED agreed to establish common, general measures for evaluating the performance of each VFA over the coming year. These include:

- analyzing default and delinquency rates to determine whether the VFAs have had a positive effect on lowering these rates;

- determining if the VFAs strengthen or weaken the overall financial structure of the guaranty agencies; and

- assessing the ability of guaranty agencies and ED to effectively administer the program without guaranty agency reserves.

ED will also determine whether the terms and conditions established in each VFA process are scalable and transferable to the wider FFEL community. Additionally, ED will consult lenders and schools participating in each guaranty agency's program to determine how they are affected by VFAs. FFEL program participants have expressed concern that there may be unintended consequences for their business processes as a result of the implementation of the agreements. ED will also consult with guaranty agencies that are not participating in a VFA to determine if the agreements have had an adverse impact on other guaranty agencies.

II. Introduction

The Draft VFA Performance Measure Report (Deliverable 96.1.1a) submitted on February 4, 2002 identified and described a preliminary set of performance measures. The Report also presented a methodology for analyzing cost neutrality and introduced options for potential benchmarking. Since the submission of Deliverable 96.1.1a, the Engagement Team has established and met with a Task Force consisting of representatives from the four VFA GAs and from four non-VFA GAs. The Task Force reviewed a copy of the performance measures and provided feedback to the Engagement Team. This report reflects that feedback. To summarize, the following revisions have been incorporated:

- **Added New Performance Measure: "Dollar Ratio of Lender-Held Loans"** – At first, the Engagement Team identified the "Dollar Percentage of Loans in Good Standing" as a means for measuring default aversion. However, it was determined that SFA's current reporting of lender-held loans (considered in good standing) and GA-held loans (in default) also included those loans that have not yet entered repayment. If the loan is not in repayment, SFA is not expecting payments on these loans. To accurately measure a GA's ability to help borrowers avert default, the population should include only those loans where actual payments are expected. Therefore, the query that generates the current SFA reporting will be altered to isolate those loans. The problem with changing the query is that NSLDS does not maintain historic balance information; therefore, the Engagement Team could not compute the "Dollar Percentage of Loans in Good Standing" measure for prior periods. As a compromise, the decision was made to add a new measure, "Dollar Ratio of Lender-Held Loans," to complement the "Dollar Percentage of Loans in Good Standing" measure. The only difference between the two measures is that the "Dollar Ratio of Lender-Held Loans" includes loans that have not yet entered repayment.

- **Removed the "GA Collections Recovery Variance From SFA's Collections Recovery Percentage" Measure --** During a conference call with the Task Force, the participants had difficulty understanding the objective of this measure. Based on this feedback and the fact that we already compute a "Collections Recovery Rate" measure that accomplishes the objective of monitoring collections efficiencies, the decision was made to remove this measure.

- **Incorporated Periodic and Cumulative Rates for the "Collections Recovery Rate" and "Reinsurance Trigger Rate" Measures --** Because the denominator in the "Collections Recovery Rate" and the "Reinsurance Trigger Rate" will be an end-of-the-prior-year annual amount, the quarterly results (for computing total collections) and the monthly results (for computing total reinsurance claims paid) can either be stated as a periodic measure (numerator only including that period's data) or a cumulative measure (numerator includes the current and prior period's data for the fiscal year represented in the denominator). Because both measures have interpretive value, the decision was made to compute and report both periodic and cumulative rates.

- **Included Other Minor Changes** – Besides making minor editorial revisions that would facilitate the reader's understanding, this report includes: (a) the addition of the following two Appendices -- Loan Status Code Field Definitions and a Forms 2000 Template, and (b) the addition of the following two new columns in the Performance Measure Tables -- "Frequency of Measure (monthly vs. quarterly)" and "Key Data Elements."

Most of the performance measures presented in this report are concise measures that utilize aggregated data that is already captured by the Department and used in some capacity by various business units within SFA. These measures will be compared to established benchmarks in order to ascertain the relative performance of the VFA GAs. One measure, the cost neutrality measure, addresses a specific issue identified in the regulations and in last year's report to Congress that the VFA Program would be cost neutral to the Department. To address cost neutrality, a more detailed analysis section is presented in this report. To this end, the report is organized as follows:

III. **Individual VFA Performance Measures:** identifies, defines, and presents formulas for the VFA performance measures and also includes similar information for those performance measures that cannot be readily implemented, but could be considered as potential measures for future periods;

IV. **Analyzing Cost Neutrality of VFAs:** presents a comprehensive methodology for addressing cost neutrality and provides an example of such an analysis using arbitrary data;

V. **Interpreting Performance Measures through Benchmarking:** identifies various benchmarking techniques for interpreting the individual VFA performance measures;

VI. **Potential Next Steps:** identifies potential next steps relating to the implementation of the performance measures and automating the performance measurement process.

III. Individual VFA Performance Measures

Our approach resulted in a number of potential performance measures that would satisfy the objectives stated in the Introduction. Once identified and defined, we researched whether each measure could be implemented with data currently submitted by the VFA GAs or otherwise readily available. SFA's stated objective of identifying simple, concise, and easily implementable measures served as the foundation for the measures presented in this report. This objective is consistent with SFA's initiative to start computing these measures using March 31, 2002 data.

Our short-term objective was to identify viable measures that can be quickly implemented and tracked in time to incorporate meaningful performance information into the annual Report to Congress due September 2002. We also include potential future performance measures that are not quickly implementable due to a variety of system/data issues. These future performance measures could provide information that would allow a more comprehensive assessment of GA performance.

Four tables are presented in this Section:

1. **Table 1: Readily Implementable VFA Performance Measures:** presents those measures that will be computed by SFA to gauge the performance of the VFA's default aversion activities;

2. **Table 2: Other Readily Implementable Supplemental Performance Measures:** presents those measures that will be used by SFA to supplement the actual VFA performance measures (viewed in conjunction with other measures) or as a measure of a process that is specific to the VFA Program;

3. **Table 3: Measure Resulting from Cost Neutrality Analysis:** presents a measure that will be the result of an established methodology used to analyze the overall VFA program; and

4. **Table 4: Potential Future VFA Performance Measures:** presents those performance measures that were originally identified, but subsequently deemed not readily implementable due to internal system/data issues.

The measures presented in the four tables are absolute measures, meaning that their results are not stated in comparison to the results of the other 32 GAs or some other relative basis. There are numerous methods for incorporating a relative basis that would assist SFA in interpreting these results. Examples include comparing a VFA GA's current performance to a prior period, and comparing its performance to that of a non-VFA population. These benchmarking methods are provided in the final section of this report.

