

AUGUST 1997

GS-97-01

Dear Colleague:

This letter transmits the U.S. Department of Education's *Agreed-Upon Procedures Guide (Attestation Engagement) Exceptional Performance Status For Federal Family Education Loan Program (FFELP) At Participating Guaranty Agencies and Their Servicers*. Section 428I of the Higher Education Act of 1965, as amended (the Act), and 34 C.F.R. section 682.415 authorize the Secretary to recognize Guaranty Agencies and Guaranty Agency Servicers (as an agent for a Guaranty Agency) for an exceptional level of performance in servicing Federal Family Education Loan Program (FFELP) loans.

A Guaranty Agency or Guaranty Agency Servicer designated for Exceptional Performance (EP) receives the applicable reinsurance rate under section 428(c)(1) of the Act on all claims submitted for payment by the Guaranty Agency or Guaranty Agency Servicer during the 12-month period following the date the Guaranty Agency or Guaranty Agency Servicer receives notification of the designation. Payments of reinsurance made on claims submitted by an agency or its servicer designated for exceptional performance are not subject to repayment based on additional review of due diligence activities, (including timely claim payment or timely filing for reinsurance), covering the period during which the guaranty agency or guaranty agency servicer was designated for any reason other than a determination by the Secretary that the eligible guaranty agency or guaranty agency servicer engaged in fraud or other purposeful misconduct in obtaining designation for exceptional performance. The Secretary will notify the Guaranty Agency or Guaranty Agency Servicer within 60 days of his receipt of a complete request for EP designation and all required information.

Engagement Periods and Due Dates for Initial Designation and to Maintain Exceptional Performance

To Receive Designation for Exceptional Performance

The agreed-upon procedures engagement conducted in accordance with the attached guide is to cover the 12-month period ending no more than 90 days prior to the date the Guaranty Agency or Guaranty Agency Servicer submits its request for designation. The engagement period is to be specified by the Guaranty Agency or Guaranty Agency Servicer.

To Maintain Designation for Exceptional Performance

To maintain its status as an exceptional performer, the Guaranty Agency or Guaranty Agency Servicer must have continued quarterly engagement audits conducted in accordance with the guide.

The first engagement is to cover the 3-month period starting after the end of the initial 12-month period for which the entity received the exceptional performer designation. The quarterly engagement is due within 90 days of the end of the quarter.

(See Engagement Period section on page I-2 of the enclosed Exceptional Performance Guide.)

Submission Requirements

To receive a designation for "Exceptional Performance" a Guaranty Agency or Guaranty Agency Servicer must submit specific items to the Secretary as set forth in 34 CFR § 682.415(a)(2). These items include a compliance audit of its loan portfolio conducted by a qualified independent organization. Section III of the attached guide provides detailed guidance concerning the submission requirements for both the Practitioner, and the Guaranty Agency or Guaranty Agency Servicer.

Additional copies of this guide may be downloaded from the ED/OIG Non-Federal Audit Team Home Page at <http://home.gvi.net/~edoig> or by faxing requests to ED/OIG at 202-205-8238.

Questions pertaining to the Exceptional Performance Guide should be directed to the Regional Inspector General's office in Kansas City, Missouri. We would appreciate it if your questions could be faxed to that office at (816)891-0815. We look forward to working with you to implement the requirements of the new guide.

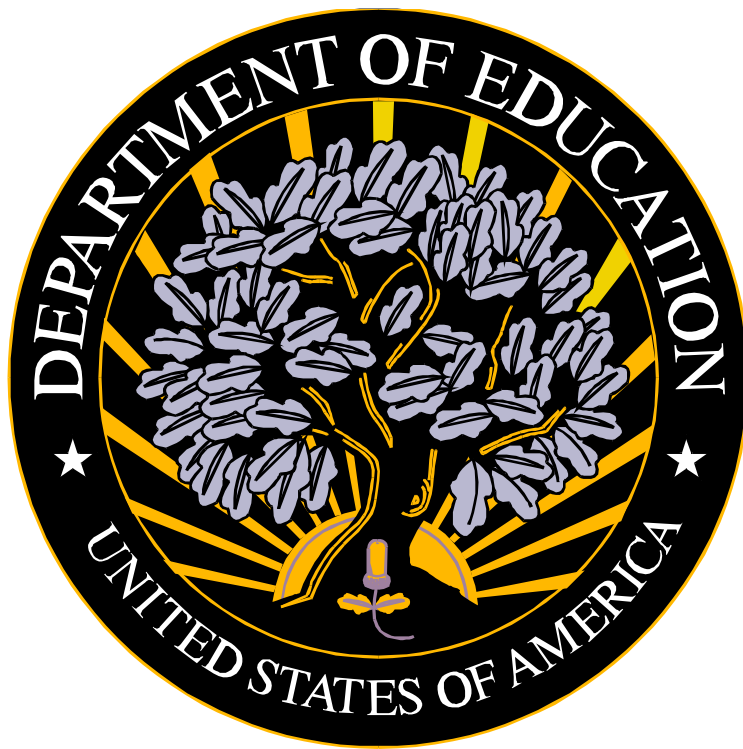
Sincerely,

Thomas R. Bloom

Enclosure

**AGREED-UPON PROCEDURES GUIDE
(ATTESTATION ENGAGEMENT)**

**EXCEPTIONAL PERFORMANCE STATUS FOR
FEDERAL FAMILY EDUCATION LOAN PROGRAM (FFELP) AT
PARTICIPATING GUARANTY AGENCIES AND THEIR SERVICERS**



**U.S. DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

AUGUST 1997

**United States Department of Education
Office of Inspector General**

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The Office of Inspector General also gratefully acknowledges the assistance and input provided by the guaranty agency and servicing communities, the public accounting community, and staff of the American Institute of Certified Public Accountants.

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SECTION I

PLANNING AND OTHER CONSIDERATIONS

AUTHORIZATION

The Higher Education Act of 1965 (HEA), as amended, authorizes the Secretary to recognize a Guaranty Agency or a Guaranty Agency Servicer (as an agent for a Guaranty Agency) for an exceptional level of performance in servicing Federal Family Education Loan Program (FFELP) loans.

A Guaranty Agency or Guaranty Agency Servicer designated for Exceptional Performance (EP) receives the applicable reinsurance rate under section 428(c)(1) of the Act on all claims submitted for payment by the Guaranty Agency or Guaranty Agency Servicer during the 12-month period following the date the Guaranty Agency or Guaranty Agency Servicer receives notification of the designation. Payments of reinsurance made on claims submitted by an agency or its servicer designated for exceptional performance are not subject to repayment based on additional review of due diligence activities, including timely claim payment or timely filing for reinsurance, covering a period during which the Guaranty Agency or Guaranty Agency Servicer was designated for any reason other than a determination by the Secretary that the Guaranty Agency or Guaranty Agency Servicer engaged in fraud or other purposeful misconduct in obtaining designation for exceptional performance.

ATTESTATION REQUIREMENTS AND STANDARDS

To receive a designation for EP, a Guaranty Agency or Guaranty Agency Servicer must submit specific items to the Secretary as set forth in 34 CFR § 682.415(a)(2). These items include a compliance audit of its loan portfolio, conducted by a qualified independent organization. The audit organization must meet the qualification and independence standards contained in the U.S. General Accounting Office's (GAO) *Government Auditing Standards*, issued by the Comptroller General of the United States. The regulations implementing the audit requirement specify that the sampling and evaluation techniques are to be identified in an audit guide prepared by the Department's Office of Inspector General.

To satisfy the compliance audit requirement, this guide requires an agreed-upon procedures level attestation engagement. This engagement requires the practitioner to perform certain procedures and report his/her results. Management's assertion will be that it (the Guaranty Agency or Guaranty Agency Servicer) maintained an overall compliance performance percentage of 97 percent or higher pertaining to due diligence requirements applicable to each loan, on average during the engagement period, with respect to:

- ▶ collection activities on defaulted loans,
- ▶ timely claim payments, and
- ▶ timely reinsurance filings.

The applicable standards contained in *Government Auditing Standards*, the standards contained in *Statement on Standards for Attestation Engagements (SSAE) No. 3, Compliance Attestation, and No.*

4, *Agreed-Upon Procedures Engagements* issued by the American Institute of Certified Public Accountants (AICPA) apply.

USE OF THIS GUIDE

This guide is to be used by the practitioner to perform agreed-upon procedures relative to management's assertion about its compliance performance percentage with respect to; collection activities on defaulted loans, timely claim payments, and timely reinsurance filings relating to the FFELP. This guide is divided into three sections. Section I provides general information about engagement requirements. Among other things, it provides guidance on the engagement period and due dates; the reporting entity; practitioner qualifications; engagement letters; planning and reporting considerations; and quality control reviews. Section II provides guidance on the requirements for "Agreed-upon Procedures" engagements including the required management assertions and the agreed-upon procedures to be performed. Section III contains the reporting requirements and illustrative reports.

This guide is intended to set forth the required agreed-upon procedures. All of the agreed-upon procedures related to the applicable management assertions contained in this guide must be performed by the practitioner. Technical assistance related to these engagements is available from the U.S. Department of Education (ED) Regional Inspector General for Audit in Kansas City (See Appendix A).

ENGAGEMENT PERIOD

Prior To Receiving Designation as Exceptional Performer

The agreed-upon procedures engagement conducted in accordance with this guide is to cover the 12-month period ending no more than 90 days prior to the date the Guaranty Agency or Guaranty Agency Servicer submits its request for designation. The engagement period is to be specified by the Guaranty Agency or Guaranty Agency Servicer.

After Receiving Designation as Exceptional Performer

To maintain its status as an exceptional performer, the Guaranty Agency or Guaranty Agency Servicer must have continued quarterly engagement audits conducted in accordance with this guide. The first engagement is to cover the 3-month period starting the day after the end of the initial 12-month period for which the Guaranty Agency or Guaranty Agency Servicer received its Exceptional Performer designation. The results of quarterly engagement audits must be submitted to the Secretary within 90 days of the end of each quarter. (NOTE: If designation is received after the end of the first quarter following the initial 12-month period, the first quarterly engagement will not be due until 90 days after the date designation is received. However, the first quarterly engagement should cover the initial 3-month period.)

For all quarterly engagements, there should be no lapses of coverage. For example:

Assume the end of an applicant's 12-month period is 12/31, with the application submitted on 3/31. Designation is received on 5/31. The report for quarter one is not

due until 8/31. In this instance, a report covering the first and second quarters (1/1-3/31 and 4/1 - 6/30) should be submitted at 8/31.

REPORTING ENTITY

Section 428I of the HEA refers to the designation of a Guaranty Agency or Guaranty Agency Servicer as a single entity and does not indicate that separate servicing centers should be evaluated individually. Consistent with the statutory language, it is important to view the applicant as a single entity in performing the procedures relative to the determination of its overall compliance percentage, regardless of the number of loan service centers.

PRACTITIONER QUALIFICATIONS

A practitioner must meet the qualification and independence standards contained in *Government Auditing Standards*, including the requirements relating to continuing professional education. A Guaranty Agency or servicer's internal auditors are not independent of the entity while auditing within it. Therefore, they cannot perform the required FFELP engagements.

The agreed-upon procedures to be enumerated or referred to in the practitioner's report are to be performed entirely by the practitioner. However, as set forth in SSAE No.4, paragraph 24, internal auditors or other personnel may prepare schedules and accumulate data or provide other information for the practitioner's use in performing the agreed-upon procedures.

The audit organization is required to meet the quality control standards of *Government Auditing Standards*. The standards require that practitioners and audit firms comply with the applicable provisions of the public accountancy laws and rules of the jurisdiction in which they are licensed and where the engagement is being conducted. If the Guaranty Agency or servicer is located in a state outside the home State of the practitioner, and the practitioner performs substantial field work in the Guaranty Agency's state, the practitioner should document his/her compliance with that state's public accountancy licensing requirements. This guide does not impose additional licensing requirements beyond those established by the individual state boards of accountancy.

ENGAGEMENT LETTER

The practitioner should consider preparing a letter of engagement to communicate to the Guaranty Agency or servicer the nature of the agreed-upon procedures engagement. The practitioner must include:

- A statement that the engagement is to be performed in accordance with *Government Auditing Standards*, AICPA Statement on Standards for Attestation Engagements, and this guide.
- A description of the scope of the engagement and related reporting that meets the requirements of this guide.
- A statement that both parties understand that the U.S. Department of Education intends to use the practitioner's report in conjunction with the Guaranty Agency or Guaranty Agency Servicer management's assertions to determine whether the Guaranty Agency or Guaranty Agency Servicer maintained the 97 percent compliance performance percentage.

- A provision that the practitioner is required to provide ED, the Inspector General and their representatives access to working papers (including making photocopies, as necessary) upon request. [Practitioners should refer to Appendix F concerning Confidential Commercial Information and AU Section 9339, "Interpretations of AU Section 339 'Working Papers, "' of the AICPA Professional Standards for guidance.]

PLANNING CONSIDERATIONS

Purpose and Objective

The overall purpose of this engagement is to provide a report on Management's assertions, including findings, if appropriate, based on applying agreed-upon procedures as set forth in this guide.

Agreed-upon Procedures Engagement

In an agreed-upon procedures engagement the practitioner is to report his or her findings based on the procedures performed. The following conditions must exist for an agreed-upon procedures engagement (Ref. SSAE No. 3, paragraphs 9 and 10, and SSAE No. 4, paragraph 10):

- a. Management must accept responsibility for the entity's compliance with respect to collection activities on defaulted loans, timely claim payments and timely reinsurance filings.
- b. Management evaluates the entity's compliance with respect to collection activities on defaulted loans, timely claim payments and timely reinsurance filings.
- c. Management makes an assertion about the entity's compliance with respect to collection activities on defaulted loans, timely claim payments and timely reinsurance filings. The assertion may be in a representation letter to the practitioner or in a separate report to accompany the practitioner's report.
- d. The agreed-upon procedures (1) are applied to the assertion (or its subject matter) that is capable of evaluation against reasonable criteria and (2) are expected to result in findings that are capable of reasonably consistent estimation or measurement.

