

## FedLoan Servicing TEACH Servicing Review

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PREPARED FOR:  
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# Review Observations

## REGULATORY ISSUES/SERVICER CHALLENGES

§686.37 - Institutional reporting requirements state that an institution must provide to the Secretary information about each TEACH Grant recipient related to the eligibility for, amounts of, and anticipated and actual disbursement date or dates and disbursement amounts of the TEACH Grant funds. The requirement does not, however, specifically state that the institution must provide notification when the grant recipient has completed or ceased enrollment in a TEACH Grant-eligible program.

This creates a servicing/regulatory challenge in administering the program due to the fact that the separation date for calculating the eight-year period for completion is based on the separation from the TEACH Grant-eligible program for which the Grant recipient received TEACH Grant funds and is not necessarily the separation date from the institution. FedLoan Servicing is dependent upon the separation date provided to NSLDS, which is most often the separation date from the institution and not necessarily the separation date from the eligible program of study (recipients can change programs and remain at the same institution though no longer be in a TEACH eligible program of study though not yet separated from school.) As a result, there are some issues with the assumptions that FedLoan Servicing has to make in lieu of having valid/valuable program of study information.

Additional challenges occur when a separation date is not provided for the recipient and the Anticipated Graduation Date (AGD) is in the past or when multiple separation dates are received for the same recipient. Because the program is administered differently based on a recipient withdrawing/separating versus completing/graduating from the program of study, assumptions must be made. Specifically related to the multiple separation dates issue, a misalignment (school reports separate and different enrollment information for TEACH Grants received in separate years) of the eight-year period for completion can occur and may result in a recipient following multiple certification schedules.

## QUARTERLY INTEREST STATEMENTS

Quarterly Interest Statements are required to be sent to recipients. In some instances, it was observed that quarterly interest statements were either not being sent to the recipient or were not notated on the TEACH Admin UI as sent when they should have been.

FedLoan Servicing states that they send TEACH Grant quarterly email notices and annual written (paper or electronic, depending on the borrower's preference) to all of their TEACH Grant recipients while the recipient is in school, is actively certifying teaching service, as well as 5 months after the recipient leaves school (in an active

service obligation, but has not yet certified any teaching service, on track) and *not* in school (on track). They do not send interest communications as required to TEACH Grant recipients who had their TEACH Grants convert to TEACH Loans, or to recipients in an alleged Death or TPD status.

### **MULTIPLE DENIAL LETTERS (same day and subsequent days)**

It was observed on several sample accounts that recipients were receiving multiple denial letters (either on the same day or on subsequent days.) During the quality review, if it is determined that the processor missed notifying the recipient of some of the required elements in order to process and/or approve the received form, a subsequent denial letter is generated to the borrower. It was also noted that letters generated on the same day are mailed together, but contain multiple cover letters. Letters generated on different days result in the borrower receiving multiple letters, while all being correct and valid, all contain differing information. These multiple notifications may cause unnecessary confusion for the recipient. This is a current system limitation that does not allow FedLoan to roll the multiple letters up into one correspondence per day. A system query to alert FedLoan of the multiple letter issue should be considered until an actual system fix can be implemented.

### **PROCESSING ERRORS**

Several processing errors were observed during the review. These included demographic errors, certification processing errors, intent to teach and certifications not processed on all of the recipient's grants, and requests not sent on the 75<sup>th</sup> day. Out of the 28 accounts we reviewed, one critical error was identified. FedLoan Servicing is currently researching the critical error account. FedLoan queried their system and no other accounts were found to have this issue.

### **TEACH GRANT RECIPIENT SUSPENSION VS. INTENT USAGE**

Recipients with multiple obligations (some of their grants are for a current program of study and in an in-school status and other grants received for an earlier program of study are in a certification/obligation status) are potentially eligible for suspension of their obligation certification which would assist with aligning their service obligations when they leave their final program of study. We questioned whether the grant recipients would be better served if provided more communication regarding their potential suspension eligibility.

Out of a current population of 767 recipients:

- 14 are on suspension (though the suspension may or may not be enrollment related.)
- 753 are not currently on a suspension.
- 197 have certified active teaching service.

It is estimated that about 570 recipients could request suspension and have not. We found, in most cases, rather than FedLoan reaching back out to the borrower to



find out if the recipient would chose to suspend, FedLoan certified the recipient's intent, potentially creating alignment issues.