Table 1: Readily Implementable VFA Performance Measures

	Performance Measure	Frequency of Measure	Description/Explanation	Formula	Key Data Elements *(NSLDS Loan Status Code Field Definitions and a Blank Forms 2000 Template is provided in the Appendix)*
1a	Dollar Ratio of Lender Held Loans to the Total Loan Portfolio (Lender-Held and GA-Held)	**Frequency** Monthly **History?** Yes	**Description** Represents the percentage of a GA's total portfolio (Lender-held loans and GA-held loans) that is held by the lender **Explanation** Should indicate the success of a GA's ability to maintain a high percentage of its guarantee portfolio at the lender site, meaning that less loans are entering default	= Σ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Lender-Held Loans / Σ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] Lender-Held and GA-Held Loans	**<u>Numerator (See Appendix A):</u>** NSLDS Loan Status Codes = DA, FB, IA, ID, IG, IM, RP **<u>Denominator (See Appendix A):</u>** NSLDS Loan Status Codes = DA, FB, IA, ID, IG, IM, RP, BK, DB, DF, DL, DO, DT, DU, DX, DZ, XD
1b	Dollar Percentage of Loans in Good Standing	**Frequency** Monthly **History?** No	**Description** "Dollar Percentage of Loans in Good Standing" includes any FFEL Program loan that is: (1) in repayment, and (2) is not part of the GA-held portfolio. This measure is stated as a percentage of the total dollar volume of loans in repayment (lender-held and GA-held loans) **Explanation** Should indicate the success of a GA's ability to increase the dollar volume of loans in good standing (or conversely, to decrease default rate)	= Σ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans in Good Standing / Σ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance), (Amount of Ending Balance on Claim of Other Fees)] for Loans in Repayment	**<u>Numerator (See Appendix A):</u>** NSLDS Loan Status Codes = FB, RP **<u>Denominator (See Appendix A):</u>** NSLDS Loan Status Codes = FB, RP, BK, DB, DF, DL, DO, DT, DU, DX, DZ, XD
2a	Reinsurance Trigger Rate -- Periodic	**Frequency** Monthly **History?** Yes	**Description** Represents the total of default reinsurance claims paid by SFA to a guaranty agency during the month as a percentage of the amount of loans in repayment at the end of the preceding fiscal year **Explanation** Monitors default aversion and is consistent with the computed rate used to determine if the GA is to receive a reduction in its reinsurance rate	= Total Reinsurance Claims Paid by the Secretary to a Guaranty Agency During the Month / Dollar Amount of Loans in Repayment at the end of Preceding Fiscal Year	Same methodology as is currently employed to compute the reinsurance trigger rate

	Performance Measure	Frequency of Measure	Description/Explanation	Formula	Key Data Elements *(NSLDS Loan Status Code Field Definitions and a Blank Forms 2000 Template is provided in the Appendix)*
2b	Reinsurance Trigger Rate -- Cumulative	**Frequency** Monthly **History?** Yes	**Description** Represents the total of default reinsurance claims paid by SFA to a guaranty agency during the month and the prior months for the fiscal year represented in the denominator as a percentage of the amount of loans in repayment at the end of the preceding fiscal year **Explanation** Monitors default aversion and is consistent with the computed rate used to determine if the GA is to receive a reduction in its reinsurance rate	$= \dfrac{\text{Total Reinsurance Claims Paid by the Secretary to a Guaranty Agency During the Month and the Prior Months During the Fiscal Year Represented in the Denominator}}{\text{Dollar Amount of Loans in Repayment at the end of Preceding Fiscal Year}}$	
3a	Collections Recovery Percentage -- Periodic	**Frequency** Quarterly **History?** Yes	**Description** Represents the total dollar amount of principal and accrued interest collected on defaulted loans during the quarter as a percentage of the total dollar amount of principal and interest in default as of the beginning of the fiscal year **Explanation** Monitors the GA's ability to effectively recover funds from its defaulted loan portfolio	$= \dfrac{\text{Dollar Volume of Collections on Defaulted Loans During the Quarter}}{\sum \text{[(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans in Default at the Beginning of the Fiscal Year}}$	**<u>Numerator (from Forms 2000 – See Appendix B):</u>** Sum of: • ***Rehabilitated Loans*** - Line Items MR-10 (Princ Amt) plus MR-10-A • ***Consolidation Loan (FFEL to FFEL and FFEL to DL)*** - Line Items MR-11-A (Princ and Int) plus MR-11-B (Other Amts only) plus MR-27 (Princ, Int and Other Amts) • ***Default Collections*** - Line Items MR-13-A (Princ, Int, and Other Amts) • ***Wage Garnishment Collections*** - Line Items MR-12-A (Princ, Int, and Other Amts) • ***Bankruptcy Collections*** - Line Items MR-14 (Princ, Int, and Other Amts) • ***Treasury Offsets*** - Line Items MR-17 (Princ, Int and Other) ***minus*** MR-19 (Princ, Int and Other) ***minus*** MR-4 (Princ, Int and Other) **<u>Denominator (from Forms 2000):</u>** MR – 32 (Total – from end of prior Fiscal Year)

	Performance Measure	Frequency of Measure	Description/Explanation	Formula	Key Data Elements *(NSLDS Loan Status Code Field Definitions and a Blank Forms 2000 Template is provided in the Appendix)*
3b	Collections Recovery Percentage -- Cumulative	**Frequency** Quarterly **History?** Yes	**Description** Represents the total dollar amount of principal and accrued interest collected on defaulted loans during the quarter and the prior quarters of the fiscal year represented in the denominator as a percentage of the total dollar amount of principal and interest in default as of the beginning of the fiscal year **Explanation** Monitors the GA's ability to effectively recover funds from its defaulted loan portfolio	$\frac{\text{Dollar Volume of Collections on Defaulted Loans During the Quarter and the Prior Quarters of the Fiscal Year Represented in the Denominator}}{\Sigma\,[(\text{Amount of Outstanding Principal Balance}), (\text{Amount of Outstanding Accrued Interest Balance})] \text{ for Loans in Default at the Beginning of the Fiscal Year}}$	Same as measure 3a above
4	Market Share Percentage	**Frequency** Quarterly **History?** Yes	**Description** Market share will be measured by "Net Guarantees." The measure represents the amount of new net guarantees made in the current measurement period compared to the prior period as a percentage of the total GA community's net guarantee portfolio (the formula in the next column will be computed for the current period and prior period to determine the periodic change) **Explanation** Monitors the GA's market share and could be aggregated to compare how the four VFA GAs are either losing or gaining market share relative to the other 32 standard GAs	$= \frac{\text{(Dollar Amount of Net Guarantees for Current Period for Individual GA)}}{\text{(Dollar Amount of Net Guarantees for Current Period for the Total GA Community)}}$	Net Guarantees taken from NSLDS

Table 1 presents those performance measures designed to gauge the individual VFA GA's success at executing its default aversion activities. The measures will be used to assess whether or not the VFA program is accomplishing its objectives. Table 2 (below) presents additional performance measures that will also be monitored by SFA, however, these measures do not gauge the VFA GA's success at executing its default aversion activities. Rather, these measures assist SFA in monitoring the impact of the VFA program on other program areas (e.g., financing arrangements) or assist SFA in interpreting the measures in Table 1 (e.g., data pass rate).

Table 2: Other Readily Implementable Supplemental Indicators

	Performance Measure	Frequency of Measure	Description/Explanation	Formula
1	Data Pass Rate for NSLDS	**Frequency** Monthly **History?** Yes	**Description** The percentage of records entered correctly by the VFA as a percentage of the total number of possible entry records **Explanation** Can be used to supplement interpretation of other measures that use NSLDS data and provides another incentive for the GAs to focus on the integrity of their data submissions	$= \frac{\text{\# of Loans with all data accepted by NSLDS}}{\text{Total \# of Loans submitted to NSLDS}}$
2a	VFA Escrow Account Days Difference Measure	**Frequency** Monthly **History?** Yes	**Description** For the three VFA GAs that have a federally established escrow account (Texas, Great Lakes, and ASA), the average number of business days between the claim payment from the GA to the lender and the reinsurance payment from ED to the GA **Explanation** Indicates whether the alternative financing arrangement of using escrow accounts is working efficiently and could potentially be installed for all GAs	= Average [Number of Business Days Between Claim Payment and Reinsurance Payment]
2b	VFA Escrow Account Usage Measure	**Frequency** Monthly **History?** Yes	**Description** For the three VFA GAs that have a federally established escrow account (Texas, Great Lakes, and ASA), the number of times the VFA GA extracted funds from its escrow account **Explanation** Indicates whether the alternative financing arrangement of using escrow accounts is working efficiently and could potentially be installed for all GAs	= Number of Times Funds were Extracted from Escrow Account