Management Assertions and Scope

The practitioner is required to obtain written assertions from management as part of a compliance attestation engagement performed in accordance with the AICPA Attestation Standards [See Guaranty Agency Assertion information in Section III]. Management's written assertions (which can be in the form of a representation letter to the practitioner) are the basis for the practitioner's testing, and therefore, are an integral part of the engagement. A Guaranty Agency does not have to service its entire loan portfolio to be eligible for exceptional performance designation. It may receive designation based on loans it actually services itself. However, a Guaranty Agency may not receive designation for a portion of its loan portfolio serviced by a Guaranty Agency Servicer. Thus, the Guaranty Agency or Guaranty Agency Servicer management's assertions can only be made for the loans that it actually services. An example of the type of management assertion that should be obtained is included in Appendix B, Example 2.

Guaranty Agencies are **not** to exclude portions of their loan portfolio for purposes of the assertions by management relating to the satisfaction of the requirement of a 97 percent compliance percentage. Section 428I(a)(2) of the HEA requires that due diligence on each loan serviced during the

engagement period shall be considered for review in determining the applicable compliance rate. The statute does not provide any basis for excluding portions of a Guaranty Agency's or Guaranty Agency Servicer's loan portfolio. The entire loan portfolio (loans serviced by the Guaranty Agency or Guaranty Agency Servicer during the engagement period) should be considered for review in attesting to management's assertions about the applicable compliance rate for possible EP designation.

REPORTING CONSIDERATIONS

Reporting Noncompliance

Management's assertions and the practitioner's report issued pursuant to this guide are a primary tool used by the Secretary of Education in determining whether to designate a Guaranty Agency or Guaranty Agency servicer for exceptional performance status.

In this agreed-upon procedures-level engagement, all instances of noncompliance identified by the practitioner during his/her engagement, must be reported to the Guaranty Agency or Guaranty Agency servicer by completing a Schedule of Findings (See Appendix B, Example 3). To be of value, reported findings must contain adequate information to give findings perspective and to allow the managers to make appropriate decisions. In reporting instances of noncompliance, the practitioner should clearly describe the noncompliance found, including the loan or loans effected. Other information which may identify the cause (system weakness, etc.) may be provided if known by the practitioner. However, the practitioner is not required to determine the cause of noncompliance identified during this engagement nor is the practitioner required to evaluate the entity's internal control structure. The Guaranty Agency or Guaranty Agency servicer is required to take corrective action on all reported noncompliance or system weaknesses (if possible), and maintain evidence of such for a minimum of 5 years.

Matters Requiring Immediate Action

If the practitioner becomes aware of possible illegal acts or indications of such acts which could result in criminal prosecution, the practitioner should use discretion to avoid any actions that would compromise the protection of an individual's rights and the integrity of any official inquiries. For supplemental guidance, see Chapters 4 and 5 of *Government Auditing Standards*. In addition, practitioners may wish to consult SAS No. 53, *The Auditor's Responsibility to Detect and Report Errors or Irregularities*, and SAS No. 54, *Illegal Acts by Clients*.

This guide requires the practitioner to promptly prepare a separate written report concerning such acts or indications of such acts and include all information described in Appendix B regarding reporting of findings. This report should be submitted to the ED Office of Inspector General within 30 days after the date of discovery of the act or, if the practitioner decides to further explore the indications of such acts to determine the size and seriousness of the situation, the report should be submitted within 30 days after he/she has completed the additional work. The practitioner shall submit this report to the Assistant Inspector General for Investigations at the following address.

Assistant Inspector General for Investigations
U. S. Department of Education
Room 4106 MES
600 Independence Avenue, S.W.

As practitioners are required to report illegal acts or indications of such acts directly to the ED Office of Inspector General, it is suggested that practitioners include a statement in the engagement letter that describes the practitioner's responsibility to communicate and report on such acts.

Report Submission

The practitioner's reports should be submitted to the Guaranty Agency's or Guaranty Agency Servicer's governing body (for example, Board of Directors) and/or President, as appropriate. The reports should clearly indicate the period the agreed-upon procedures engagement covered. The Guaranty Agency or Guaranty Agency Servicer should submit a copy of the practitioner's report to ED with its application for Exceptional Performance. In addition, the Guaranty Agency or Guaranty Agency Servicer is required to submit its annual financial and compliance audit when applying for Exceptional Performer designation (See Section III Reporting). (NOTE: Guaranty Agencies that are State or Local Government Agencies or Non Profit Organizations can satisfy their annual financial and compliance audit requirement by having a Single Audit performed). The practitioner's reporting package is to be held by the Guaranty Agency for a period of five years, unless specifically requested by the ED. Further guidance on reporting requirements is contained in Section III of this guide.

QUALITY CONTROL REVIEWS

The ED Office of Inspector General has implemented procedures for evaluating non-Federal practitioners' work. As part of this evaluation, working papers shall be made available upon request to the cognizant Regional Inspector General for Audit (RIGA) [see Appendix A] or other representatives of the Secretary. To facilitate these requests, the Practitioner's Reporting Package should include an information sheet identifying the name, address, and telephone number of the partner on the engagement (see page III-1). Working paper reviews will normally take place at the practitioner's office.

Deficient Work

Whenever an evaluation of a report or working papers discloses inadequacies, the practitioner may be asked to take corrective action. If ED determines that the report and working papers are substandard or contain significant inadequacies, referral to the AICPA and the cognizant State Board of Accountancy will be considered. ED may also initiate action to debar the practitioner from further participation in Federal programs.

In addition, certain State Boards of Accountancy have requested that we send them copies of correspondence detailing deficiencies noted during our reviews. This includes the licensee's home state as well as the state(s) where the engagement was conducted, if different. This is for information only and does not constitute a referral for disciplinary action. Notification to the State Board is concurrent with notification to the licensee.

Freedom of Information Act Considerations

Guaranty Agencies, Guaranty Agency Servicers, or practitioners who deem any of the working paper information to be "confidential commercial information" should take appropriate steps to so designate that information. Such designation may protect its confidentiality if, at a future point of time, a request is made for disclosure of this information under the Freedom of Information Act (FOIA). "Confidential commercial information" means records that may contain material exempt from release

under Exemption 4 of the FOIA (pertaining to trade secrets and commercial or financial information that is privileged or confidential) because disclosure could reasonably be expected to cause substantial competitive harm. Further information regarding the designation of such documents and OIG procedures upon receipt of an FOIA request are contained in Appendix F.

SECTION II

AGREED-UPON PROCEDURES ENGAGEMENT

COMPLIANCE REQUIREMENTS, MANAGEMENT ASSERTIONS, AND AGREED-UPON PROCEDURES

INTRODUCTION

This section (1) lists the regulations applicable to this engagement, (2) clarifies the scope of management's assertion, and (3) provides the agreed-upon procedures the practitioner should perform relative to management's written assertions.

To perform the engagement, the practitioner should obtain, read and/or have available:

- (a) 34 CFR Part 682¹.
- (b) Bulletin 88-G-138 and related Questions and Answers [Cure Bulletin] (Appendix D of 34 CFR Part 682)
- (c) Dear Colleague Letter issued 3/96 (96-L-186, 96-G-287) which clarifies and provides interpretative guidance on the 12/92 FFELP regulations.²

Special Loan Situations

The practitioner's sample may contain loans that are subject to certain waivers. These loans should be treated as follows:

- ▶ Waivers - In certain instances the Secretary grants waivers of specific due diligence requirements due to extenuating circumstances (e.g., natural disasters, unforeseeable systems difficulties, etc.). These waivers deem the holder of the covered loans harmless for failing to comply with prescribed due diligence requirements and often impose conditions or limitations for the waiver to apply. These loans should not be excluded from the sample. However, the practitioner must report (e.g., in a footnote disclosure) how many sampled loans were subject to the waiver. In addition, the practitioner's working papers must include a copy of the relevant waiver as well as supporting documentation (if necessary) that would support exercising the waiver. To calculate the Guaranty Agency's or Guaranty Agency Servicer's compliance percentage, the activities covered by the waiver should be **excluded** from **both** the numerator and the denominator. **All other required** activities, including any additionally imposed by the waiver, should be included in the denominator and the successfully completed activities should be

¹Copies of the Code of Federal Regulations can be obtained by contacting the Superintendent of Documents, U.S. Government Printing Office, Washington D.C. 20402 at (202)512-1800 or a Compilation of Student Financial Aid Regulations can be obtained by calling 1-800-4-FEDAID.

²Internet users can obtain a copy of this document at:
<http://www.ed.gov/offices/OPE/announce/dcl/1996/96-g-287.html>

included in the numerator.

- ▶ Unreinsured Loans - Lost Reinsurance Prior To Current Engagement. Loans that lost reinsurance prior to the current engagement (even if the loan lost reinsurance while with a previous holder) are to be included in the determination of the compliance performance rating. For purposes of the calculation, all of the activities that should have been conducted on the loan during the engagement period, should be included in the denominator. Correspondingly, all of the activities that should have been conducted during the engagement period are to be reported as unsuccessful activities (0 count) in the numerator of the calculation.
- ▶ Unreinsured Loans - Losing Reinsurance During Current Engagement Period. Loans selected in the sample that lose reinsurance at any time during the engagement period should have all activities required during the engagement period counted in the denominator. Activities after the loss of reinsurance should be reported as unsuccessful in the numerator (0 count).

MANAGEMENT ASSERTION, STATISTICAL SAMPLE METHODOLOGY, AND AGREED-UPON PROCEDURES

This section provides the required Guaranty Agency or servicer management assertion, sample selection methodology to be used by the practitioner, and the agreed-upon procedures the practitioner is to perform for the sample selection.

Management Assertion

The Guaranty Agency (or Guaranty Agency Servicer) performed 97% or higher of all due diligence requirements applicable to each loan, on average, with respect to, collection activities on defaulted loans, timely claim payments, and timely reinsurance filings during the period ____ to ____.

Scope of Management's Assertion

Guaranty Agencies Servicing All of Their Loan Portfolio

When the Guaranty Agency performs the required due diligence activity for all of its FFELP loan portfolio, the assertion made by Guaranty Agency management must cover the due diligence activity (including collection activities on defaulted loans, timely claim payments, and timely reinsurance filings) for all FFELP loans serviced by the Guaranty Agency during the engagement period. The practitioner should perform an agreed-upon procedures level attestation engagement on the Guaranty Agency management's assertion applicable to all FFELP loan portfolios serviced by the Guaranty Agency during the period covering the Guaranty Agency management's assertions.

Guaranty Agencies Using Servicers To Service Part of Their Loan Portfolio

When the Guaranty Agency uses a third-party service organization(s) to perform the required due diligence activity for part of its FFELP loan portfolio, the assertion made by Guaranty Agency management must cover only the due diligence activity (including collection activities on defaulted loans, timely claim payments, and timely reinsurance filings) for the FFELP loans serviced by the Guaranty Agency (not the servicer) organization. The practitioner should perform an agreed-upon procedures level attestation engagement on the Guaranty Agency management's assertion applicable

to the portion of the FFELP loan portfolio the Guaranty Agency services.

Servicers

As noted in the previous section, some Guaranty Agencies may use a third-party service organization(s) to perform the required due diligence activity for part or all of its FFELP loan portfolio. Servicer organizations desiring "Exceptional Performer" status, are required to apply for such designation for the loans they service. The assertion made by the servicer management must cover the due diligence activity (including collection activities on defaulted loans, timely claim payments, and timely reinsurance filings) for all FFELP loans it services. The practitioner should perform an agreed-upon procedures level attestation engagement on the servicer management's assertion applicable to all FFELP loan portfolios it serviced during the period for which management's assertions are being made.

Statistical Sample Methodology

The exceptional performer regulations at 34 CFR § 682.415 (b)(3) specify that the practitioner is to calculate the compliance performance percentage using statistical sampling and evaluation techniques. The regulations specify that a random sample of loans must be selected and evaluated. For this attestation engagement, the U.S. Department of Education (ED) requires a high level of assurance as to the testing of management's assertion that it maintained a 97% or higher compliance performance percentage with respect to collection activities on defaulted loans, timely claim payments, and timely reinsurance filings.

Sampling for attributes is to be used on this attestation engagement. The test procedures set forth for each of the three compliance areas relate to substantive tests of details as opposed to tests of controls. For this attestation engagement the ED is requiring the use of statistical sampling techniques, including selecting a random sample of loans from the universe of all FFELP loans serviced during the period covered by the attestation engagement.

Population/Sample Size

The Department believes that most Guaranty Agencies or Guaranty Agency Servicers that will apply for Exceptional Performance designation will process many thousands of loans. In such a large population, the size of a sample is virtually independent of the size of the universe, but rather depends on the confidence desired by the user, the range over which this confidence would hold, the tolerable error rate (in this case, three percent), and the error rate the practitioner expects to encounter. Practitioners customarily express this sampling risk by describing the "reliability" and range of reliability (the "confidence level") of any particular sample. The "confidence level" of a sample is the inverse of the "risk of over reliance." For example, a practitioner might accept a 5% risk that the result of the sample might not be representative of the population as a whole. This means that the risk of over reliance is 5%. A sample chosen on such a basis would yield a 95% confidence level. ED is requiring confidence levels of at least 95% for the initial engagement, and at least 90% (10% over reliance) for the subsequent quarterly engagements.

The practitioner should randomly select loans serviced during the engagement period. For the sampled loans, the practitioner should **schedule activities required to be performed during the engagement period** and **activities actually performed** as described in this Guide. The number of loans required to be sampled will depend on the number of total required activities for these loans during the engagement period (i.e. which meets the minimum sample size requirements). The

practitioner should test activities performed on these loans and should enter the results in the various Tables specified in this guide. To qualify as an *activity*, a due diligence step should be one that is required to be performed at the time by the Guaranty Agency or Guaranty Agency Servicer. It should not include due diligence steps that are not required to be performed during the engagement period.