We currently include language in our certification communications that go to borrowers that describes each of their options, including suspension, but borrowers are actively submitting intent rather than suspensions. While we agree that some enhancements, like to communicate separately to them add targeted language to our approval letters as we do on certifications today could help prevent this difference going forward, we believe that more active understanding of certification requirements on the part of recipients is needed. We expect that we can/will move forward with adding language to our 'intent' approval communications to further message this to recipients.

## **UPCOMING CHANGES**

The previous observations were the result of sampling and account review. Discussions during that review led to FedLoan providing detail of some upcoming changes in their QA process.

### **TEACH GRANT QA PROCESS CHANGES**

FedLoan Servicing will be expanding the scope of the quality assurance performed on TEACH Grant-related processes. Currently QA is performed on 100% of denied certification forms. This was initially done to prevent unwarranted negative recipient impact. However, FedLoan Servicing is in the midst of modifying their certification QA database and selection process. Beginning in November, they intend to change their process to QA at least 5% of both approved and denied certification forms.

Additionally, they intend to implement QA on the processes below, with a target date of 10/1/15:

- Approved certification forms (stop-gap until the certification database is modified in November)
- Suspension forms
- General correspondence
- Proof of Enrollment

## Current and Previously Known Issues

While on-site, there were discussions related to known issues related to servicing the TEACH Grants. Below is a summary of known issues from the Issue Tracker.

- **Issue #2941 – TEACH -- No New TEACH Grant Requirement -- Waiver Needed. Added to tracker 11/14/14.**

Issue Description: TEACH Program requirement 3.10.7 (and additional clarification provided in Q/A 24 for TEACH grants) requires FedLoan Servicing to convert TEACH Grants to Loan under the new no grant scenario as failing to recertify. FedLoan requested a waiver to avoid unnecessary conversions from grants to loans.

Current Status -- FSA provided waiver to that requirement and has created CR 3188 to provide relief. CR is still in process of being finalized.

- **Issue #5511 – TEACH -- Grade Level Discrepancies with TEACH. Added to tracker 02/24/15.**

Issue Description: Grade Level Discrepancies identified between grant and loan records for TEACH Grants that were converted to Loans. 1,138 TEACH records found where discrepancies existed between the Grant and Loan records. Minimal impact however some records had discrepancies that impacted the program type (undergraduate or graduate), which drives the interest rate for the record. Clean up needed to correct.

1011 updates were made, 27 remaining to change. These final 27 are more difficult to correct as these were COD initiated and a system change is needed. All that could have been updated.

Current Status -- FedLoan to provide update when system is implemented.

- **Issue #6398 -- TEACH Grant Certification Exception. Added to tracker 03/23/15.**

Issue Description: Exception requested for recipient who started teaching 4 days prior to graduation date.

Current Status – Exception approved. Item is closed.

- **Issue #8887 -- TEACH 3rd Quarter Monitoring Review. Added to tracker 04/29/15.**

Issue Description: These are observations from the 3<sup>rd</sup> Quarter TEACH Monitoring Review.

Observation 1: Impact of FedLoan Servicing's certification backlog that spanned over many months. Inadequate time for recipients to respond, not allowing 30 days, causing the grant to convert to a loan in error.

Observation 2: Recipient did not receive a TEACH Grant although she is still enrolled and scheduled to graduate.

Observation 3: Recipient was not given 30 days to respond to a denial of a certification notice.

Observation 4: Communication gap relating to submission of an intent-to-teach form to the prior servicer, resulting in failure to give the Recipient adequate time to respond to the certification notice.

Observation 5: Communication gap relating to submission of an intent-to-teach form to the prior servicer. Additionally, FedLoan Servicing sent an incorrect and inadequate notification to the recipient resulting in the Recipient's grants converting to loans.

Current Status: CAP responses received 06/29/15. Additional CAPs applied. Waiting on FedLoan Servicing to provide notification of retraining of all staff.

- **Issue #9483 -- TEACH Grant -- Recipients in Bankruptcy Status. Added to tracker 07/09/15.**

Issue Description: TEACH Grant recipients who are in a bankruptcy status are not receiving any TEACH Grant letters. FedLoan identified approximately 40 recipients who fall into this situation and have halted the grant to loan conversion on these accounts.

Current Status: FSA granted FedLoan permission to delay the conversion until proper communication can be completed. FSA is reviewing whether additional requirements are needed or whether the bankruptcy letters need to be reviewed.

- **Issue #9484 -- TEACH Grant - Out of Time. Added to tracker 07/09/15.**

Issue Description: FedLoan has identified a number of recipients at risk of not completing their teaching obligations within the 8-year timeframe. Prior to placing their grant in queue for conversion to a loan, it was determined to be in the best interest of the Program's success to give these recipients a 30 day notification to certify their final teaching requirement.