Table 3: Measure Resulting From Cost Neutrality Analysis

	Performance Measure	Summary of Methodology Steps	Formula	Interpretation of Formula Result
1	Cost Neutrality Ratio	Cost neutrality means that the incremental cash flow realized by the VFA GA should equal the incremental cost savings realized by the Secretary as a result of the VFA GA's default aversion activities. Based on this definition, a performance measure that addresses cost neutrality should incorporate two components: • **Incremental Cash Flows for VFAs:** the difference between the net cash flows (claims, collections, fees) between the actual VFA GA cash flows and the estimated net cash flows that the VFA would have realized assuming the VFA GA was operating under a standard GA agreement; • **Default Cost Savings of VFA Program:** comprised of the following two components: (i) Cost Savings from a Lower Default Rate, and (ii) Cost Savings from a Lower Cost of Default.*	$= \dfrac{\text{Incremental Cash Flows for VFAs}}{\text{Default Cost Savings of VFA Program}}$	=1:The VFA Program is perfectly cost neutral, meaning that the additional cash flows being realized by VFAs over non-VFAs is equal to the cost savings being realized by the Department as a result of the VFA GA's default aversion activities <1: The Secretary is realizing more cost savings from the VFA GA's default aversion activities than the VFA GAs are realizing in additional cash flows >1: The VFA GAs are realizing more additional cash flow than the cost savings that are being realized by the Secretary due to the VFA GA's default aversion activities

** A specific methodology for computing the "Incremental Cash Flows for VFAs" and the "Default Cost Savings of the VFA Program" is presented in Section 4 of this report (for the purposes of the example shown in this report, it is assumed that the VFA program would result in a lower default rate and a lower cost of default as compared to the average standard GA).*

Table 4: Potential Future VFA Performance Measures

	Performance Measure	Description/ Explanation	Formula	Status*
1	Pre-Claims Assistance (PCA) Percentage	**Description** Represents the total dollar amount of requests for pre-claim assistance as a percentage of the dollar volume of loans in repayment as of the beginning of the measurement period **Explanation** Monitors the GA's ability to prevent delinquency by reducing the amounts requested for pre-claim assistance	= 1% of Principal and Accrued Interest Balances on Loans submitted for pre-claim assistance / ∑ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans in Repayment as of the Beginning of the Measurement Period	**Data Not Readily Available** The Default Aversion Fee is only captured annually in the Financial Management System (FMS) and may not be captured at all for the VFAs that do not receive this fee as part of their performance-based compensation. The amount submitted annually is already net of default reimbursement, therefore, there is no current way to measure the success of pre-claims assistance. If SFA wanted to determine the viability of implementing this measure, the following steps could be taken: • Work with Bruce Zimmerman from Great Lakes, who is looking into the viability of the uniform cure rate • Schedule and hold a conference call with the Texas VFA to fully understand cure rate computation • Develop a one-page synopsis of the computation, the individual data elements required to calculate it, and specific questions to the GA community on their ability to capture the necessary data • Distribute the one-page synopsis to all GAs for feedback • Summarize GA feedback on likelihood and speed of implementation
2	Success of Pre-Claims Assistance Percentage	**Description** Represents the total dollar volume of loans that received PCA and subsequently did not default as a percentage of the dollar volume of loans that received pre-claim assistance --- when a loan receives PCA and subsequently defaults, the GA must submit a refund to Education in the amount equal to 1 percent of the claim on that loan; if the loan does not default, the GA keeps the PCA **Explanation** Monitors the GA's ability to avert default – this measure is consistent with a version of the cure rate that could be applied to all GAs if the necessary data is captured electronically within SFA's systems	= 1 - 1% of Claims on Loans that Received Pre-Claim Assistance and Subsequently Defaulted *(for a given measurement period, this amount would be tracked roughly 180-270 days after the measurement period to determine subsequent default)* / 1% of Principal and Accrued Interest Balances on Loans Submitted for Pre-Claim Assistance During the Measurement Period	
3	Dollar Volume of Loans in Consolidation Percentage	**Description** Represents the dollar volume of loans that have been consolidated during the measurement period as a percentage of the dollar volume of loans in repayment as of the beginning of the measurement period **Explanation** Monitors the GA's use of consolidations as a means to avert default	= ∑ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans that have been Consolidated During the Measurement Period / ∑ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans in Repayment as of the Beginning of the Measurement Period	**Data Not Readily Available** Able to identify loans that have been consolidated in NSLDS, but the dollar amounts are set to zero for loans that have been consolidated. NSLDS does not maintain historical balances.

** "Data Not Readily Available" means that our research found that some data necessary to compute the measure was missing or is not accessible at this time.*

	Performance Measure	Description/ Explanation	Formula	Status*
4	Default Composition of Loans in Consolidation	**Description** Represents the dollar volume of consolidated loans that were in default prior to being consolidated during the measurement period as a percentage of the total dollar volume of loans that were consolidated at the beginning of the measurement period **Explanation** Monitors the GA's consolidation activity with respect to consolidating defaulted loans versus consolidating non-defaulted loans	= (Percentage of Loans with a Loan Status Code in NSLDS indicating Default Prior to Consolidation) x (∑ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans that have been Consolidated as indicated by FMS ———————— ∑ [(Amount of Outstanding Principal Balance), (Amount of Outstanding Accrued Interest Balance)] for Loans that have been Consolidated as indicated by FMS at the Beginning of the Measurement Period	**Data Not Readily Available** Able to identify loans that have been consolidated and were in default prior to consolidation in NSLDS, but the dollar amounts are set to zero for loans that have been consolidated and NSLDS does not maintain historical balances
5	Performance of Consolidated Loans Measure (Direct Loan)	**Description** Represents the dollar volume of consolidated loans (Direct Loans) that are currently in default as a percentage of the total dollar volume of loans that were consolidated **Explanation** Monitors the extent to which VFA GAs consolidate loans through the Direct Loan Origination System, when the loans subsequently default	= *Was not determined*	**Data Not Readily Available** The Direct Loan Origination System and the Direct Loan Servicing System do not currently transfer information that would be needed to track the performance of loans that have been consolidated by a specific GA

** "Data Not Readily Available" means that our research found that some data necessary to compute the measure was missing or is not accessible at this time.*

IV. Analyzing Cost Neutrality of VFAs

Background

As stated in SFA's Report to Congress in September 2001, the Department of Education developed cost projections which estimated that the VFA program would be cost neutral; in other words, it was expected that each VFA program would not exceed the cost to the Secretary under the standard guaranty model. Specifically, cost neutrality means that the incremental cash flow realized by the VFA GA should equal the incremental cost savings realized by the Secretary as a result of the VFA GA's default aversion activities.

The challenge with conducting such an analysis is the cost savings to Education would not be instantaneous and may not be reflected in today's actual numbers. The cost savings would likely be realized over time as the VFA GA's develop greater efficiencies in their default aversion efforts. The expectation is that the VFA GAs should demonstrate greater improvement in default aversion as compared to standard GAs for the first few years of the Program. The relative improvement would likely moderate until a constant spread between the VFA GA's default rate and the standard GA's default rate is realized. This expected difference between the average VFA GA's default rate and the average GA's default rate would comprise the majority of the cost savings that would be realized by the Department.