Population/Sampling Unit

The Act and the implementing regulations base the Exceptional Performance designation on *activities performed*. However, the Department recognizes that the practitioner will probably find it more practical to select the sampling unit-- *required due diligence activities*, by first selecting a *sample of loans* from the population of *loans serviced*. The sample results should be accumulated, and the sample evaluated, based on the *required activities during the engagement period* and the *activities actually performed* for the loans sampled.

Tables 1 and 2 of Appendix F (excerpted from the AICPA Audit Guide, *Audit Sampling*), are included in this Guide to assist the practitioner in selecting the sample for this engagement. The practitioner should refer to these tables in determining a sample size (activities) for the initial annual engagement and the subsequent quarterly engagements. These tables include the elements needed to select such a sample; the "confidence level" (95% initial or 90% quarterly) or "risk of over reliance" (5% or 10%), the tolerable error rate (3% for this engagement), and the expected error rate. When using these tables, the practitioner should read down the expected population deviation rate column to find the appropriate rate. Next the practitioner locates the column corresponding to the tolerable rate (3% column). The appropriate sample size is shown where the two factors meet. As an example, a practitioner who expects an error rate of 2.25% would select a sample from Table 1 of 1,692 activities. For a quarterly engagement, a confidence level of at least 90% would be required, so the sample would be 992. Practitioners are to select samples of loans until the number of *required due diligence activities* is reached. (Note: If the practitioner estimates that the Guaranty Agency or Guaranty Agency servicer performed less than 2,000 activities, then he or she should adjust the sample size accordingly).

Errors/Activity Measurement

For purposes of the Exceptional Performance engagement, an *error* is defined as an activity that is required but is conducted late, or not at all, by the Guaranty Agency or Guaranty Agency Servicer. Most activities are triggered by previous actions that were required or performed by the Guaranty Agency or Guaranty Agency Servicer. The regulations may require that a Guaranty Agency or Guaranty Agency Servicer perform a number of activities during the engagement period; these may be performed late or not at all because of a failure to recognize the need for such an activity. In this case, the failure would be counted as an error for purposes of the engagement.

As noted earlier (see Population/Sample Size), the sample the practitioner is to test are those activities **required to be performed during the engagement period**. However, in some cases, the required activity may have **actually been performed prior to the engagement period**. In this instance, the practitioner should *match* the point (month) at which an activity is performed with the engagement period for which the activity is required to be performed. Thus, the numerator and denominators of the compliance performance calculation should match with each other. The following example demonstrates this point.

Example: Engagement period is October 1, 1996 through September 30, 1997. The 45th day from which a Guaranty Agency pays a default claim is October 5, 1996. A written notice is

required to be sent out no later than (NLT) day 45, or October 5, 1996. The notice is actually sent out on September 28, 1996. The practitioner should count the written notice (performed activity) in October 96 (required activity), even though it went out in September 96. This is because October is the NLT date by when it was suppose to be sent out.

In the example above, the numerator and denominator (performed and required activities) in measuring compliance performance, will be matched to the engagement period. This should prevent a misinterpretation of test results when performing quarterly engagements, and when recording activity at the beginning of the annual engagement. **Of course, activities required to be performed during the engagement period which are actually performed after the engagement period would be counted as errors.**

Evaluation of Results

After the practitioner completes all required test procedures and tables (as set forth in this Guide) for the activities sampled, he/she is to compute the estimated compliance performance percentage for the sampled activities (using the formula and tables in Appendix H). This computation is to be made using statistical evaluation techniques based on the sample size, P, and the required 95% (initial engagement) and 90% (quarterly engagements) confidence levels. To be designated as an exceptional performer, the compliance performance percentage must not be less than the required 97% performance level. (NOTE: Only one overall compliance performance percentage is computed for the three compliance areas specified in this Guide. See example computation on page D-1.)

(Note: Tables 1 and 2 of Appendix G which are used for selecting the sample, includes numbers in parenthesis next to the minimum sample size. These numbers represent the maximum number of errors which could be found in the sample of activities and still meet the required tolerable error rate (3% for this engagement) at the respective 95% or 90% confidence level.)

1. COLLECTION ACTIVITIES ON DEFAULTED LOANS

The Guaranty Agencies or Guaranty Agency Servicers may be following three different sets of due diligence regulations for loans included in their portfolios. Guaranty Agencies or Guaranty Agency Servicers were allowed to continue using the November 1986 regulations on loans they serviced prior to the issuance of the December 1992 due diligence regulations. Additional changes were made in November 1996 to the requirements concerning collection activities. The November 1996 changes affected required collection activities during the 181-545 lapse-day time period and is effective July 1, 1997. (See December 1992 Section for details).

The practitioner should consult with the Guaranty Agency or Guaranty Agency Servicer and review Dear Colleague Letter 96-L-186 and 96-G-287 as to the applicability of the 1986 and 1992 regulations for the loans sampled. **[Note: Dear Colleague Letter 96-L-186/96-G-287 stipulates July 1, 1996 as the deadline for fully implementing and enforcing certain provisions of the December 18, 1992 regulations that were subject to delayed enforcement.]**

General Information

NOTE: The following documentation will satisfy the requirements of this Guide relative to determining whether the Guaranty Agency or Guarantee Agency Servicer met the due diligence requirements pertaining to collection of defaulted loans³:

- ▶ Copies of written notices sent to the borrower or endorser, or the loan collection history. Information on file should identify the date and subject of each communication (e.g. documentation of telephone contact, written notice, etc.) between the Guaranty Agency or Guaranty Agency Servicer and the borrower or endorser, regarding loan collection. [If letters are system-generated, the agency is only required to maintain samples of each letter with the system history identifying which letter was sent on what date.]
- ▶ Any other loan portfolio documents that provide evidence that the due diligence requirements were met.

[The loan records may be stored on microfilm, optical disk, or other machine readable formats]

☞ Note Regarding Telephone Due Diligence - The practitioner must verify telephone attempts to contact the borrower by matching recorded "long distance" telephone calls from Guaranty Agency or Guaranty Agency servicer records with telephone bills or records from the telephone company on a sample basis. (i.e. not all required calls selected in the engagement sample need to be verified. Practitioners should use professional judgment in determining the number of telephone attempts to be verified). A busy signal is counted as an unsuccessful attempt. Two unsuccessful attempts are counted as a diligent effort if the Guaranty Agency or Guaranty Agency servicer has reason to believe that the phone number for the borrower is correct. However, in the case of a busy signal, this would not result in an associated long distance charge on the telephone bill. Thus, only actual contacts (phone is answered) will be verifiable with a telephone

³This section covers "defaulted loans" only, and not loans covered under 34 CFR section 682.402 pertaining to processing of death, disability, bankruptcy, or certain loan discharge claims.

bill or records from the telephone company.

- ☞ Note Regarding the Counting of Required/Performed Collection Activity - Some of the test procedures in this section call for multiplying the number of loans included in the sample by a specific number (dependent on the number of required activities for a given post default collection period) to arrive at the total number of required activities. However, in those instances where an individual borrower has defaulted on more than one loan that has been selected in the sample, the agency may perform a single collection activity (i.e. sending a single letter) to cover one or more defaulted loans for that borrower. In this instance, the practitioner should count the activity as having been performed for each defaulted loan included in the sample for this borrower. Thus, a count should be recorded for both required⁴ (denominator) and performed (numerator) activities reflected in the Tables included in this guide.

November 1986 Regulations

General. The Guaranty Agency shall engage in at least the collection activities described below on a loan on which it pays a default claim filed by a lender (34 CFR 682.410).

The periods of time (lapse days) set forth in this section refer to the number of days that elapse from the date the agency pays a default claim on a loan or, in the case of a borrower whom the agency locates through the use of skip tracing, the number of days that elapse from the date the agency obtains the borrower's correct address. References to the "borrower" include all endorsers on a loan.

Upon receipt of a payment from a borrower, the agency is not required to follow the specific collection activities described in Section A through E below, but shall diligently attempt to collect the loan for 60 days following receipt of payment. If no subsequent payments are received during the 60-day period, the agency shall resume its use of the collection activities, treating the first day after the end of the 60-day period as the first day of the period described in Section B below.

For the required agreed-upon procedures set forth below, confirmation with the borrower of information contained in agency records is not required.

A. Compliance Requirement - 1 to 45 Lapse Days

The Guaranty Agency during this period shall:

1. Diligently attempt (see Diligent Effort For Telephone contact in Appendix C) to contact the borrower by telephone to demand repayment of the loan.
2. Send a written notice to the borrower stating that the agency has paid a default claim filed by the

⁴If an activity is not required (i.e. collection activities are suspended when wage garnishment procedures have been instituted), the activities should be excluded from the audit sample. In this event it may be necessary to select other loans/activities to meet minimum sample sizes (required activities). Also, if collection activities are suspended because 'skip tracing' activities are initiated, the required and performed activities are counted in the skip tracing section of this guide.

Lender on the loan, and has taken assignment of the loan. In addition, the notice must forcefully demand that the borrower immediately commence repayment of the loan, and must inform the borrower that the agency will report the default to all national credit bureaus, thereby damaging the borrower's credit rating, may institute a civil suit against the borrower to compel repayment of the loan, and may refer the debt to the Department for collection by offset against Federal income tax refunds due the borrower.

Agreed-Up On Procedures to be Performed by The Practitioner

Telephone Efforts

1. Using Table 1A1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that diligent telephone efforts were made to contact the borrower. Total Column B.
3. Transfer the totals from Table 1A1 columns A & B to Table 1, Line A1, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line A1, of Table 1.

Written Notice

4. Using Table 1A2, schedule the sample defaulted loans where **a required** written notice should have been sent to the borrower. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B (do not exceed 1 for each loan) if the agency records **document** that a written notice was sent to the borrower which included the required information. Total Column B.
6. Transfer the totals from Table 1A2, Columns A & B to Table 1, Line A2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line A2, of Table 1.

B. Compliance Requirement - 46 to 90 Lapse Days

The Guaranty Agency during this period shall:

1. Diligently attempt (see Diligent Effort For Telephone contact in Appendix C) to contact the borrower by telephone to demand repayment of the loan.
2. Send a written notice to the borrower demanding that the borrower immediately commence repayment of the loan, and informs the borrower that the default has been reported to a credit bureau, and that the borrower's credit rating has thereby been damaged.

Agreed-Up On Procedure to be Performed by The Practitioner

Telephone Efforts

1. Using Table 1B1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that diligent telephone efforts were made to contact the borrower. Total Column B.
3. Transfer the totals from Table 1B1, Columns A & B to Table 1, Line B1, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, Line B1, of Table 1.

Written Notice

4. Using Table 1B2, schedule the loans where **a required** written notice should have been sent to the borrower. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B (do not exceed 1 for each loan) if the agency records **document** that a written notice was sent to the borrower containing the required information. Total Column B.
6. Transfer the totals from Table 1B2, Columns A & B to Table 1, Line B2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line B2, of Table 1.

C. Compliance Requirement - 91 to 135 Lapse Days

The Guaranty Agency during this period shall:

1. Diligently attempt (see Diligent Effort For Telephone contact in Appendix C) to contact the borrower by telephone to demand repayment of the loan.
2. Send one additional collection letter at least as forceful as the notice in Section A (see A. Compliance Requirement - 1-45 Lapse Days above).

Agreed-Upon Procedure to be Performed by The Practitioner

Telephone Efforts

1. Using Table 1C1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that diligent telephone efforts were made to contact the borrower. Total Column B.
3. Transfer the totals from columns A & B to Table 1, Line C1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line C1, of Table 1.

Collection Letters

4. Using Table 1C2, schedule the loans where **a required** written collection letter should have been sent to the borrower. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B (do not exceed 1 for each loan) if the agency records **document** that a collection letter was sent to the borrower which included the required information. Total Column B.
6. Transfer the totals from columns A & B to Table 2, Line C2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line C2, of Table 1.

D. Compliance Requirement - 136 to 180 Days after paying Default Claim

The Guaranty Agency during this period shall:

1. Send a written notice to the borrower forcefully demanding repayment in full on the loan, and indicating that it is the final notice the borrower will receive before the agency may institute a civil suit to compel repayment of the loan.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1D, schedule the loans where a written notice forcefully demanding repayment in full should have been sent to the borrower. Enter the number of loans scheduled as the total for

Column A.

2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that the written notice was sent to the borrower. Total Column B.
3. Transfer the totals from Table 1D, Columns A & B to Table 1, Line D1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line D1, of Table 1.

E. Compliance Requirement - 181 to 545 Days After Paying Default Claim

Except as described in paragraphs 2-4 of this section (E), the Guaranty Agency shall:

1. During this period, but not sooner than 30 days after sending the notice in Section D above, institute a civil suit against the borrower for repayment of the loan.
2. Except as provided in paragraph 4 of this section (E), in the case of a loan that was assigned to the Secretary prior to the 545th day and returned to the agency less than 180 days prior to that 545th day, the agency has 180 days from the date it receives the returned loan to institute the civil suit.
3. Except as provided in paragraph 4 of this section (E), in the case of a loan that was NOT assigned to the Secretary during this period, but not sooner than 30 days after sending the notice in Section D above, the agency shall institute a civil suit against the borrower by the 225th day, unless that loan is subsequently assigned to the Secretary by the deadline for the next available opportunity to collect by IRS tax refund offset, or a payment is received from the borrower less than 120 days before the deadline for the next available opportunity to collect by IRS tax refund offset.
4. The agency need not file suit if the agency determines, and documents in the borrowers file, that:
 - (a) The cost of litigation would exceed the likely recovery if litigation were commenced, or;
 - (b) The borrower does not have the means to satisfy a judgment on the debt, or a substantial portion thereof.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1E (after considering the requirements in paragraphs 1-4 above in this section), schedule the loans where the agency should have instituted a civil suit against the borrower for repayment of the loan. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that the required civil suit was instituted against the borrower. Total Column B.
3. Transfer the totals from Table 1E1, Columns A & B to Table 1, Line E1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line E1, of Table 1.