Current Status: FSA has drafted a CR to enhance and strengthen communications to TEACH recipients who are running out of time. Draft CR

has been reviewed by FedLoan and comments sent to FSA. FSA is working on final review of CR.

- **Issue #9877 -- TEACH Grant - ACS Conversion in Error Email Issue. Added to tracker 07/30/15.**

Issue Description: Recipients received an additional email communication in error. This communication was the ACS Conversion in Error Reminder email (E84) and part of CR2863 TEACH Grant Cleanup, which includes a reminder that the deadline to respond is approaching 15 days. The deadline was already passed but email vendor sent out another reminder to these borrowers. FedLoan received an additional 53 responses.

Current Status: FSA approved accepting the additional conversion requests. Item is closed.

- **Issue #10072 -- TEACH 4th Quarter Monitoring Review. Added to tracker 08/05/15.**

Issue Description: These are observations from the 4th Quarter TEACH Monitoring Review.

Observation 1: One recipient's TEACH Grants converted to loan on 02/18/14 at the recipient's request. A copy of the conversion letter was not provided. Further research uncovered an edit in FedLoan's system prevented the conversion letter from generating. Additional query revealed a total of 80 recipients did not receive this conversion letter.

Current Status: FedLoan has revised current conversion correspondence and will send to 49 of these recipients (only those that have a current balance.) FSA is reviewing communication.

Observation 2: Recipient's certification was rejected for 2014-15 academic year improperly.

Current Status: FedLoan is in agreement with FSA and is attempting to contact the recipient to verify.

Observation 3: Recipient is disputing their lack of certification response.

Current Status: FSA's SF office is reviewing this dispute.

- **Issue #10313 -- TEACH Grants - Expired Expected Date of Graduation. Added to tracker 08/18/15.**

Issue Description: Guidance needed on how to handle TEACH Grants with expired dates of graduation: Separated? If so, Graduated versus Withdrawn.

Background Research Results: FedLoan has 312 TEACH Grants for 204 TEACH Grant recipients (for a total of \$789,190.41) where FedLoan was originally passed an expected date of graduation that was never updated by the school and has since expired.

Current Status: Being reviewed by FSA Program Management for resolution.



# Resolution/Recommendations and Risk

## Resolution Needed/Recommendations

- Provide explanation on the critical error that was identified.
- During FSA's visit in August, 2015, an account was entered for review within the TEACH Admin User Interface (UI) but a "critical error" message displayed and the account could not be viewed through the UI. Our technical team investigated the error and determined that the display issue occurred because there was a row of missing required data for that individual within in a new TEACH Grant system table that was created in July 2015 to house prior teaching service credit. We identified 39 total records (sequences) that were missing this data, and have since resolved it by creating data for that required row. The issue was raised and closed in approximately a week.
- FSA recommends that in your system integration, all tables are added to your user acceptance.
- Provide list of changes to be implemented for the QC process.
- Beginning October 2015, the following records were selected for QA review:
  1. Approved Certification Forms)
  2. Suspension Forms
  3. Proof of Enrollment
  4. General Correspondence

The following processes are also on target to be selected for QA by December, 2015:

1. Recipient Requested Conversion Requests
2. Separation Date Review (TE) Queue
3. TEACH Customer Service Email Replies

Additional changes to our TEACH Certification QA Database are scheduled for implementation this November, 2015. These changes will expand the scope of QA performed on certification forms and allow us to adjust the percentage of items reviewed based on findings. In addition, we have identified various scenarios for QA, including what we consider to be high risk accounts (conversion scheduled, certification due date in the past, military suspensions, etc.) as well as low risk accounts. Our intention is to QA a minimum of 5% for all accounts but increase the volume and/or priority of our review for all high risk accounts.

- Provide an outline of the assumptions/logic used related to Institutional reporting requirements vs. servicer requirements.
- As discussed with FSA, due to the lack of institutional reporting of Classification of Instructional Program (CIP) codes for TEACH Grant recipient's enrollment, we are left to follow assumptions and/or guidance

provided by FSA. These assumptions largely deal with the withdrawal and subsequent re-enrollment of TEACH Grant recipients. Below are supporting details and citations for assumptions used:

**Q&A 24:**

Q: We'd like to propose the following standardized approach for certification timeframes.