The cost neutrality analysis could be done in two ways depending on whether the Department thinks that the true impact of the VFA program is currently represented in today's actual numbers or whether the impact is still growing. If the former assumption is followed, the analysis presented in this section could be conducted using today's actual numbers. If the latter assumption is followed, the analysis would have to incorporate future improvements in the default rates for VFAs and future changes in the cash flows realized by the VFAs in order to estimate cost neutrality today. For purposes of this report, the former assumption is followed.

Based on this definition, a performance measure that addresses cost neutrality should incorporate two components:

- **Incremental Cash Flows for VFAs:** the difference between the net cash flows (claims, collections, fees) between the actual VFA GA cash flows and the estimated net cash flows assuming the VFA GA was operating under a standard GA agreement;

- **Default Cost Savings of VFA Program:** comprised of the following two components: (i) Cost Savings from a Lower Default Rate (as described earlier in this Section), and (ii) Cost Savings from a Lower Cost of Default.

The performance measure would represent the Incremental Cash Flow stated as a ratio to the Incremental Cost Savings ("Cost Neutrality Ratio"). Pure cost neutrality should result in a perfect negative correlation (i.e., the incremental cash flow (cash outflow to the Secretary) should be perfectly offset by the incremental cost savings (cash inflow to the Secretary)). The following section describes this analysis.

Cost Neutrality Analysis

This section presents the steps associated with conducting a cost neutrality analysis of the VFA Program. While reading, please reference the following tables that present an example of such an analysis on the VFA Program (data used is arbitrary). There are three main tables in the below example with the first two corresponding to the two components mentioned above: (a) Incremental Cash Flows for VFAs and (b) Default Cost Savings for VFA Program. The third tables displays the calculation of the Cost Neutrality Ratio. These tables are described in more detail following the example (Please note that the following example uses arbitrary data (shown in italics). Numbers not in italics are a result of a calculation using the arbitrary data).

A. Incremental Cash Flows for VFAs --- Net Cash Flow Comparison

	VFAs	Non-VFAs
a) Net Claims	*$(25)**	*$(27)**
b) Net Collections	*$15**	*$12**
c) Fees	*$100**	*$45**
Net Cash Flow (a + b + c)	**$90**	**$ 30**

**arbitrary data is shown in italics*

Incremental Cash Flow for VFAs (Difference in Net Cash Flows between VFAs and Non-VFAs)	$	60

B. Default Cost Savings for VFA Program

1. Default Cost Estimation

	VFAs	Non-VFAs
$1 Defaulted Loan	$1.00	$1.00
$ Outflow to GAs for Defaulted Loans ("Default Cost Per $1 Defaulted Loan")*	$0.75	$0.76

** the steps required to quantify this amount is described later in this report*

2. Variance in the Default Volume % Estimation

	VFAs	Non-VFAs
End of Current Measurement Period		
a) $ Volume of Loans in Repayment	*$30,000**	*$150,000**
b) $ Volume of Loans in Default	*$1,744**	*$9,000**
Default Volume % (b / a)	5.81%	6.00%

**arbitrary data is shown in italics*

3. Calculation of Total Default Cost Savings of the VFA Program

i. Cost Savings from Lower Default Rate	
a) Variance in Default Rate (VFA default rate minus Non-VFA default rate)	0.19%
b) $ Volume of Loans in Repayment for VFA (taken from table 2 above)	$30,000
c) Default Cost Per $1 Default Loan for Non-VFA (taken from above)	$0.76
d) Cost Savings from Lower Default Rate (a * b * c)	$43
ii. Cost Savings from Lower Cost of Default	
e) Variance in Cost of Default (VFA minus Non-VFA)	$0.01
f) $ Volume of Loans in Default for VFA (taken from above)	$1,744

g) Cost Savings from Lower Cost of Default (e * f)	$17
Default Cost Savings of VFA Program (d + g)	$60

** represents the extra cost savings of the VFA as a percentage of each $1 of defaulted loans*

C. Calculating the Cost Neutrality Ratio

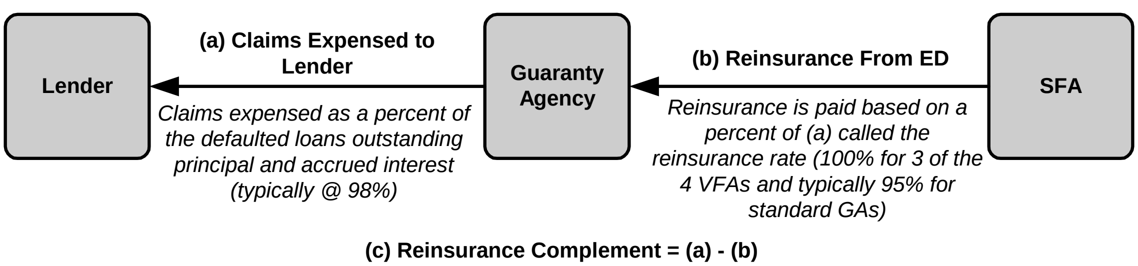
Final Results	
a) Incremental Cash Flow for VFAs	$60
b) Default Cost Savings of VFA Program	$60
Cost Neutrality Ratio* (a / b)	1.0

** A ratio of "1" means perfect cost neutrality; a ratio < 1 means that the Secretary is realizing more savings than the VFA is realizing more positive cash flows; a ratio > 1 means that the Secretary is not realizing enough cost savings to offset the additional cash flow being realized by the VFAs.*

A. Net Cash Flow Comparison

The purpose of this step is to compare total cash flows realized by the GA under the VFA and estimated cash flows that would have been realized under a standard GA agreement. As the example shows, the result of this comparison is the "incremental cash flow for VFAs." For the purposes of this analysis, cash flows include those net inflows and outflows that are impacted by the VFA structure (i.e., fees, reinsurance rates on claims, and collections). We have identified these three primary categories of cash flows that are common in each VFA. The sum of the following three cash flow categories is calculated for a GA under the VFA and is estimated for the same GA under a standard GA Agreement:

1) *Claims*



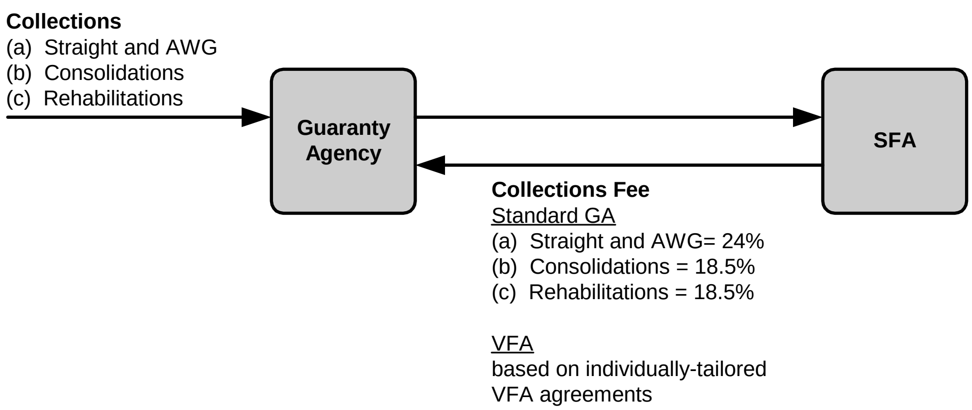
All guaranty agencies are entitled to receive reinsurance from the Department of Education for claims paid to lenders by the GAs for defaulted loans. The rate at which they are reinsured can vary for each VFA and the standard GAs (this rate is referred to as the “reinsurance rate”). The difference between claims expensed to lenders and the reinsurance amount from ED equals the amount not reimbursed. This is known as the “reinsurance complement.”