F. Compliance Requirement - Civil Suit Not Instituted

1. If the agency does not institute a civil suit against the borrower for repayment of the loan as a result of paragraph E4 in the previous section, the agency shall conduct diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy a judgment on the debt, or a substantial portion thereof. [NOTE: The agency may discontinue conducting the semi-annual inquiries concerning a borrower's means only in accordance with criteria and procedures approved by the Secretary, 34 CFR 682.410(b)(6)(x).]
2. If the agency determines that the borrower has acquired the means to satisfy a judgment on the debt, or a substantial portion thereof, and that the cost of litigation would not exceed the likely recovery if litigation were commenced, then, if subsequent collection activities are not successful, the agency shall, no later than 60 days after the determination, institute a civil suit against the borrower for repayment of the loan.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1F1, schedule the loans where suits were not filed for which the agency should have conducted diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy a judgment on the debt, or a substantial portion thereof. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that the required diligent semiannual inquiries were made. Total Column B.
3. Transfer the totals from Table 1F1, Columns A & B to Table 1, Line F1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line F1, of Table 1.
4. Using Table 1F2, schedule the loans where the agency should have instituted a civil suit against the borrower for repayment no later than 60 days after a determination that the borrower has acquired the means to satisfy a judgment on the debt, or a substantial portion thereof, and that the cost of litigation would not exceed the likely recovery if litigation were commenced. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B if the agency records **document** that the required civil suit was instituted against the borrower. Total Column B.
6. Transfer the totals from Table 1F2, Columns A & B to Table 1, Line F2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line F2, of Table 1.

G. Compliance Requirement - Civil Judgment.

For loans included in the sample where a civil judgment against the borrower was received:

1. The Agency shall diligently attempt to enforce a judgment obtained against a borrower respecting a loan. If after doing so, the agency is unable to obtain full satisfaction of the judgment because the borrower lacks the means to pay, the agency shall conduct diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy the remainder of the judgment.

[NOTE: The agency may discontinue conducting the semi-annual inquiries concerning a borrower's means only in accordance with criteria and procedures approved by the Secretary, 34 CFR 682.410(b)(6)(x).]

2. If the Agency determines that the borrower has acquired the means to satisfy the remainder of the judgment, the Agency shall, not later than 60 days thereafter, notify the borrower in writing of its intention to resume enforcement efforts on the judgment unless the borrower makes payment in full on all outstanding amounts.
3. If the borrower does not make payment in full within 30 days of the date the Agency sends the notice described in F2 above, the Agency shall, within 30 days thereafter, institute civil proceedings to enforce the remainder of the judgment.

Agreed-Upon Procedure to be Performed by The Practitioner

Enforce Judgment

1. Using Table 1G1, schedule the loans where the agency should have diligently attempted to enforce a judgment obtained against a borrower respecting a loan. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that such diligent enforcement attempts were made. Total Column B.
3. Transfer the totals from Table 1G1, Columns A & B to Table 1, Line G1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line F1, of Table 1.

Borrower Lacks Means to Pay Full Judgment

4. Using Table 1G2, schedule the loans where the agency is unable to obtain full satisfaction of the judgment because the borrower does not have the means to pay, for which the Agency should have conducted diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy the remainder of the judgment. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B if the agency records **document** that required diligent semi-annual inquiries were made. Total Column B.
6. Transfer the totals from Table 1G2, Columns A & B to Table 1, Line G2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line G2, of Table 1.

Agency Determines Borrower Acquires Means to Pay Judgment

7. Using Table 1G3, schedule the loans where the agency determined that the borrower acquired the means to satisfy the remainder of the judgment, for which the Agency should have no later than 60 days thereafter notified the borrower in writing of its intention to resume enforcement efforts on the judgment unless the borrower makes payment in full on all outstanding amounts. Enter the number of loans scheduled as the total for Column A.

8. For each of the loans scheduled in Step 7, enter a "1" in Column B if the agency records **document** that the required letter was sent. Total Column B.
9. Transfer the totals from Table 1G3, Columns A & B to Table 1, Line G3, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line G3, of Table 1.

Borrower Does not Make Payment In Full

- 10 Using Table 1G4, schedule the loans where the agency should have instituted a civil suit within 30 days after the borrower did not make payment in full within 30 days of the date the agency sent the notice in F2 above (i.e. within 60 days of the date of agency letter). Enter the number of loans scheduled as the total for Column A.
- 11 For each of the loans scheduled in Step 10, enter a "1" in Column B if the agency records **document** that a civil suit was instituted against the borrower. Total Column B.
- 12 Transfer the totals from Table 1G4, Columns A & B to Table 1, Line G4, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line G4, of Table 1.

H. Compliance Requirement - Civil Suit

Notwithstanding paragraphs E through G above, the agency shall file a civil suit against the borrower for repayment of the loan, or to enforce a judgment obtained thereon, unless the agency:

1. Determines, and documents in the borrower's file that the cost of litigation would exceed the likely recovery if litigation were commenced, or;
2. Has previously written off the debt in accordance with write-off criteria and procedures approved by the Secretary.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1H, schedule the loans where the agency should have instituted a civil suit. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a “1” in Column B if the agency records **document** that the required civil suit was instituted against the borrower. Total Column B.
3. Transfer the totals from Table 1H, Columns A & B to Table 1, Line H, Columns A & B respectively. Enter the number of loans scheduled in this category in the “# of Loans” column, line H, of Table 1.

I. Compliance Requirement - Skip Tracing

Not later than 10 days after its receipt of information indicating that it does not know the borrower’s current address, or the 60th day after its payment of a default claim on a loan, whichever is later, the agency shall attempt diligently to locate the borrower through the use of all available skip-tracing techniques, including, but not limited to, any skip-tracing assistance available from the IRS, credit bureaus, and State motor vehicle departments.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1I, schedule the loans where the agency should have attempted diligently to locate the borrower through the use of all available skip-tracing techniques. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a “1” in Column B if the agency records **document** that such attempts were made. Total Column B.
3. Transfer the totals from Table 1I, Columns A & B to Table 1, Line I, Columns A & B respectively. Enter the number of loans scheduled in this category in the “# of Loans” column, line I, of Table 1.

December 1992 Regulations

Regular Collection Procedures (Paragraphs J through P below)

General. A Guaranty Agency shall engage in at least the collection activities described in paragraphs J through P below on a loan on which it pays a default claim filed by a lender, and shall attempt an annual IRS offset on each eligible loan, except that the agency may engage in the “Alternative Collection Activities” described in this paragraph Q through S of section in lieu of the activities described in paragraphs J and K (34 CFR 682.410).

If, after initiating wage garnishment procedures, the agency terminates those procedures for a particular borrower, the agency shall, within 30 days, commence collection efforts at least as forceful as those described in paragraphs J through P of this section. The agency's collection efforts shall begin with the same collection activities as those that immediately preceded the initiation of

garnishment procedures, or, if no collection activities had been performed, the agency shall begin with the activities described in paragraph J.

Lapse Days. The periods of time set forth in this section refer to the number of days that elapse from the date the agency pays a default claim on a loan or on multiple loans for a borrower. These periods of time do not include any periods during which the agency is engaged in activities related to administrative wage garnishment, or is receiving a payment through garnishment at least once every 60 days during the period specified in 34 CFR 682.410 paragraph (5)(iv)(B), or during which the agency is engaged in an administrative review of the borrower's indebtedness on the loan pursuant to a request by the borrower as set forth in 34 CFR 682.410 paragraph (5)(iv). References to the "borrower" in this section and in the "Alternative Collection Procedures" section include all endorsers on a loan.

Gap in Collection Activity. At no point during the periods described in paragraphs J and K of this section may the agency permit the occurrence of a gap in collection activity of more than 60 days. The term gap in collection activity means, with respect to a loan, any period--

(A) Beginning on the date that is the day after--

- (1) The date the agency paid a default claim to the lender thereon;
- (2) The day on which the agency receives the correct address for a borrower who has made no payment in the preceding 60 days; or
- (3) The day on which the agency completes a collection activity as defined in 34 CFR Sec. 682.411(k)(1) through (3) (with references to "the lender" therein understood to mean "the agency"); and

(B) Ending on the date of the earliest of--

- (1) The day on which the agency receives the first subsequent payment;
- (2) The day on which the agency begins the first subsequent collection activity as defined in 34 CFR 682.411(k)(1) through (3) (with references to the "lender" understood to mean "the agency"); or
- (3) The last day of the period described in paragraph K of this section.

J. Compliance Requirement - 1 to 45 Lapse Days

The Guaranty Agency during this period shall:

1. Diligently attempt to contact the borrower by telephone (see definition of "Diligent Effort For Telephone Contact" in Appendix C) to demand repayment of the loan.
2. Send to the borrower a written notice (see definition of Written Notice in Appendix D).
3. Send to the borrower a written notice stating that the agency either will initiate procedures to

garnish the borrower's wages, or institute a civil suit to compel repayment of the amount that the borrower owes plus related collection costs.

Agreed-Upon Procedures to be Performed by The Practitioner

Telephone Efforts

1. Using Table 1J1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that diligent telephone efforts were made to contact the borrower to demand repayment of the loan. Total Column B.
3. Transfer the totals from Table 1J1 columns A & B to Table 1, Line J1, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line J1, of Table 1.

Written Notice

4. Using Table 1J2, schedule the sample defaulted loans where the 2 **required** written notices should have been sent to the borrower with the required notifications as set forth in Appendix D, including the information required in I3 above. Multiply the number of loans scheduled by "2" as the total for Column A.
5. For each of the loans scheduled in Step 4, enter the number of notices sent (do not exceed 2 for each loan) in Column B that agency records **document** as being sent to the borrower which included the required information as set forth in paragraphs J2 and J3 of this section. Total Column B.
6. Transfer the totals from Table 1J2, Columns A & B to Table 1, Line J2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line J2, of Table 1.

K. Compliance Requirement - 46 to 180 Lapse Days

The Guaranty Agency during this period shall:

1. Engage in at least two diligent attempts to contact the borrower by telephone, (See "Diligent Effort For Telephone Contact" in Appendix C) to demand repayment of the loan; and
2. Send at least three written notices to the borrower forcefully demanding that the borrower immediately commence repayment of the loan, and informing the borrower that the default has been reported to all national credit bureaus (if that is the case) and that the borrower's credit rating may thereby have been damaged. The final notice also must indicate that it is the final notice the borrower will receive before the agency will take more forceful action, including the initiation of procedures to garnish the borrower's wages, or to offset the borrower's state and federal income tax refunds, or instituting a civil suit to compel repayment of the amount that the

borrower owes plus related collection costs.

Agreed-Upon Procedure to be Performed by The Practitioner

Telephone Efforts

1. Using Table 1K1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Multiply the number of loans scheduled by 2 as the total for Column A.
2. For each of the loans scheduled in Step 1, enter in Column B the number of diligent attempts (not to exceed 2) that agency records **document** as being made to contact the borrower. Total Column B.
3. Transfer the totals from Table 1K1, Columns A & B to Table 1, Line K1, columns A & B respectively. Enter the number of loans scheduled in this category in the “# of Loans” column, line K1, of Table 1.

Written Notice

4. Using Table 1K2, schedule the loans where three **required** written notices should have been sent to the borrower. Multiply the number of loans scheduled by “3” as the total for Column A.
5. For each of the loans scheduled in Step 4, enter the number of notices (do not exceed 3 for each loan) in Column B that agency records **document** as being sent to the borrower which included the required information. Total Column B.
6. Transfer the totals from Table 1K2, Columns A & B to Table 1, Line K2, Columns A & B respectively. Enter the number of loans scheduled in this category in the “# of Loans” column, line K2, of Table 1.

L. Compliance Requirement - 181 to 545 Days After Paying Default Claim

Except as described in paragraph 2 below, the Guaranty Agency shall:

1. During this period, but not sooner than 30 days after sending the notice described in Appendix D, the agency shall initiate proceedings to offset the borrower's state and federal income tax refunds, and shall either initiate wage garnishment proceedings against the borrower by the 225th day, or, by the 545th day, institute a civil suit against the borrower for repayment of the loan.
2. The agency need not file suit if the agency determines and documents in the borrower's file⁵ that:
 - (a) The cost of litigation would exceed the likely recovery if litigation was begun; or
 - (b) The borrower does not have the means to satisfy a judgment on the debt or a substantial

⁵Documentation may also be in the form of a system note in the borrower's history file.

portion thereof.

NOTE: Item 1 above was amended by the Regulations published by the Department on Nov. 27, 1996 (61 FR 60478). These revised regulations are effective July 1, 1997, and have been changed to read as follows:

1. During this period, but not sooner than 30 days after sending the notice described in Appendix D, the agency shall initiate proceedings to offset the borrower's state and federal income tax refunds and other payments made by the federal government to a borrower, and shall initiate administrative wage garnishment proceedings against the borrower by the 225th day. If the agency determines that the borrower has insufficient income to satisfy the debt through wage garnishment, but has assets from which the debt can be satisfied, the agency shall assign the loan to the Department. The agency must not file suit to collect a loan from a borrower unless directed to do so by the Secretary.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1L1 (after considering the requirements in paragraphs 1-2 above in this section), schedule the loans where the agency should have initiated proceedings to offset the borrower's state and federal income tax refunds. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that offsets to the borrower's state and federal income tax refunds were initiated. Total Column B.
3. Transfer the totals from Table 1L1, Columns A & B to Table 1, Line L1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line L1, of Table 1.
4. Using Table 1L2, schedule the loans where the agency should have initiated wage garnishment proceedings by the 225th day or instituted a civil suit by the 545th day. Enter the number of loans scheduled as the total for Column A. [NOTE: The requirement for instituting the civil suit by the 545th day was eliminated (unless directed by the Secretary of ED) by the 11/27/96 regulations effective 7/1/97.]
5. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that wage garnishment proceedings and/or required civil suits were initiated. Total Column B. [NOTE: The requirement for instituting the civil suit by the 545th day was eliminated (unless directed by the Secretary of ED) by the 11/27/96 regulations effective 7/1/97.]
6. Transfer the totals from Table 1L2, Columns A & B to Table 1, Line L2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line L2, of Table 1.