For instance, a standard GA’s typical reinsurance rate is approximately 95 percent of claims paid to lenders. If a VFA GA’s reinsurance rate is 100 percent of claims, this difference between the reinsurance rates represents a real cash flow variance between the standard GA structure and the VFA structure that should be captured when conducting this comparison.

A summary of how the net cash flow associated with claims is determined for the VFAs and estimated for the non-VFA follows:

VFA	Non-VFA
(a) Claims expensed to lenders ➢ Taken directly from Forms 2000	**(a) Claims expensed to lenders** ➢ Taken directly from Forms 2000
(b) Reinsurance from ED ➢ Taken directly from Forms 2000	**(b) Reinsurance from ED** ➢ Estimated by multiplying a standard GA's average reinsurance rate by claims expensed to lenders
(c) Reinsurance Complement ➢ Computed by taking the difference between claims paid to lenders and reinsurance from ED	**(c) Reinsurance Complement** ➢ Computed by taking the difference between claims paid to lenders and reinsurance from ED

2) *Collections*

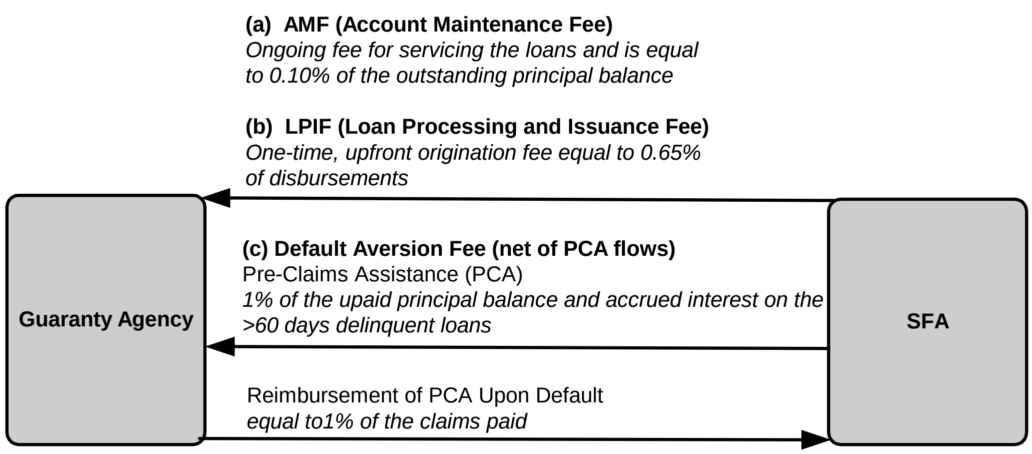


All guaranty agencies retain a certain portion of straight collections, administrative wage garnishments (AWG), and collections on rehabilitated and consolidated loans.
This portion can vary for VFAs according to their agreement. For standard GAs, the portion retained on collections is typically 24 percent of straight collections and AWG and 18.5 percent of consolidated and rehabilitated collections. Under the various VFA structures, GA retention on collections can vary based on specific criteria designed to create incentives for GAs to manage the collections process more efficiently. This difference between GA retention rates on collections represents a real cash flow variance between the standard GA structure and the VFA structure that should be captured when conducting this comparison.

A summary of how the net cash flow associated with collections is determined for the VFAs and estimated for the non-VFA follows:

VFA	Non-VFA
Dollar Amount of Collections ➢ Taken directly from Forms 2000	**Dollar Amount of Collections** ➢ Uses the average collections recovery percentage of a Non-VFA and applies it to the principal and accrued interest balances of the VFA's default portfolio
GA Retention of Collections ➢ Taken directly from Forms 2000	**GA Retention of Collections** ➢ Separate collections fields from Forms 2000 are multiplied by an average GA Retention rate for each field: • 24 percent of straight collections and administrative wage garnishments • 18.5 percent of collections on rehabilitated and consolidated loans

3) *Fees*



Standard GAs are paid the following fees:

- **Account Maintenance Fee ("AMF"):** represents an ongoing fee for servicing the loans and is equal to 0.10 percent of the outstanding principal balance

- **Loan Processing and Issuance Fee ("LPIF"):** represents a one-time, upfront origination fee equal to 0.65 percent of disbursements

- **Default Aversion Fee ("DAF"):** represents an ongoing fee paid by Education to compensate GAs for efforts relating to default aversion and is equal to one percent of the principal and accrued interest of the loans requesting assistance (this fee is reimbursed by the GA to Education for loans that subsequently default)

Each VFA GA is paid a performance based fee as defined in its individual Agreement. These fees differ among the VFA GAs. The differences are captured in this measure. In order to compare the GA fee structure with the VFA fee structure, we must estimate what the standard GA fees would have been based on data currently submitted.

Estimating the AMF and LPIF for the GAs is relatively straightforward (in most instances, these fees would be the same as was paid to the VFA GA), however, the default aversion fee is challenging because there is no direct way to identify how much of the performance based fee was comprised of the default aversion fee and no direct way to split up the default aversion fee into its two primary components: (1) pre-claim assistance (PCA), and (2) reimbursement of PCA upon default. Therefore, the DAF that the VFA GA would have received if it operated under a standard GA agreement must be estimated.

To provide a reasonable estimation of DAF, SFA could try to identify a historic relationship between DAF and some other measure (e.g., balance of default portfolio or balance of delinquency portfolio). If DAF has historically been an average percentage of the GA's default portfolio, SFA could assume that this relationship would persist in the future. Therefore, this percentage could be applied to the VFA GAs current default portfolio to estimate what the DAF would have been for a non-VFA. This type of historical analysis would be challenging given the limited historical data maintained on the DAF due to its recent inception in the October 1998 statute.

A summary of how the net cash flow associated with fees is determined for the VFAs and estimated for the non-VFA follows:

VFA	Non-VFA
AMF ➢ If applicable, part of Performance Based Fee	**AMF** ➢ Calculated as 0.10 percent of the outstanding principal balance of outstanding loans, which is available in NSLDS
LPIF ➢ If applicable, part of Performance Based Fee	**LPIF** ➢ Calculated as 0.65 percent (0.40 percent starting FY 2003) of the amount of disbursements on new loans, which is available in NSLDS
Default Aversion Fee ➢ If applicable, part of Performance Based Fee	**Default Aversion Fee** ➢ Calculated as a percentage of some other measure (e.g., balance of default portfolio or balance of delinquency portfolio)
Performance Based Fee ➢ Taken directly from FMS	

The sum of the three cash flow areas discussed above (claims, collections and fees) are calculated for the guaranty agency as a VFA (based on invoice and monthly data currently submitted by the VFA GA) and as a standard GA (estimated based on monthly data currently submitted by the VFA GA and based on simplifying assumptions relating to activity).

B. Default Cost Savings Comparison

In order to interpret the result of the Net Cash Flow Comparison, the result must be compared to the cost savings associated with an improved default rate and potentially cheaper cost of default for VFA GAs. Ultimately, this analysis should answer the question, "was the additional performance-based compensation to the VFA GAs matched by a corresponding increase in default cost savings to the Secretary resulting from the VFA GA's default aversion activities?"

To accomplish this objective, the default cost savings comparison section of the example displays three tables. These tables represent the three primary steps for estimating default cost savings.

1) *Default Cost Estimation*

The table shown in the example presents the "Default Cost Per $1 Defaulted Loan." This section will describe the steps to computing this amount. The first step is to estimate the cost to the Secretary for every $1 loan that defaults. In other words, when a loan defaults, what costs are incurred by the Secretary that are never recouped. In addition, for the purposes of this analysis, do these costs differ between VFA GAs and standard GAs? As is demonstrated below, the answer is yes due to the differences in reinsurance rates and GA retention rates on collections.