M. Compliance Requirement - Civil Suit Not Instituted

[NOTE: The requirement for instituting the civil suit by the 545th day was eliminated (unless directed by the Secretary of ED) by the 11/27/96 regulations effective 7/1/97. Thus, this section is not

applicable after 7/1/97.]

1. If as a result of a determination made pursuant to paragraph L2(b) above, the agency does not institute a civil suit against the borrower for repayment of the loan, the agency shall conduct diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy a judgment on the debt or a substantial portion thereof. [NOTE: The agency may discontinue conducting the semi-annual inquiries concerning a borrower's means only in accordance with criteria and procedures approved by the Secretary, 34 CFR 682.410(b)(6)(x).]
2. If the agency determines that the borrower has acquired the means to satisfy at least a substantial portion of the debt and that the cost of litigation would not exceed the amount likely to be obtained if litigation were begun, then, if subsequent collection efforts are not successful, the agency, no later than 60 days after the determination, shall institute a civil suit against the borrower for repayment of the loan.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1M1, schedule the loans where suits were not filed for which the agency should have conducted diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy a judgment on the debt, or a substantial portion thereof. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that the required diligent semiannual inquiries were made. Total Column B.
3. Transfer the totals from Table 1M1, Columns A & B to Table 1, Line M1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line M1, of Table 1.
4. Using Table 1M2, schedule the loans where the agency should have instituted a civil suit against the borrower for repayment no later than 60 days after a determination that the borrower has acquired the means to satisfy a judgment on the debt, or a substantial portion thereof, and that the cost of litigation would not exceed the likely recovery if litigation were commenced. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B if the agency records **document** that the required civil suit was instituted against the borrower. Total Column B.
6. Transfer the totals from Table 1M2, Columns A & B to Table 1, Line M2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line M2, of Table 1.

N. Compliance Requirement - Civil Judgment.

1. The agency shall attempt diligently to enforce a judgment obtained against a borrower on a loan and shall ensure that the judgment is renewed as permitted by applicable law.
2. If, despite diligent attempts, the agency cannot recover the full amount of the judgment because

the borrower lacks sufficient assets or income attachable under applicable law to fully satisfy the judgment, the agency shall conduct diligent semi-annual inquiries to determine if the borrower has since acquired sufficient attachable assets or income to satisfy the remainder of the judgment. [NOTE: The agency may discontinue conducting the semi-annual inquiries concerning a borrower's means only in accordance with criteria and procedures approved by the Secretary, 34 CFR 682.410(b)(6)(x).]

3. If the agency determines that the borrower has acquired sufficient attachable assets or income to satisfy the remainder of the judgment and that the cost of enforcing the judgment would not exceed the likely recovery, the agency, not later than 60 days thereafter, shall notify the borrower in writing of its intention to resume enforcement efforts on the judgment unless the borrower makes payment in full of all outstanding amounts.
4. If the borrower does not make payment in full within 30 days of the date the agency sends the notice described in paragraph 2 above, the agency, within 30 days thereafter, shall proceed to enforce the remainder of the judgment.

Agreed-Upon Procedure to be Performed by The Practitioner

Enforce Judgment

1. Using Table 1N1, schedule the loans where the agency should have diligently attempted to enforce a judgment obtained against a borrower respecting a loan. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that such diligent enforcement attempts were made. Total Column B.
3. Transfer the totals from Table 1N1, Columns A & B to Table 1, Line N1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line N1, of Table 1.

Borrower Lacks Means to Pay Full Judgment

4. Using Table 1N2, schedule the loans where the agency is unable to obtain full satisfaction of the judgment because the borrower does not have the means to pay, for which the Agency should have conducted diligent semi-annual inquiries to determine if the borrower has since acquired the means to satisfy the remainder of the judgment. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 4, enter a "1" in Column B if the agency records **document** that required diligent semi-annual inquiries were made. Total Column B.
6. Transfer the totals from Table 1N2, Columns A & B to Table 1, Line N2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line N2, of Table 1.

Agency Determines Borrower Acquires Means to Pay Judgment

7. Using Table 1N3, schedule the loans where the agency determined that the borrower acquired the means to satisfy the remainder of the judgment, for which the Agency should have no later

than 60 days thereafter notified the borrower in writing of its intention to resume enforcement efforts on the judgment unless the borrower makes payment in full on all outstanding amounts. Enter the number of loans scheduled as the total for Column A.

8. For each of the loans scheduled in Step 7, enter a "1" in Column B if the agency records **document** that the required letter was sent. Total Column B.
9. Transfer the totals from Table 1N3, Columns A & B to Table 1, Line N3, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line N3, of Table 1.

Borrower Does not Make Payment in Full

- 10 Using Table 1N4, schedule the loans where the agency should have instituted a civil suit within 30 days after the borrower did not make payment in full within 30 days of the date the agency sent the notice in F2 above (i.e. within 60 days of the date of agency letter). Enter the number of loans scheduled as the total for Column A.
- 11 For each of the loans scheduled in Step 10, enter a "1" in Column B if the agency records **document** that a civil suit was instituted against the borrower. Total Column B.
- 12 Transfer the totals from Table 1N4, Columns A & B to Table 1, Line N4, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line N4, of Table 1.

O. Compliance Requirement - Civil Suit.

Notwithstanding paragraphs L thru N of this section, the agency shall file a civil suit against the borrower for repayment of the loan, and shall enforce a judgment obtained thereon, unless the agency:

1. Determines and documents in the borrower's file that the cost of litigation would exceed the judgment amount likely to be obtained if litigation were begun, or, in the case of a proceeding to enforce a judgment, that the cost of such a proceeding would exceed the likely recovery from the debtor; or
2. Previously has discontinued semi-annual inquiries on the debt (see paragraphs M1 and N2 above).

[NOTE: The requirement for instituting the civil suit by the 545th day was eliminated (unless directed by the Secretary of ED) by the 11/27/96 regulations effective 7/1/97.]

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1O, schedule the loans where the agency should have instituted a civil suit prior to the 545th day. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that the required civil suit was instituted against the borrower. Total Column B.
3. Transfer the totals from Table 1O, Columns A & B to Table 1, Line O, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line O, of Table 1.

P. Compliance Requirement - Skip Tracing

Not later than 10 days after its receipt of information indicating that it does not know the current address, or the 60th day after its payment of a default claim on a loan, whichever is later, the agency shall attempt diligently to locate the borrower through the use of all available skip-tracing techniques, including, but not limited to, any skip-tracing assistance available from the IRS, credit bureaus, and state motor vehicle departments.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1P, schedule the loans where the agency should have attempted diligently to locate the borrower through the use of all available skip-tracing techniques. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that such attempts were made. Total Column B.
3. Transfer the totals from Table 1P, Columns A & B to Table 1, Line P, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line P, of Table 1.

December 1992 Regulations

Alternative Collection Procedures (Paragraphs Q through S below)

A Guaranty Agency may engage in the following collection activities in lieu of the activities described in paragraphs J and K of the previous section. The "Lapse Days" as described earlier in the previous section (Regular Collection Procedures, pg. II-16) apply to the periods of time set forth for the Alternative Collection Procedures.

Upon receipt of a payment from a borrower, the agency is not required to follow the specific collection efforts described in this sub-section, but shall diligently attempt to collect the loan for 60 days following receipt of the payment. If the agency receives no payments during the 60-day period, the agency shall resume its use of the collection efforts described in this sub-section, treating the first day after the end of the 60-day period as the first day of the period described in paragraph R of the Alternative Collection Procedures.

Q. Compliance Requirement - 1 to 30 Lapse Days

The Guaranty Agency during this period shall send to the borrower a written notice as described in Appendix C - Written Notice 1-45 Lapse Days requirements.

Agreed-Upon Procedure to be Performed by The Practitioner

Written Notice

1. Using Table 1Q, schedule the loans where **required** notice should have been sent to the borrower. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** such notice was sent to the borrower. Total Column B.
3. Transfer the totals from columns A & B to Table 1, Line Q, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line Q, of Table 1.

R. Compliance Requirement - 31 to 180 Days

During this period the Guaranty Agency shall:

1. Attempt diligently to collect the loan using such collection tools and activities as it deems appropriate, provided, however, that the agency must make at least one diligent effort to contact the borrower by telephone (See Diligent Effort For Telephone Contact in Appendix C, with references to "the lender" understood to mean "the agency"), and
2. Send at least two forceful collection letters to the borrower.
3. By the end of this period, the agency shall refer the loan to a collection contractor who must:
 - (a) Be compensated for its services on all FFEL loans referred by the agency solely on a

contingency fee basis;

- (b) Be one of at least two collection contractors simultaneously providing collection services to the agency on FFEL loans under a competitive system that the agency has established and that includes the periodic assessment by the agency of the performance of the competing contractors and periodic adjustments in the volume of loans referred by the agency to each competing contractor based on those assessments; and
- (c) Not receive referral of more than 70 percent of the agency's referred loans in any calendar year.

Agreed-Upon Procedure to be Performed by The Practitioner

Telephone Efforts

1. Using Table 1R1, schedule the loans where **required** diligent telephone efforts should have been made to contact the borrowers. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that diligent telephone efforts were made to contact the borrower. Total Column B.
3. Transfer the totals from Table 1R1, Columns A & B to Table 1, Line R1, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line R1 of Table 1.

Collection Letters

4. Using Table 1R2, schedule the loans where **2 required** collection letters should have been sent to the borrower. Multiply the number of loans scheduled by "2" as the total for Column A.
5. For each of the loans scheduled in Step 4, enter in Column B the number of collection letters (do not exceed "2" for each loan) agency records **document** as being sent to the borrower. Total Column B.
6. Transfer the totals from Table 1R2, Columns A & B to Table 1, Line R2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line R2 of Table 1.

Referral To Collection Contractor

7. Using Table 1R3, schedule the loans that were **required** to be referred to a collection contractor. Enter the number of loans scheduled as the total for Column A.
8. For each of the loans scheduled in Step 7, enter a "1" in Column B if agency records **document** that the loan was referred. Total Column B.
9. Transfer the totals from Table 1R3, Columns A & B to Table 1, Line R3, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column,

line R3 of Table 1.

Collection Contractor Requirements

- 10 Using Table 1R4, again schedule the loans that were **required** to be referred to a collection contractor (same as step 7). Enter the number of loans scheduled as the total for Column A.
- 11 For each of the loans scheduled in Step 10, enter a "1" in Column B if agency records **document** that the Collection Contractor met the requirements as set forth in compliance requirement 3 above. Total Column B.
- 12 Transfer the totals from Table 1R4, Columns A & B to Table 1, Line R4, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line R4 of Table 1.

S. Civil Suit

Notwithstanding the deadline for instituting a civil suit set forth in paragraph E of this section, an agency that uses these "Alternative Procedures," shall institute a civil suit required by paragraph E prior to the earliest of--

- (A) The 90th day following the collection contractor's return of the loan to the agency; or
- (B) The 365th day following the later of the agency's referral of the loan to the collection contractor, or the contractor's receipt of a payment on the loan.

[NOTE: The requirement for instituting the civil suit was eliminated (unless directed by the Secretary of ED) by the 11/27/96 regulations and became effective 7/1/97.]

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1S1, schedule the loans where the agency should have instituted a civil suit against the borrower for repayment of the loan. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that the required civil suit was instituted against the borrower. Total Column B.
3. Transfer the totals from Table 1S1, Columns A & B to Table 1, Line S1, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line S of Table 1.

Requirements based on 11/27/96 changes (effective 7/1/97)

1. After 181 days, but not sooner than 30 days after sending the notice described in Appendix D, the agency shall initiate proceedings to offset the borrower's state and federal income tax refunds and other payments made by the federal government to a borrower, and shall initiate administrative wage garnishment proceedings against the borrower by the 225th day. If the agency determines that the borrower has insufficient income to satisfy the debt through wage garnishment, but has assets from which the debt can be satisfied, the agency shall assign the loan to the Department. The agency must not file suit to collect a loan from a borrower unless directed to do so by the Secretary.

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 1S2 (after considering the requirements in paragraphs 1-2 above in this section), schedule the loans where the agency should have initiated proceedings to offset the borrower's state and federal income tax refunds. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that offsets to the borrower's state and federal income tax refunds were initiated. Total Column B.
3. Transfer the totals from Table 1S2, Columns A & B to Table 1, Line S2, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line S2, of Table 1.
4. Using Table 1S3, schedule the loans where the agency should have initiated wage garnishment proceedings by the 225th day. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 1, enter a "1" in Column B if the agency records **document** that wage garnishment proceedings were initiated. Total Column B.
6. Transfer the totals from Table 1S3, Columns A & B to Table 1, Line S3, Columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line S3, of Table 1.

END OF ALTERNATIVE PROCEDURES SECTION

T. Transfer Totals

Agreed-Upon Procedure to be Performed by The Practitioner

1. Sum Table 1, columns A & B.
2. Transfer the totals to the Summary Table (Pg. G-1), Line 1, columns A & B respectively.

2. TIMELY CLAIM PAYMENTS

The Guaranty Agencies or Guaranty Agency Servicers may be following two different sets of due diligence regulations for loans included in their portfolios. Guaranty Agencies or Guaranty Agency Servicers were allowed to continue using the November 1986 regulations on loans they serviced prior to the issuance of the December 1992 due diligence regulations. The practitioner should consult with the Guaranty Agency or Guaranty Agency Servicer and review Dear Colleague Letter 96-L-186 and 96-G-287 as to the applicability of the 1986 and 1992 regulations for the loans sampled. **[Note: Dear Colleague Letter 96-L-186/96-G-287 stipulates July 1, 1996 as the deadline for fully implementing and enforcing certain provisions of the December 18, 1992 regulations that were subject to delayed enforcement.]**

November 1986 Regulations

General. The Guaranty Agency shall perform the following with respect to making timely claim payments.

A. Compliance Requirement - Timely Claim Payments

A Guaranty Agency or Guaranty Agency Servicer shall pay a default claim filed by the lender thereon within 90 days of the date the lender filed the claim (34 CFR 682.406(a)(7)).

Agreed-Upon Procedure to be Performed by The Practitioner

For each of the sampled defaulted loans:

1. Using Table 2A, schedule the loans where the Guaranty Agency should have paid a default claim filed by the lender within the **required** time frames stated above. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the Guaranty Agency or servicer records **document** that the claim was paid in a timely manner. Total Column B.
3. Transfer the totals of Columns A & B to Table 2, Line A, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line A of Table 2.

December 1992 Regulations

General. The Guaranty Agency shall perform the following with respect to making timely claim payments.

A. Compliance Requirement - Timely Claim Payments

The agency paid or returned to the lender for additional documentation a default claim thereon filed by the lender within 90 days of the date the lender filed the claim or, if applicable, the additional documentation. However, interest accruing beyond the 60th day after the date the lender originally filed the claim is not reinsured [34 CFR 682.406(a)(8)].

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 2B1, schedule the loans where the Guaranty Agency was **required** to pay or return to the lender for additional documentation a default claim filed by the lender within the 90-day period as stated above. Enter the number of loans scheduled as the total for Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the Guaranty Agency or servicer records **document** that the claim was paid or returned in a timely manner. Total Column B.
3. Transfer the totals of Columns A & B to Table 2, Line B1, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line B of Table 2.
4. Using Table 2B2, schedule the same loans as identified in step 1. Enter the number of loans scheduled as the total for Column A.
5. For each of the loans scheduled in Step 1, enter a "1" in Column B if the Guaranty Agency or servicer records **document** that interest accruing beyond the 60th day was **not** included in reinsurance filings to the Department. Total Column B.
3. Transfer the totals of Columns A & B to Table 2, Line B2, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line B of Table 2.

C. Transfer Totals

Agreed-Upon Procedure to be Performed by The Practitioner

1. Sum Table 2, columns A & B.
2. Transfer the totals to the Summary Table (Pg. G-1), Line 2, columns A & B respectively.

3. TIMELY REINSURANCE FILINGS

The Guaranty Agencies or Guaranty Agency Servicers may be following two different sets of due diligence regulations for loans included in their portfolios. Guaranty Agencies or Guaranty Agency Servicers were allowed to continue using the November 1986 regulations on loans they serviced prior to the issuance of the December 1992 due diligence regulations. The practitioner should consult with the Guaranty Agency or Guaranty Agency Servicer and review Dear Colleague Letter 96-L-186 and 96-G-287 as to the applicability of the 1986 and 1992 regulations for the loans sampled. **[Note: Dear Colleague Letter 96-L-186/96-G-287 stipulates July 1, 1996 as the deadline for fully implementing and enforcing certain provisions of the December 18, 1992 regulations that were subject to delayed enforcement.]**

November 1986 Regulations

General. The Guaranty Agency shall perform the following with respect to making timely reinsurance filings.

1. The agency submitted a request for the payment no earlier than 90 days following default, on a form required by the Secretary [34 CFR 682.406(a)(8)].

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 3A, schedule the loans where the Guaranty Agency submitted a request for payment from the Secretary. Enter the total number of loans in Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the Guaranty Agency or servicer records **document** that the submission was made no earlier than the period specified above and was on a form required by the Secretary. Total Column B.
3. Transfer the totals of Columns A & B to Table 3, Line A, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line A of Table 3.

December 1992 Regulations

General. The Guaranty Agency shall perform the following with respect to making timely reinsurance filings.

1. The agency submitted a request for the payment on a form required by the Secretary no later than 45 days after the Guaranty Agency discharges its insurance obligation on the loan. **Note: This reflects the changes made to the filing requirements by the 1993 HEA Technical Amendments described in Dear Colleague letter 96-G-287, question #38, dated March 1996).**

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using Table 3B, schedule the loans where the Guaranty Agency submitted a request for payment from the secretary. Enter the total number of loans in Column A.
2. For each of the loans scheduled in Step 1, enter a "1" in Column B if the Guaranty Agency or servicer records **document** that the submission was made within the 45-day period specified above, and was on a form required by the Secretary. Total Column B.
3. Transfer the totals of Columns A & B to Table 3, Line B, columns A & B respectively. Enter the number of loans scheduled in this category in the "# of Loans" column, line B of Table 3.

C. Transfer Totals

Agreed-Upon Procedure to be Performed by The Practitioner

1. Sum Table 3, columns A & B.
2. Transfer the totals to the Summary Table (Pg. G-1), Line 3, columns A & B respectively.

4. CALCULATION OF PERFORMANCE COMPLIANCE PERCENTAGE

Agreed-Upon Procedure to be Performed by The Practitioner

1. Using the "required" and "documented" totals from the Summary Table (Pg. G-1), statistically calculate the lower limit of the Guaranty Agency or Guaranty Agency servicer's compliance performance percentage for collection activities on defaulted loans, timely claim payments, and timely reinsurance filings, as follows:

The total number of **required** activities represents the *sample size* for purposes of evaluating the statistical sample results. The total number of **documented** activities divided by the sample size is the *proportion of occurrence of a characteristic, or P*.

Step 1. To compute *P*, divide the total **documented** activities [Table 1, Column B Total] by the *sample size* [Table 1, Column A Total].

$$P = \frac{\text{Documented Activities}}{\text{Sample Size}}$$

Step 2. Compute the *standard error of proportion*. Calculate the square root of the *variance* [e.g. $P(1-P)$] divided by the *sample size minus one*.

$$\text{Standard Error of Proportion} = \sqrt{\frac{(P) \times (1-P)}{\text{Sample Size} - 1}}$$

Step 3. Compute the *relative error*. Divide the *standard error of proportion* by the *proportion*.

$$\text{Relative Error} = \frac{\text{Standard Error of Proportion}}{\text{Proportion}}$$

Step 4. Compute the *lower limit* of the estimated compliance performance percentage. Using the T factor of 1.96 [infinite universe] for the required 95% confidence level, subtract the *relative error x (times) T* from *P*.

$$P - (\text{Relative Error} \times T)$$

Appendix D to this Guide includes a completed summary table for example purposes. Page D-1 also provides an example of the computation of the statistical projection of the lower limit of the compliance performance percentage.

SECTION III

REPORTING

REPORTING PACKAGE

Management Assertion

As required by SSAE No.4, the Guaranty Agency or Guaranty Agency Servicer management should provide an assertion to the practitioner. The assertion should be made as a result of management evaluation and determination of a compliance performance percentage of at least 97% pertaining to collection activities, timely claim payments, and timely reinsurance filings.

The assertion should be presented in writing in a representation letter or another written communication from the Guaranty Agency or Guaranty Agency Servicer. The written assertion should clearly identify the point in time or the period of time covered. (Appendix B, Example 2 provides an example). **NOTE:** Failure of the Guaranty Agency or Guaranty Agency Servicer to furnish a written assertion constitutes a limitation on the performance of the engagement sufficient to require the practitioner to withdraw from the engagement.

Practitioner's Reporting Package

The practitioner's reporting package should be submitted to the Guaranty Agency or Guaranty Agency Servicer's governing body (for example, Board of Directors) and/or President, as appropriate. The report cover should clearly indicate the period covered by the report.

The following comprises the practitioner's reporting package. Examples are found in Appendix B.

1. A report based on an agreed-upon procedures attestation engagement on the Guaranty Agency or Guaranty Agency Servicer's assertion identified in Section II (Appendix B, Example 1).
2. Summary Schedule of Required and Documented Due Diligence Activity (page G-1); Table 1 (page H-1); Table 2 (page H-22); and Table 3 (page H-24). (NOTE: The supporting Tables on pages H-2 through H-25 are provided as worksheets for practitioners and should be completed and retained in the working papers)
3. If a separate report on illegal acts which could result in criminal prosecution was submitted in accordance with the instructions in Section I of this guide, it should be included as part of the reporting package.
4. Schedule of Findings (Appendix B, Example 3). The practitioner should prepare this schedule if noncompliance is identified during this agreed upon procedures engagement.
5. Information Sheet (Appendix B, Example 4). The practitioner should complete and submit an information sheet containing the following:
 - A. Complete name, address and telephone number of Accounting Firm
 - B. Name of Partner In Charge of Audit

GUARANTY AGENCY OR GUARANTY AGENCY SERVICER SUBMISSION PACKAGE

To Receive Designation

A Guaranty Agency or Guaranty Agency Sender servicer must submit to the Secretary:

1. A written request for designation for EP which includes:
 - (1) An applicant's name and address;
 - (2) Contact Person;
 - (3) Guaranty Agency or Guaranty Agency Servicer ED identification number, if applicable;and
 - (4) A copy of an annual financial audit, or:

A Guaranty Agency, may submit a copy of an annual audit required under 34 CFR 682.410(b), if the audit period ends no more than 90 days prior to the date the Guaranty Agency submits its request for designation. A Guaranty Agency Servicer may submit a copy of an annual audit required under 34 CFR 682.416(e), if the audit period ends no more than 90 days prior to the date the Servicer submits its request for designation.

2. If the applicant is a Servicer, a statement signed by the owner or chief executive officer of the applicant certifying that the applicant meets the definition of a servicer contained in 34 CFR 682.415(d)(3).
3. A complete copy of the *Practitioner's Reporting Package* (See Practitioner's Reporting Package section). This reporting package should be retained by the Guaranty Agency or Guaranty Agency Servicer for a period of five years, unless notified by ED to retain for a longer period.

An EP application will not be considered complete for the Secretary to act on until all required submissions as identified above are submitted to:

Guarantor and Lender Oversight Staff
600 Independence Ave., S.W.
ROB-3, Room 4624
Washington, D.C. 20202-5138

The Secretary will notify the Guaranty Agency or Guaranty Agency Servicer within 60 days of its receipt of the request for EP designation, which includes the required items identified above.

Subsequent Quarterly Compliance Engagements

A Guaranty Agency or Guaranty Agency Servicer must submit to the Secretary within 3 months following the end of each of the 3 quarters:

1. A letter which includes:
 - (1) An applicant's name and address;
 - (2) Contact Person;

- (3) Guaranty Agency or Guaranty Agency Servicer ED identification number, if applicable;
- (4) Name and address of applicable guarantors

- 2. A complete copy of the *Practitioner's Reporting Package* (See Practitioner's Reporting Package section) covering the quarterly engagement. This reporting package should be retained by the Guaranty Agency or Guaranty Agency Servicer for a period of five years, unless notified by ED to retain for a longer period.

OIG TECHNICAL ASSISTANCE CONTACT POINT FOR GUIDE

Please write, fax, or E-Mail (Internet) all questions concerning the EP Agreed-Upon Procedures Guide to the following address and/or telephone number. In contacting this office, make sure that you provide the name, address, and telephone and fax number of the person requesting assistance so that prompt and timely assistance can be provided.

Regional Inspector General for Audit
Department of Education/OIG
10220 N. Executive Hills Blvd, 2nd Floor
Kansas City, Missouri 64153
Attn: Terry Livingston

Fax: (816) 891-0815

E-Mail: TERRY_LIVINGSTON@ED.GOV

You can also send an E-Mail message to Terry Livingston from the ED/OIG Non-Federal Audits Team Home Page on the Internet at: <http://home.gvi.net/~edoig>.

ILLUSTRATIVE

**REPORT ON APPLYING AGREED-UPON PROCEDURES
ATTESTATION ENGAGEMENT⁶**

Independent Accountants' Report

To [Guaranty Agency or Guaranty Agency Servicer]

We have performed the procedures commented below, and as set forth in more detail in the Agreed-Upon Procedures Guide, Exceptional Performance Status For Federal Family Education Loan Program (FFELP) Participating Guaranty Agency And Their Servicers (guide), issued in 1997 by the U.S. Department of Education, Office of Inspector General. Those procedures which were agreed to by the [insert *Guaranty Agency or Guaranty Agency Servicer* name] and the U.S. Department of Education was performed solely to assist the U.S. Department of Education in evaluating management's assertion about [insert *Guaranty Agency or Guaranty Agency Servicer* name] compliance performance percentage during the period [insert period of management's assertion] included in the accompanying [title of management report]. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of those procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in the guide either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures included our computation of a compliance performance percentage in accordance with the instructions in the guide for collection activities on defaulted loans, timely claim payments, and timely reinsurance filings. Our computation is based solely on a statistical sample selection of (insert # of loans sampled) loans in accordance with the sample size requirements specified in the guide that were serviced during the period for which management assertion is being made. Based on our sample, we computed a compliance performance percentage of [insert *compliance percentage*] %. A more detailed breakout of our compliance percentage computation is provided as Attachment [insert Attachment #] (The Summary Schedule and Tables 1-3 should be provided as the Attachment).

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention

⁶ This is an illustration of an agreed-upon procedures report on management's assertion about an entity's compliance with specified requirements as set forth in Statement on Standards for Attestation Engagements, Agreed-Upon Procedures Engagements, Appendix B, Paragraph 24, issued in September 1995.

that would have been reported to you.

This report is intended solely for the use of [insert *Guaranty Agency or Guaranty Agency Servicer* name] management and the U.S. Department of Education, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited.

[Firm Signature]

[Date]

ILLUSTRATIVE

**REPRESENTATION LETTER TO PRACTITIONER INCLUDING
MANAGEMENT'S ASSERTION ON COMPLIANCE
WITH REQUIREMENTS IN SUPPORT OF
EXCEPTIONAL PERFORMANCE STATUS¹**

To [insert name of practitioner]:

We [insert Guaranty Agency or Guaranty Agency Servicer name] are responsible for complying with the requirements pertaining to collection activities on defaulted loans, timely claim payments, and timely reinsurance filings, and we are responsible for establishing and maintaining an effective internal control structure over compliance. We have performed an evaluation of our compliance with the aforementioned requirements. Our evaluation covered the period from/to *[insert period covered by the evaluation]*. Based on our evaluation, we determined an overall compliance performance percentage of at least 97 percent pertaining to these requirements. We have disclosed all known noncompliance items and have made available all documentation related to compliance with the aforementioned requirements.