We estimated default cost by analyzing two primary components and compared these components between the VFA structure and the standard GA structure. The two components are:

i. *Reinsurance Claims (Net of the Federal Share of Collections):* SFA reimburses the GA a percentage of the claims paid to lenders. This percentage may differ between VFA GAs and standard GAs. Upon collection of funds on the defaulted loan, a portion of those collections ("Federal Share") is reimbursed to SFA. This share could also differ between VFA GAs and standard GAs. In addition, this share will be impacted by the GAs' ability to recover collections; therefore, the average collection recovery percentage will be used as part of this analysis. For this component, the cost of a defaulted loan equals the reinsurance paid to the GA less the Federal Share on collections.

ii. *Opportunity Cost of the Amount in (i):* The Federal Share is not reimbursed to SFA at the same time reinsurance is paid to the GA. In many cases, this process could take months to years. Therefore, there is an opportunity cost on the Federal Share associated with the time between when reinsurance is paid and when the Federal Share is reimbursed. This opportunity cost equals the interest that could have been earned on the Federal Share during this time variance.

An example of estimating these two components is shown below (Please note that the following example uses arbitrary data (shown in italics). Numbers not in italics are a result of a calculation using the arbitrary data):

	Total	
Calculation of Default Cost	**VFA**	**Non-VFA**
a) Defaulted Loan Volume	*$1.00**	*$1.00**
i. Reinsurance Claims (Net of the Federal Share of Collections)		
b) Claims Paid to Lender (usually at 98% of default volume)	$0.98	$0.98
c) Reinsurance Paid to GA by ED (% of Claim paid by GA to Lender)	$0.97	$0.93

Collections on Defaulted Loan		
d) Average Collections Recovery Percentage ("ACRP")	*31%*	*30%*
e) Collections on Defaulted Loans (a * d)	$0.31	$0.30
f) Amount of Collections Retained by GA (assumed GA Retention Rate)	*$0.05*	*$0.07*
g) Amount of Collections Reimbursed to ED, or Federal Share (e – f)	$0.26	$0.23
h) Reinsurance Claims, Net of the Federal Share of Collections (c – g)	$0.71	$0.70
ii. Opportunity Cost of Net Amount Paid to GA		
j) Average # of Days Between Reinsurance Paid and Collections	*720*	*1,080*
k) Average Interest Rate on Federal Fund (Opportunity Cost Rate)	*3%*	*3%*
l) Opportunity Cost (h * k * j/360)	$0.04	$0.06
Total Default Cost (h + l)	$0.75	$0.76

**Note: Arbitrary data is shown in italics*

2) *Variance in the Default Volume Percentage Estimation*

The primary savings that will likely be realized by the Department will be the result of a lower default rate for the VFAs as compared to the standard GAs. Assuming consistency across regions on default activity and assuming equal portfolio risk levels for all GAs, the difference between the default rates should represent the impact of the VFA operating structure and their respective default aversion activities.

As mentioned in the introduction to this Section, the impact of the VFA program would not be instantaneous. The Program is designed to help reduce default rates relative to the market (i.e., the other 32 GAs), but this default rate variance could take time before finding an equilibrium, or a constant default rate variance. In the example provided in this report, an instantaneous shift was assumed; however, when using actual numbers, SFA should factor in improvement in this variance for future years and should estimate the timing and degree of this variance for the purposes of this analysis.

3) *Calculation of Total Default Cost Savings of the VFA Program*

The final step in estimating the Default Cost Savings is to simply add the results of (1) and (2) above. The two primary sources of cost savings is the impact of the differences between (1) the cost of default, and (2) the default rates.

C. Calculating the Cost Neutrality Ratio

The Cost Neutrality Ratio equals the quotient of the following two components:

1. *Numerator:* Incremental Cash Flows for VFAs (described in Part A of this Section)

2. *Denominator:* Default Cost Savings of VFA Program (described in Part B of this Section)

The results of this ratio should be interpreted as follows:

Result	**Interpretation**
= 1	The VFA Program is perfectly cost neutral, meaning that the additional cash flows being realized to VFAs over non-VFAs is equal to the cost savings being realized by the Department as a result of the VFA GA's default aversion activities.
< 1	The Secretary is realizing more cost savings from the VFA GA's default aversion activities than the VFA GAs are realizing in additional cash flows.
> 1	The VFA GAs are realizing more cash additional cash flow than the cost savings that are being realized by the Secretary due to the VFA GA's default aversion activities.

V. Interpreting Performance Measures through Benchmarking

In order to provide a basis for evaluating the performance of the VFA GAs under their agreements, the performance measures should be compared to benchmark information. For example, the measure of the dollar percentage of loans in good standing as of a certain date does not provide much interpretative value by itself. A performance measure percentage could be compared to the VFA GA's prior period percentage in order to assess whether the VFA GA's performance has improved or deteriorated.

Establishing an appropriate benchmark could require significant analysis. An appropriate benchmark should have a similar risk profile and exposure to market events to the entity being compared to it. When a measure is stated as a variance to the benchmark (e.g., peer group benchmark – see below), the result would ideally isolate that entity's ability to perform without being impacted by general market changes that would impact all the entities' performance.

Benchmark Types

1. Prior Measurement Period

In this benchmark, the VFA GA's current period performance will be compared to its performance in a prior period. For example, the percentage of a VFA GA's loans in good standing as of 11/30/01 could be compared to that VFA GA's loans in good standing as of 11/30/00.

Advantages:

- Allows easy comparison of changes over time
- Easy to identify and interpret trend information

Disadvantages:

- May not isolate the cause of the change in performance. While a change can be identified, the change may be due to an external factor, such as a deteriorating economic conditions.
- Does not show how the change compares to a wider peer population's change
- Must maintain historical data to compute

2. Peer Group Comparison

In this benchmark, the VFA GA's results are compared to the performance of a related GA population.

Advantages:

- Allows the reviewer to assess whether a change in a performance measure is unique to the specific GA or whether there is a factor that is influencing the performance of all GAs within the peer group

Disadvantages:

- If the chosen peer group is not representative of the overall population, the comparisons may be misleading

We have identified several peer groups that could be used. In any benchmark comparison, the peer group should be carefully chosen so that the comparisons are meaningful and valid. For example, GAs are generally required to guarantee in-state loans, but they have some autonomy to select which out-of-state loans to guarantee. Due to this selection process, the default rate for out-of-state loans will likely differ from in-state loans. Therefore, it may be desirable to isolate out-of-state loans from in-state loans.

The following table lists other possible peer groups that can be affected by varying default activities:

Peer Groups	Definition	Reason for Comparison
Public School vs. Private School	Loans guaranteed for public school attendance vs. private school attendance	Since tuitions for private schools can be considerably higher than public schools, the likelihood of default could differ for students graduating from each type of institution.
In-State vs.Out-of-State	Loans guaranteed for attendance in an in-state institution vs. an out-of-state institution	Out-of-state loans may perform better than in-state schools due to the GA's ability to selectively approve out-of-state loan.
Geography (National, Regional, State)	GAs within a certain geographical area (nation, region, state)	The portfolio of the four VFA GAs likely varies considerably due to state size, type and number of schools, regional economic factors, etc.; therefore, the default activity within each region could also differ.
Repayment Year	Year in which the loan enters repayment	Default activity varies based on the year the student loan enters repayment – it may be misleading to compare two GAs where one GA's portfolio consists primarily of loans that entered repayment 5 years ago to another GA's portfolio that consists primarily of loans that have just entered repayment this year.