[Optional paragraph if applicable (ref. SSAE No.4, par. 40)]

We have also disclosed all known matters contradicting the assertion. We have also disclosed any communications from the U.S. Department of Education, our internal auditors, and other practitioners concerning possible noncompliance with the aforementioned compliance requirements, including any communications received after the period identified above and the date of this letter. The following are our interpretations of compliance requirements that may be subject to varying interpretation: [List interpretations]

We have also disclosed all known noncompliance, if applicable, occurring subsequent to the period identified above.

[Insert Management Official Name]
[Insert Guaranty Agency/Servicer Name]
[Insert Date]

¹ The required elements of management's representations are listed in paragraph 70 of SSAE No.3 and paragraph 40 of SSAE No.4.

ILLUSTRATIVE

SCHEDULE OF FINDINGS

The Schedule of Findings should include the information outlined below, where applicable. *Government Auditing Standards* states that well-developed findings generally consist of the following attributes:

1. Statement of condition - the nature of the deficiencies (e.g., a regulation not being followed).
2. Criteria - what the entity should be doing (e.g., the specific regulation, etc.).
3. Effect - what happened as a result of the condition.
4. Cause - why the condition exists (if known by the practitioner).
5. Recommendation - what the entity should do to correct the condition; normally addresses the cause

The practitioner should attempt to identify the condition, criteria, and effect. However, since this agreed-upon procedures engagement is not requiring a review of the Guaranty Agency or Guaranty Agency Servicer's internal control structure, the practitioner is not required to identify cause nor provide specific recommendations for improvement.

ILLUSTRATIVE

PRACTITIONER INFORMATION SHEET

Audit Firm: ABC Auditing Co.
232 South Hickory
Suite 202
Kansas City, MO 64151

Tel. No.: (816) XXX-XXXX
Fax No.: (816) XXX-XXXX

Partner in Charge: Thomas Jefferson

DEFINITIONS/REQUIREMENTS

[NOTE: The following definitions are listed for convenience and are the current definitions unless indicated otherwise. Some of the definitions applicable to collection activity in accordance with the November 10, 1986 regulations are slightly different. Please refer to the specific citation for clarification.]

Due Diligence Requirements

Means the activities required to be performed by Guaranty Agencies or Guaranty Agency Servicers on defaulted loans pursuant to § 682.410(b)(6)(iii) through (xii) and § 682.406(a)(8)and(a)(9) **OR** § 682.410(b)(7) and § 682.406(a)(8)and(a)(9). [34 CFR § 682.415(d)]

Diligent Effort For Telephone Contact

Is defined as:

- ▶ A successful effort to contact the borrower by telephone;
- ▶ At least two unsuccessful attempts to contact the borrower by telephone at a number that the Guaranty Agency reasonably believes to be the borrower's correct telephone number (a busy signal is considered an attempt); or
- ▶ An unsuccessful effort to ascertain the borrower's correct telephone number, including but not limited to, a directory assistance inquiry as to the borrower's telephone number and a diligent effort to contact references, relatives, and any individual identified in the most recent loan application for that borrower that the Guaranty Agency holds. The Guaranty Agency or Guaranty Agency servicer may contact a school official other than the financial aid administrator who reasonably may be expected to know the borrower's address.

Eligible Loan

Means a loan made, insured, or guaranteed under part B of title IV of the Act. [34 CFR § 682.415(d)]

Servicer

An entity that services and collects student loans and that--

- (I) Has substantial experience in servicing and collecting consumer loans or student loans;
- (ii) Has an annual independent financial audit that is furnished to the Secretary and any other parties designated by the Secretary;
- (iii) Has business systems capable of meeting the requirements of part B of title IV of the Act and applicable regulations;

(iv) Has adequate personnel knowledgeable about the student loan program authorized by part B of title IV of the Act; and

(v) Does not knowingly have any owner, majority shareholder, director, or officer of the entity who has been convicted of a felony. [34 CFR § 682.415(d)]

Written Notice - 1 - 45 Lapse Days: [34 CFR § 682.410(b)(5)(vi)]

The notice sent by the agency under this section must:

- (1) Advise the borrower that the agency has paid a default claim filed by the lender and has taken assignment of the loan;
- (2) Identify the lender that made the loan and the school for attendance at which the loan was made;
- (3) State the outstanding principal, accrued interest, and any other charges then owing on the loan;
- (4) Demand that the borrower immediately begin repayment of the loan;
- (5) Explain the rate of interest that will accrue on the loan, that all costs incurred to collect the loan will be charged to the borrower, the authority for assessing these costs, and the manner in which the agency will calculate the amount of these costs;
- (6) Notify the borrower that the agency will report the default to all national credit bureaus to the detriment of the borrower's credit rating;
- (7) Explain the opportunities available to the borrower under agency rules to request access to the agency's records on the loan, to request an administrative review of the legal enforceability or past-due status of the loan, and to reach an agreement on repayment terms satisfactory to the agency to prevent the agency from reporting the loan as defaulted to credit bureaus and provide deadlines and method for requesting this relief;
- (8) Unless the agency uses a separate notice to advise the borrower regarding other proposed enforcement actions, describe specifically any other enforcement action, such as offset against federal or state income tax refunds or wage garnishment that the agency intends to use to collect the debt, and explain the procedures available to the borrower prior to those other enforcement actions for access to records, for an administrative review, or for agreement to alternative repayment terms;
- (9) Describe the grounds on which the borrower may object that the loan obligation as stated in the notice is not a legally enforceable debt owed by the borrower;
- (10) Describe any appeal rights available to the borrower from an adverse decision on administrative review of the loan obligation;

- (11) Describe any right to judicial review of an adverse decision by the agency regarding the legal enforceability or past-due status of the loan obligation; and
- (12) Describe the collection actions that the agency may take in the future if those presently proposed do not result in repayment of the loan obligation, including the assignment of the loan to the Secretary for the filing of a lawsuit against the borrower by the Federal Government.

APPENDIX D

EXAMPLE CALCULATION - COMPLIANCE PERFORMANCE %

(EXAMPLE SUMMARY TABLE)

	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)
1. Collection Activities on Defaulted Loans	1,427	1,374
2. Timely Claim Payments	250	248
3. Timely Reinsurance Filings	215	213
TOTAL COMPLIANCE ACTIONS (SECTIONS 1, 2 & 3)	1,892	1,835

Example Computation of Compliance Performance Percentage

$$\begin{aligned}
 \text{Sample Size} &= 1,892 \\
 P &= .9698731501 \quad (1,835 / 1,892) \\
 1-P &= .0301268499 \quad (1 - .9698731501)
 \end{aligned}$$

$$\text{Standard Error of Proportion} = \sqrt{\frac{(.9698731501) \times (.0301268499)}{1,891}}$$

or

$$\text{Standard Error of Proportion} = 0.003930868953866$$

$$\text{Relative Error} = \frac{0.003930868953866}{.9698731501}$$

or

$$\text{Relative Error} = 0.004052972240196$$

$$\text{Lower Limit of Compliance \%} = P - (0.004052972240196 \times 1.96^1)$$

at 95% Confidence Level

or

$$= 0.9619293245092$$

Thus, for this example, the practitioner should be 95% confident that the lower limit of the Guaranty Agency's or Guaranty Agency Servicer's compliance performance percentage is not below .9619293245092. However, this lower limit is below the required 97% minimum compliance performance requirement. Thus, this Guaranty Agency or Guaranty Agency

¹ For quarterly engagements, practitioners should use 1.645, the T factor for the required 90% confidence level.

Servicer would not meet the minimum requirement for designation as EP.

**NOTIFICATION TO SUBMITTERS OF CONFIDENTIAL
COMMERCIAL INFORMATION**

You have or may be asked to submit to the Office of Inspector General (OIG), U.S. Department of Education, information in connection with an investigation, audit, inspection or other inquiry pursuant to the Inspector General Act of 1978, as amended, 5 U.S.C. app. 3, sec. 1 et seq. This is to notify you that if you deem any of this information to be "confidential commercial information," you may take steps to so designate that information to protect its confidentiality if at a future point in time a request is made for disclosure of this information under the Freedom of Information Act (FOIA).

"Confidential commercial information" means records that may contain material exempt from release under Exemption 4 of the FOIA (pertaining to trade secrets and commercial or financial information that is privileged or confidential), because disclosure could reasonably be expected to cause substantial competitive harm.

You may use any reasonable method you believe appropriate and which is acceptable to the OIG to indicate which documents and information you deem to fall into the category of confidential commercial information. Please be as specific as possible in segregating the information that you consider to be "confidential commercial information" from any other information you are providing to the OIG. This may be done before such information is provided to the OIG if feasible, but only if it will not delay or interfere with production of the information or delay or interfere with the OIG's investigation, audit, inspection or other inquiry. Otherwise, you may so designate this information within a reasonable period of time after the information is provided to the OIG.

If a FOIA request is received by the OIG for information you have designated as confidential commercial information, the OIG is nevertheless required by law to make its own independent determination of whether the FOIA requires disclosure of the information or whether it should be withheld pursuant to Exemption (b)(4) or any other exemption of the FOIA. If the OIG determines that it may be required to disclose pursuant to the FOIA that information you have designated or other information that the OIG has reason to believe could reasonably be expected to cause substantial competitive harm, to the extent permitted by law, we will make a good faith effort to notify you and provide you with a reasonable opportunity to object to such disclosure and to state all grounds upon which you oppose disclosure. We will give careful consideration to all specified grounds for nondisclosure prior to making our final decision.

If we nonetheless believe that disclosure is required, we will provide you with a statement explaining why your objections were not sustained and specifying a disclosure date. To the extent permitted by law, this statement will be provided to you in a reasonable number of days prior to the specified disclosure date. Furthermore, if disclosure of the designated information is denied pursuant to an exemption under the FOIA and an administrative or judicial appeal is taken by the FOIA requester, we will make a good faith effort to notify you promptly.

The procedures outlined in this notice are intended only to improve the internal management of the OIG and are not intended to create any right or benefit, substantive or procedural,

enforceable at law by a party against the United States, its agencies, its officers, or any person.

TABLE 1 **
Statistical Sample Sizes For Compliance Testing
Five Percent Risk of Over reliance
 (with number of expected errors in parentheses)
Tolerable Rate

**Expected
Population
Deviation**

<u>Rate</u>	<u>2%</u>	<u>3%</u>	<u>4%</u>	<u>5%</u>	<u>6%</u>	<u>7%</u>	<u>8%</u>	<u>9%</u>	<u>10%</u>	<u>15%</u>	<u>20%</u>
0.0%	149(0)	99(0)	74(0)	59(0)	49(0)	42(0)	36(0)	32(0)	29(0)	19(0)	14(0)
0.25%	236(1)	157(1)	117(1)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)	30(1)	22(1)
0.50%	*	157(1)	117(1)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)	30(1)	22(1)
0.75%	*	208(2)	117(1)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)	30(1)	22(1)
1.00%	*	257(3)	156(2)	93(1)	78(1)	66(1)	58(1)	51(1)	46(1)	30(1)	22(1)
1.25%	*	303(4)	156(2)	124(2)	78(1)	66(1)	58(1)	51(1)	46(1)	30(1)	22(1)
1.50%	*	392(6)	192(3)	124(2)	103(2)	66(1)	58(1)	51(1)	46(1)	30(1)	22(1)
1.75%	*	604(11)	227(4)	153(3)	103(2)	88(2)	77(2)	51(1)	46(1)	30(1)	22(1)
2.00%	*	846(17)	*	181(4)	127(3)	88(2)	77(2)	68(2)	46(1)	30(1)	22(1)
2.25%	*	1,692(38)	*	208(5)	127(3)	88(2)	77(2)	68(2)	61(2)	30(1)	22(1)
2.50%	*	*	*	*	160(4)	109(3)	77(2)	68(2)	61(2)	30(1)	22(1)
2.75%	*	*	*	*	173(5)	109(3)	95(3)	68(2)	61(2)	30(1)	22(1)
3.00%	*	*	*	*	195(6)	129(4)	95(3)	84(3)	61(2)	30(1)	22(1)
3.25%	*	*	*	*	*	148(5)	112(4)	84(3)	61(2)	30(1)	22(1)
3.50%	*	*	*	*	*	167(6)	112(4)	84(3)	76(3)	40(2)	22(1)
3.75%	*	*	*	*	*	185(7)	129(5)	100(4)	76(3)	40(2)	22(1)
4.00%	*	*	*	*	*	*	146(6)	100(4)	89(4)	40(2)	22(1)
5.00%	*	*	*	*	*	*	*	158(8)	116(6)	40(2)	30(2)
6.00%	*	*	*	*	*	*	*	*	179(11)	50(3)	30(2)
7.00%	*	*	*	*	*	*	*	*	*	68(5)	37(3)

* Sample size is too large to be cost effective for most audit applications.

** Reference source is the AICPA Audit Sampling Guide.

TABLE 2 **
Statistical Sample sizes for compliance Testing
Ten Percent Risk of Over reliance
(with number of expected errors in parentheses)

Expected Pop. Deviation Rate	Tolerable Rate										
	2%	3%	4%	5%	6%	7%	8%	9%	10%	15%	20%
0.0%	114(0)	76(0)	57(0)	45(0)	38(0)	32(0)	28(0)	25(0)	22(0)	15(0)	11(0)
0.25%	194(1)	129(1)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
0.50%	194(1)	129(1)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
0.75%	265(2)	129(1)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
1.00%	398(4)	176(2)	96(1)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
1.25%	708(9)	221(3)	132(2)	77(1)	64(1)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
1.50%	1,463(22)	265(4)	132(2)	105(2)	64(1)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
1.75%	*	390(7)	168(3)	105(2)	88(2)	55(1)	48(1)	42(1)	38(1)	25(1)	18(1)
2.00%	*	590(12)	198(4)	132(3)	88(2)	75(2)	48(1)	42(1)	38(1)	25(1)	18(1)
2.25%	*	992(22)	277(6)	132(3)	88(2)	75(2)	65(2)	42(1)	38(1)	25(1)	18(1)
2.50%	*	2,079(52)	353(9)	158(4)	110(3)	75(2)	65(2)	58(2)	38(1)	25(1)	18(1)
2.75%	*	*	486(14)	209(6)	132(4)	94(3)	65(2)	58(2)	52(2)	25(1)	18(1)
3.00%	*	*	730(22)	233(7)	132(4)	94(3)	65(2)	58(2)	52(2)	25(1)	18(1)
3.25%	*	*	*	*	153(5)	113(4)	82(3)	58(2)	52(2)	25(1)	18(1)
3.50%	*	*	*	*	194(7)	113(4)	82(3)	73(3)	52(2)	25(1)	18(1)
3.75%	*	*	*	*	*	131(5)	98(4)	73(3)	52(2)	25(1)	18(1)
4.00%	*	*	*	*	*	149(6)	98(4)	73(3)	65(3)	25(1)	18(1)
5.00%	*	*	*	*	*	*	160(5)	115(4)	78(4)	34(2)	18(1)
6.00%	*	*	*	*	*	*	*	182(11)	116(7)	43(3)	25(2)
7.00%	*	*	*	*	*	*	*	*	199(14)	52(4)	25(2)

* Sample size is too large to be cost effective for most audit applications.

** Reference source is the AICPA Audit Sampling Guide.

Summary Table

SUMMARY SCHEDULE OF REQUIRED AND DOCUMENTED DUE DILIGENCE ACTIVITY

	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)
1. Collection Activities on Defaulted Loans		
2. Timely Claim Payments		
3. Timely Reinsurance Filings		
TOTAL COMPLIANCE ACTIONS (SECTIONS 1, 2 & 3)		

Computation of Compliance Performance Percentage

$$\begin{aligned}
 \text{Sample Size} &= (\text{Column A Total}) \\
 P &= (\text{Column B Total} / \text{Column A Total}) \\
 1-P &= (1-P \text{ Value})
 \end{aligned}$$

$$\begin{aligned}
 \text{Standard Error of Proportion} &= \sqrt{\frac{(P) \times (1-P)}{(\text{Column A Total} - 1)}} \\
 \text{or} \\
 \text{Standard Error of Proportion} &=
 \end{aligned}$$

$$\begin{aligned}
 \text{Relative Error} &= \frac{\text{Std Error of Proportion}}{P} \\
 \text{or} \\
 \text{Relative Error} &=
 \end{aligned}$$

$$\begin{aligned}
 \text{Lower Limit of Compliance \%} &= P - (\text{Relative Error} \times 1.96) \\
 \text{at 95\% Confidence Level using Infinite Universe) }
 \end{aligned}$$

$$\begin{aligned}
 \text{or} \\
 \text{Lower Limit}^1 &=
 \end{aligned}$$

¹ Lower Limit must be equal to or greater than 97% for Guaranty Agency or Guaranty Agency Servicer to be considered an Exceptional Performer

1. COLLECTION ACTIVITIES ON DEFAULTED LOANS

TABLE 1

(1986 REGULATIONS)	# OF LOANS	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)
A. 1 - 45 Lapse Days. 1. Telephone Efforts (Table 1A1) 2. Written Notices (Table 1A2)		_____ _____	_____ _____
B. 46-90 Lapse Days 1. Telephone Efforts (Table 1B1) 2. Written Notices (Table 1B2)		_____ _____	_____ _____
C. 91-135 Lapse Days 1. Telephone Efforts (Table 1C1) 2. Written Notices (Table 1C2)		_____ _____	_____ _____
D. 136-180 Lapse Days. 1. Written Notice (Table 1D)			
E. 181-545 Lapse Days 1. Civil Suit - (Table 1E)			
F. Civil Suit Not Instituted 1. Semi-Annual Inquiries (Table 1F1) 2. Civil Suit - Means Acquired (Table 1F2)		_____ _____	_____ _____
G. Civil Judgment 1. Enforce (Table 1G1) 2. Semi-Annual Inquiries (Table 1G2) 3. Means Acquired - Borrower Notification (Table 1G3) 4. Additional Civil Proceedings (Table 1G4)		_____ _____ _____ _____	_____ _____ _____ _____
H. Civil Suit - (Table 1H)			
I. Skip Tracing (Table 1I)			

1. COLLECTION ACTIVITIES ON DEFAULTED LOANS (Cont'd)

(1992 REGULATIONS)	# OF LOANS	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)
J. 1-45 Lapse Days. 1. Telephone Efforts (Table 1J1) 2. Written Notices (Table 1J2)		_____ _____	_____ _____
K. 46-180 Lapse Days. 1. Telephone Efforts (Table 1K1) 2. Written Notices (Table 1K2)		_____ _____	_____ _____
L. 181-545 Lapse Days 1. Tax Refund Offset (Table 1L1) 2. Wage Garnishment or Civil Suit (Table 1L2)		_____ _____	_____ _____
M. Civil Suit Not Instituted 1. Semi-Annual Inquiries (Table 1M1) 2. Subsequent Civil Suit - Means Acq. (Table 1M2)		_____ _____	_____ _____
N. Civil Judgment 1. Enforce (Table 1N1) 2. Semi-Annual Inquiries (Table 1N2) 3. Means Acquired - Borrower Notif. (Table 1N3) 4. Additional Civil Proceedings (Table 1N4)		_____ _____ _____ _____	_____ _____ _____ _____
O. Civil Suit - (Table 1O)			
P. Skip Tracing (Table 1P)			
ALTERNATIVE COLLECTION PROCEDURES (Q-S) Q. 1 - 30 Lapse Days 1. Telephone Efforts (Table 1Q)			
R. 31 - 180 Lapse Days 1. Telephone Efforts (Table 1R1) 2. Collection Letters (Table 1R2) 3. Collection Contractor - Referral (Table 1R3) 4. Collection Contractor - Requirements (Table 1R4)		_____ _____ _____ _____	_____ _____ _____ _____
S. Greater 181 Days 1. Civil Suit (Table 1S1)(Pre 11/96 regs) 2. Tax Refund Offset (Table 1S2) (11/96 regs) 3. Wage Garnishment (Table 1S3) (11/96 regs)		_____ _____ _____	_____ _____ _____
TOTAL ACTIONS			

1986 Regulations

1-45 Lapse Days

**Telephone Contacts
TABLE 1A1**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

**Written Notices
TABLE 1A2**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹Enter a "1" for each loan in which the required diligent telephone effort was documented (see definition of diligent effort for telephone contact in Appendix C).

² Enter the number of loans scheduled in this category.

³ Enter a "1" for each loan where the required written notice was sent.

⁴ Enter the number of loans scheduled in this category.

1986 Regulations

46-90 Lapse Days

Telephone Contacts

TABLE 1B1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

Written Notices

TABLE 1B2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹Enter a "1" for each loan in which the required diligent effort was documented (see definition of diligent effort for telephone contact).

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required written notice was sent.

⁴ Enter the number of loans scheduled in this category.

1986 Regulations

91-135 Lapse Days

Telephone Contacts

TABLE 1C1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

Collection Letter

TABLE 1C2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹Enter a "1" for each loan in which the required diligent effort was documented (see definition of diligent effort for telephone contact).

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required collection letter was sent.

⁴ Enter the number of loans scheduled in this category.

1986 Regulations
136-180 Lapse Days

Written Notice
TABLE 1D

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B ¹ (DOCUMENTED)
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

¹ For each loan, enter 1 if the required written notice was sent.

² Enter the number of loans scheduled in this category.

1986 Regulations
181-545 Lapse Days

Civil Suit - 30/180/225 Days

TABLE 1E

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

Civil Suit Not Instituted
Semi-Annual Inquiries

TABLE 1F1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter 1 if the required civil suit was instituted.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required diligent semi-annual inquiries was performed.

⁴ Enter the number of loans scheduled in this category.

1986 Regulations

Civil Suit - Means Acquired

TABLE 1F2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

¹ For each loan, enter 1 if the required civil suit was instituted.

² Enter the number of loans scheduled in this category.

1986 Regulations

**Enforce Judgment
TABLE 1G1**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

**Semi-Annual Inquiries
TABLE 1G2**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter 1 if entity diligently attempted to enforce judgment obtained.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required diligent semi-annual inquiries was performed.

⁴ Enter the number of loans scheduled in this category.

1986 Regulations

Written Notices
TABLE 1G3

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

Civil Suit - No Payment in Full
TABLE 1G4

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹ For each loan, enter 1 if the required written notice was sent.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required civil suit was instituted.

⁴ Enter the number of loans scheduled in this category.

1986 Regulations

**Civil Suit
TABLE 1H**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

**Skip Tracing
TABLE 1I**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter 1 if the required civil suit was instituted.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required skip tracing was performed.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations

1-45 Lapse Days Telephone Contacts

TABLE 1J1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

Written Notice

TABLE 1J2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹Enter a "1" for each loan in which the required diligent effort was documented (see definition of diligent effort for telephone contact).

² Enter the number of loans scheduled in this category.

³ For each loan, enter the number of written notices sent (do not exceed 2 for each loan).

⁴ Multiply the number of loans scheduled by "2" for the total of this column.

1992 Regulations
46-180 Lapse Days
Telephone Contacts
TABLE 1K1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

Written Notices
TABLE 1K2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹Enter a "1" for each loan in which the required diligent effort was documented (see definition of diligent effort for telephone contact).

² Enter the number of loans scheduled in this category.

³ For each loan, enter the number of written notices sent (do not exceed "3").

⁴ Multiply the number of loans scheduled by "3" for the total of this Column.

1992 Regulations
181-545 Lapse Days

Tax Refund Offset
TABLE 1L1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

Wage Garnishment/Civil Suit
TABLE 1L2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter 1 if the required tax refund offset was initiated.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required wage garnishment procedures or civil suit was performed.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations

Civil Suit Not Instituted

Semi-Annual Inquiries

TABLE 1M1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

Subsequent Civil Suit - Means Acquired

TABLE 1M2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter 1 if the required semi-annual inquiries was performed.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required civil suit was instituted.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations

Enforce Judgment
TABLE 1N1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

Semi-Annual Inquiries
TABLE 1N2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter 1 if entity diligently attempted to enforce judgment obtained.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required diligent semi-annual inquiries was performed.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations

Written Notices

TABLE 1N3

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

Civil Suit - No Payment in Full

TABLE 1N4

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹ For each loan, enter 1 if the required written notice was sent.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required civil suit was instituted.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations

**Civil Suit
TABLE 10**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

**Skip Tracing
TABLE 1P**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹ For each loan, enter 1 if the required civil suit was instituted.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required skip tracing was performed.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations
ALTERNATIVE COLLECTION PROCEDURES
1-30 Lapse Days
Written Notice
TABLE 1Q

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

31-180 Lapse Days
Telephone Contact
TABLE 1R1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter a "1" if the required written notice was sent.

² Enter the number of loans scheduled for the total of this column.

³ For each loan, enter a "1" if the required diligent telephone effort was made (see definition of diligent effort for telephone contact).

⁴ Enter the number of loans scheduled for the total of this column.

1992 Regulations
ALTERNATIVE COLLECTION PROCEDURES
Collection Letters
TABLE 1R2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

Collection Contractor - Referral
TABLE 1R3

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter the number of collection letters that were sent (not to exceed 2).

² Multiply the number of loans scheduled by "2" for the total of this column.

³ For each loan, enter a '1' if agency records document that the loan was referred.

⁴ Enter the number of loans scheduled as the total of this Column.

**1992 Regulations
ALTERNATIVE COLLECTION PROCEDURES
Collection Contractor - Requirements**

TABLE 1R4

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

**Civil Suit
TABLE 1S1**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹ For each loan, enter a "1" if the Collection Contractor met requirements.

² Enter the number of loans scheduled as the total of this Column.

³ For each loan, enter 1 if the required civil suit was instituted.

⁴ Enter the number of loans scheduled in this category.

1992 Regulations
ALTERNATIVE COLLECTION PROCEDURES
 Requirements per 11/96 Regulations

Greater Than 181 Lapse Days

Tax Refund Offset
TABLE 1S2

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

Wage Garnishment
TABLE 1S3

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	⁴	

¹ For each loan, enter 1 if the required tax refund offset was initiated.

² Enter the number of loans scheduled in this category.

³ For each loan, enter 1 if the required wage garnishment procedures were performed.

⁴ Enter the number of loans scheduled in this category.

2. TIMELY CLAIM PAYMENTS

TABLE 2

(1986 REGULATIONS)	# OF LOANS	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)
A. Timely Claim Payments			
(1992 REGULATIONS)			
B. 1. Timely Claim Payments 2. Accrued Interest	_____ _____	_____ _____	_____ _____
TOTAL ACTIONS			

1986 Regulations
TIMELY CLAIM PAYMENTS
TABLE 2A

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

1992 Regulations
TIMELY CLAIM PAYMENTS
TABLE 2B1

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

¹ For each loan, enter a "1" if the if claim was paid in a timely manner.

² Enter the number of loans scheduled for the total of this column.

³ For each loan, enter a "1" if the if claim was paid in a timely manner.

⁴ Enter the number of loans scheduled for the total of this column.

**1992 Regulations
ACCRUED INTEREST
BEYOND 60 DAYS
TABLE 2B2**

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	²	

¹ For each loan, enter a "1" if the if interest accrued beyond the 60 day period was not submitted for reinsurance.

² Enter the number of loans scheduled for the total of this column.

3. TIMELY REINSURANCE FILINGS

TABLE 3

(1986 REGULATIONS)	# OF LOANS	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED)
A. Timely Reinsurance Filings			
(1992 REGULATIONS)			
B. Timely Reinsurance Filings			
TOTAL ACTIONS			

1986 Regulations
TIMELY REINSURANCE FILINGS
TABLE 3A

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ¹
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	2	

1992 Regulations
TIMELY REINSURANCE FILINGS
TABLE 3B

Sampled Loans	COLUMN A (REQUIRED)	COLUMN B (DOCUMENTED) ³
Loan #1		
Loan #2		
Loan #3		
etc.		
Total	4	

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¹ For each loan, enter a "1" if the if payment submission was made within the required time frame.

² Enter the number of loans scheduled for the total of this column.

³ For each loan, enter a "1" if the if payment submission was made within the required time frame.

⁴ Enter the number of loans scheduled for the total of this column.