3. VFA versus Non-VFA Comparison

In this benchmark, the VFA GA's performance is compared to a pre-defined baseline index that represents the GA's performance prior to becoming a VFA GA. This benchmark may be useful in assessing the financial impact of the VFA agreements.

Advantages:

- Provides data that is integral to the analysis of the financial impact of the VFA GAs

Disadvantages:

- This benchmark requires the comparison of current period performance measures to the VFA GA's performance during the pre-determined baseline period. If the use of the VFA by the GAs fundamentally changes their operation, this comparison may have less value.

Initial Feedback from the Guaranty Agencies

Based on comments received by SFA from the GAs at a conference in mid-January, the GAs suggested benchmarking the four VFA GAs to a benchmark consisting of the 32 remaining GAs. In determining whether or not this benchmark is appropriate for comparison purposes, we should address the following questions:

(a) Do the VFA GAs have a similar risk profile compared to the other 32 GAs?
(b) Do the VFA GAs have similar exposure to market/economic events compared to the other 32 GAs?
(c) Do the VFA GAs operate under similar regulatory environment as the other 32 GAs?

If the answer to any, some or all of these questions is “No,” SFA may want to research some of the more refined benchmark types presented above. In addition, the GAs also expressed an interest in accessing their respective performance results compared to national averages in anonymity.

VI. Potential Next Steps

Implementation

- Gather 12/31/01 Performance Measure data for the Task Force Participants (4 VFA GAs and 4 non-VFA GAs)

- Organize and coordinate the Task Force meeting in D.C. (agenda, correspondence, etc.)

- Compute the performance measures for VFA GAs and benchmark measures (historic when available and current)

- Schedule and hold ongoing meetings (at least weekly) with the implementation team to monitor progress against the implementation plan

- Develop reports and aggregate the results of each business areas computations

- Document the process to aid in the next quarter's computations

- Conduct the Cost Neutrality Analysis and develop the section of the Annual Report to Congress that address this issue

- Draft Annual Report

Other Next Steps

- Work with the DataMart team by developing the business requirements for automating the performance measurement process

- Assist SFA in developing and testing a uniform cure rate
  - Research the various computations for cure rate
  - Recommend and document a process for computing uniform cure rate and identify the data needed from the GAs
  - Work with the Task Force (4 VFAs and 4 standard GAs) to test the uniform cure rate
  - Implement uniform cure rate for the GA community

- Review SFA's financing structures (Federal Fund vs. Escrow Accounts) for the VFA and standard GA programs to document the process and to identify process improvements that would allow SFA to potential move toward an escrow account arrangement for all GAs

- Address the issues impeding the implementation of the performance measures identified in Table 4 of this report
  - Work with Consolidation Area to identify ways to extract necessary information from both the origination and servicing systems
  - Identify potential delinquency prevention measures dealing with customer satisfaction, etc.
  - Refine onsite review process of regional offices to monitor the pre-claim assistance (default aversion fee)

Appendix A - Loan Status Code Definitions

Loan Status Codes	Loan Status Code Description	Amount of Outstanding Principal Balance Requirement	Open/ Closed
AL	Abandoned Loan	Last known amount	open
BC	Bankruptcy Claim, Discharged	Zero	closed
BK	Bankruptcy Claim, Active	Positive	open
CA	Canceled	Zero	closed
CS	Closed School Discharge	Zero	closed
DA	Deferred	Positive	open
DB	Defaulted, Then Bankrupt, Active, Chapter 13	Positive	open
DC	Defaulted, Compromise	Zero	closed
DD	Defaulted, Then Died	Zero	closed
DE	Death	Zero	closed
DF	Defaulted, Unresolved	Positive	open
DI	Disability	Zero	closed
DK	Defaulted, Then Bankrupt, Discharged, Chapter 13	Zero	closed
DL	Defaulted, In Litigation	Zero	open
DN	Defaulted, Then Paid-in-Full by Consolidation	Zero	closed
DO	Defaulted, Then Bankrupt, Active, Other	Positive	open
DP	Defaulted, Paid-in-Full	Zero	closed
DR	Defaulted Loan Included in a Rolled-up Loan	Zero	closed
DS	Defaulted, Then Disabled	Zero	closed
DT	Defaulted, Collection Terminated	Positive	open
DU	Defaulted, Unresolved	Positive	open
DW	Defaulted, Write-Off	Positive	closed
DX	Defaulted, Six Consecutive Payments	Positive	open
DZ	Defaulted, Six Consecutive Payments, Then Missed Payment(s)	Positive	open
FB	Forbearance	Positive	open
FC	False Certification Discharge	Zero	closed
IA	Loan Originated	Positive	open
ID	In School or Grace Period	Positive	open
IG	In Grace Period	Positive	open
IM	In Military Grace	Positive	open
OD	Defaulted, Then Bankrupt, Discharged, Other	Zero	closed
PC	Paid-in-Full Through Consolidation Loan	Zero	closed
PF	Paid-in-Full	Zero	closed
PM	Presumed Paid-in-Full	Zero	closed
PN	Paid-in-Full Through Consolidation Loan	Zero	closed
RF	Refinanced	Zero	closed
RP	In Repayment	Positive	open
UA	Temporarily Uninsured Loan not in Default	Positive	open
UB	Temporarily Uninsured Loan in Default	Positive	open
UC	Permanently Uninsured / Unreinsured Loan not in Default	Zero	closed
UD	Permanently Uninsured / Unreinsured Loan in Default	Zero	closed
UI	Uninsured / Unreinsured	Zero	closed
XD	Defaulted, Six Consecutive Payments	Positive	open

Appendix B - Forms 2000 Template

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS
MR-1	**Claims Paid**	**$____________________**			
MR-1-A	Defaults – Net		$		$
MR-1-B	Exempt/Lender of Last Resort		$		
MR-1-C	Death/Disability		$		
MR-1-D	Closed School/False Certification		$		
MR-1-E	Bankruptcy		$		
MR-1-F	Unpaid Refunds		$		
MR-1-G	Discharges		$		
MR-2	**Borrower Payment Return (Closed School/False Certification)**	**$____________________**	$	$	$
MR-3	**Status Changes**	**$____________________**			
MR-3-A	Death/Disability		$	$	
MR-3-B	Closed School/False Certification		$	$	
MR-3-C	Bankruptcy		$	$	
MR-4	**TOP Overpayments**	**$____________________**	$	$	$
MR-5	**Repurchases - CFY**	**$____________________**			
MR-5-A	Defaults		$	$	$
MR-5-B	Exempt/Lender of Last Resort		$		$
MR-5-C	Death/Disability		$		$
MR-5-D	Closed School/False Certification		$		$
MR-5-E	Bankruptcy		$		$

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS
MR-6	**Repurchases - PFY**	**$____________________**			
MR-6-A	Defaults		$	$	$

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS
MR-6-B	Exempt/Lender of Last Resort		$		$
MR-6-C	Death/Disability		$		$
MR-6-D	Closed School/False Certification.		$		$
MR-6-E	Bankruptcy		$		$
MR-7	**Partial Refunds –CFY**	**$____________________**			
MR-7-A	Defaults		$		
MR-7-B	Exempt/Lender of Last Resort		$		
MR-7-C	Death/Disability		$		
MR-7-D	Closed School/False Certification.		$		
MR-7-E	Bankruptcy		$		
MR-8	**Partial Refunds –PFY**	**$____________________**			
MR-8-A	Defaults		$		
MR-8-B	Exempt/Lender of Last Resort		$		
MR-8-C	Death/Disability		$		
MR-8-D	Closed School/False Certification.		$		
MR-8-E	Bankruptcy		$		
MR-9	**Overstated Claims**	**$____________________**			
MR-9-A	Defaults		$		
MR-9-B	Exempt/Lender of Last Resort		$		
MR-9-C	Death/Disability		$		
MR-9-D	Closed School/False Certification.		$		
MR-9-E	Bankruptcy		$		

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS
MR-10	**Rehabilitated Loan Refund**	**$____________________**	$		
MR-10-A	Rehabilitated Loans		$	$	$
MR-11	**FFEL Consolidation Refund**	**$____________________**	$	$	
MR-11-A	FFEL Consolidation – Payoff		$	$	
MR-11-B	FFEL Consolidation – GA Retention		$	$	$
MR-12	**GA Administrative Wage Garnishment**	**$____________________**	$	$	$
MR-12-A	Administrative Wage Garnishment - Total Collected		$	$	$
MR-12-B	Administrative Wage Garnishment - GA Retention		$	$	$
MR-13	**Default Collections**	**$____________________**	$	$	$
MR-13-A	Default Collections – Total Collected		$	$	$
MR-13-B	Default Collections – GA Retention		$	$	$
MR-14	**Bankruptcy Collections**	**$____________________**	$	$	$
MR-15	**Late Reporting Interest**	**$____________________**			
MR-16	**Total**	**$____________________**			

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS

Non-Payment Activity

	Treasury Offset Program				
MR-17	Treasury Offset		$	$	$
MR-18	Non-Federal Share Offset		$	$	$
MR-19	Treasury Offset Reversals		$	$	$
	Status Changes – Account Balance at Conversion				
MR-20	Default/Lender of Last Resort to Death or Disability		$	$	$
MR-21	Default/Lender of Last Resort to Closed School/ False Certification		$	$	$
MR-22	Default /Lender of last Resort to Bankruptcy		$	$	$
MR-23	Bankruptcy to Default/Lender of Last Resort		$	$	$
	Agency Accruals				
MR-24	Collection Terminations		$	$	$
MR-25	Compromises		$	$	$
MR-26	Agency's Accruals			$	$
MR-27	Default FFEL Consolidated by Direct Loan Program		$	$	$
MR-28	Subrogated Loans		$	$	$
MR-29	Default Loans Transferred Out		$	$	$
MR-30	Default Loans Transferred In		$	$	$
MR-31	Other Transactions Affecting Federal Receivables		$	$	$
MR-32	Ending Balance on Defaulted Loans		$	$	$
	Delinquency by Debt				
MR-33	Not Delinquent		$	$	
MR-34	1 - 90 days		$	$	
MR-35	91 - 180 days		$	$	
MR-36	181 - 365 days		$	$	
MR-37	1 - 2 years		$	$	
MR-38	2 - 6 Years		$	$	
MR-39	6 - 10 Years		$	$	
MR-40	Over 10 Years		$	$	
	Bankruptcy				
MR-41	Ending Balance on Bankruptcies		$	$	$
MR-42	Bankruptcies Transferred		$	$	$

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS

LOANS IN REPAYMENT

AR-1	Loans Guaranteed (Except Federal Consolidation)	$					
AR-2	All Loans Canceled (Except Federal Consolidation)	$					
AR-3	Federal Consolidation Loans Guaranteed	$					
AR-4	Federal Consolidation All Loans Canceled	$					
AR-5	Uninsured Loans	$					
AR-6	Loans Transferred In	$					
AR-7	Loans Transferred Out	$					
AR-8	Default Claims Paid	$					
AR-9	Bankruptcy Claims Paid	$					
AR-10	Death and Disability Claims Paid	$					
AR-11	Closed School/False Certification Claims Paid	$					
AR-12	Loans Paid in Full	$					
AR-13	Federal Stafford and Unsubsidized Stafford Interim Loans	$					
AR-14	Total Loans in Deferment Prior to First Payment	$					

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS

FEDERAL FUND

AR-15	Beginning Balance (from 9/30/xx)	$	$	$	$	$	$
AR-16	Investment Income	$	$	$	$	$	$
AR-17	Reinsurance from ED	$	$	$	$	$	$
AR-18	Collections of Defaulted Loans - Reinsurance Complement	$	$	$	$	$	$
AR-19	Insurance Premiums	$	$	$	$	$	$
AR-20	Other Revenues	$	$	$	$	$	$
AR-21	Claims Expensed to Lenders	$	$	$	$	$	$
AR-22	Recall of Federal Funds to the Restricted Account	$	$	$	$	$	$
AR-23	Transfer to Operating Fund for Default Aversion	$	$	$	$	$	$
AR-24	Transfer to Operating Fund for Account Maintenance Fee	$					
AR-25	Other Expenses	$	$	$	$	$	$
AR-26	Ending Balance	$	$	$	$	$	$
AR-27	Amount Transferred from Federal Fund To Operating Fund for Operating Expenses (Repayable)	$	$	$	$	$	$
AR-28	Amount Received from Operating Fund to Repay Advance for Operating Expenses	$	$	$	$	$	$

OPERATING FUND

AR-29	Beginning Balance (from 9/30/xx)	$	$	$	$	$	$
AR-30	Default Aversion Fee Revenue	$	$	$	$	$	$
AR-31	Loan Processing and Issuance Fee Revenue	$	$	$	$	$	$
AR-32	Account Maintenance Fee Revenue Received from ED	$	$	$	$	$	$
AR-33	Transfer from Federal Fund for Account Maintenance Fee	$	$	$	$	$	$
AR-34	Collections of Defaulted Loans Less Reinsurance Complement	$	$	$	$	$	$
AR-35	Investment Income	$	$	$	$	$	$

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS

AR-36	Other Revenues (FFEL and Non FFEL)						
AR-37	Collections of Defaulted Loans (Secretary's Equitable Share)	$	$	$	$	$	$
AR-38	Operating Expenses	$	$	$	$	$	$
AR-39	Other Expenditures (FFEL &Non-FFEL)	$	$	$	$	$	$
AR-40	Ending Balance	$	$	$	$	$	$
AR-41	Amount Received from Federal Fund for Operating Expenses	$	$	$	$	$	$
AR-42	Amount Repaid to Federal Fund For Operating Expenses	$	$	$	$	$	$

RESTRICTED ACCOUNT

AR-43	Beginning Balance (from 9/30/xx)	$	$	$	$	$	$
AR-44	Recall of Federal Funds from Federal Fund	$	$	$	$	$	$
AR-45	Investment Income on Restricted Account	$	$	$	$	$	$
AR-46	Investment Income on Restricted Account Expensed for Default Prevention	$	$	$	$	$	$
AR-47	Ending Balance	$	$	$	$	$	$

GUARANTY AGENCY FINANCIAL REPORT

Guaranty Agency Code: _____ - Guaranty Agency State Name: ______ **OMB No. 1845-0026**

For Month Of: __/____ **Expiration Date : 02/28/2003**

ITEM NO.	CATEGORY	AMOUNT DUE TO/(FROM) GUARANTOR	PRINCIPAL AMOUNT	INTEREST AMOUNT	OTHER AMOUNTS

BALANCE SHEET SECTION

AR-48	Cash, Cash Equivalents and Investments	$					
AR-49	Restricted Account Cash, Cash Equivalents and Investments	$					
AR-50	Net Investment in Property, Plant, Equipment, and Inventory	$					
AR-51	Accounts Receivable from ED	$					
AR-52	Other Assets	$					
AR-53	Accounts Payable, Accrued Expenses and Other Current Liabilities	$					
AR-54	Accounts Payable to ED	$					
AR-55	Other Liabilities	$					
AR-56	Allowances and Other Non-Cash Charges to Federal Fund	$					
AR-57	Federal Fund Balance	$					