There are 3 possible separation trigger dates for certification, driving 3 "notification dates"

**Separation Trigger**

**Notification Date**

1 Graduation/Separation from school (GD)	GD + 75 days (per 3.8)
2 Program Separation (PSD)	PSD + 75 days (per 3.8)
3 No New Grant Disbursed (NND)	NND (per 3.10.7)

Initial certification due date = Notification date + 45 days

This is day 120 for Separation Trigger 1 & 2, but may be outside of 120 days for Trigger 3 ("due" date will always fall 45 days from notification date per Req. 3.8).

Annual certification notification date = Annual certification due date (see below) - at least 30 days

Annual certification due date = Initial certification due date (defined above) + 1 year (ongoing) (per 3.10.3)

Please note: This proposal differs from 3.11.1 in that the annual certification date will be one year from the Initial Certification Due Date vs. the Separation Date. This ensures that the recipient has sufficient opportunity to certify appropriately.

Further, if a GD or PSD falls in the past, we would maintain the existing notification whenever possible.

Example: A recipient was expected to separate on 05/13/13. We received notice on 01/10/13 that they separated on 01/01/12. We would trigger the notification on 01/10/13 (and in turn, expect the initial certification due date to be 02/23/13).

*Note: FSA advised later removed the requirement, 3.10.7, in November 2014.*

A: FSA Response: Updated 4/22/13: "No new grant disbursed" students will be handled the same way as a recipient who has graduated. PHEAA will send the initial certification, but if the recipient doesn't reply there will be no immediate ramifications.

The certification process can be initiated using the three listed triggers. For



the 3rd trigger, No New Grant Disbursed, the fact that a recipient does not receive a new grant does not mean he/she is not still enrolled in an eligible program of study. The certification request should include an option to indicate that the recipient is still enrolled in an eligible program. Note: In the scenarios provided, it appears the grant recipient will not be told about the confirmation requirement until there are only 45 days left in the 120-day period. For grant recipients who did not complete the program for which they received the grant, the consequence of failing to meet the 120-day confirmation requirement is loan conversion. Particularly for these individuals, the TEACH Grant Servicer may want to notify them of the requirement at an earlier date. Finally, the certification process for a recipient to notify the TEACH Grant servicer of status/intent may be electronic.

**Q&A 53:**

Q: A school reports a Grant recipient as having withdrawn at the end of the spring semester. We send the initial certification. The recipient advises that s/he is returning to school in the fall. Are we able to act on that information and discontinue the initiation of the 8-year clock or must we receive notification from the school that the recipient is enrolled?

Proposed response: You may discontinue the initiation of the 8-year clock until such time you determine that the recipient did not return to school, i.e., the recipient advises you s/he did not return to school, s/he does not receive a new TEACH Grant, etc.

A: FSA response: 2/5/13: Follow-up discussion--The servicer cannot discontinue initiation of the 8-year clock based on this information. The servicer won't know if the borrower re-enrolls in an eligible program and must wait for disbursement of a new TEACH grant or request for suspension to discontinue the 8-year clock. The proposed response by PHEAA is not acceptable. Initiation of the 8-year clock should be based on enrollment in a TEACH Grant eligible program, not just a return to school.

**Q&A Document on Separation Dates for FSA (Policy):**

**PHEAA Analysis:**

34 CFR 686.41 indicates that a recipient who withdrew from the program of study for which he/she received the Grant should apply for a suspension of the service obligation if he/she re-enrolls in a program of study for which he/she **would be** eligible for a TEACH Grant. The regulations don't address the situation of a recipient who receives another Grant for the same program of study after re-enrolling. Since the program of study isn't reported to us, the only thing we can do is assume that all undergraduate grants are for the same undergraduate program of study and all graduate grants are for the same graduate program of study (Q&A 40 from the Q&A tab on the TEACH Requirements spreadsheet).

**All examples use undergraduate TEACH Grants, but the same questions pertain to graduate TEACH Grants. For each of these examples we could support multiple answers. A case can be made for each TEACH Grant having its own service obligation if the school**



doesn't report continuous enrollment throughout the entire program of study (either because the recipient actually withdraws and re-enrolls, or the school reports a withdrawal). On the other hand, if a recipient completes a program of study (even with gaps in enrollment), a case can be made that the service obligation shouldn't start until they complete the program which may require multiple conversions/unconversions of Grants to Loans and Loans to Grants.

***FSA/OPE Response:***

*If we do not have information about the program in which the student has re-enrolled and received another TEACH Grant, we believe it is reasonable to make an assumption that the student has returned to the same program from which he or she previously withdrew. However, as noted in the previous response, the key issue is whether the student has re-enrolled in another TEACH Grant-eligible program at the same level (undergraduate or graduate), even if it is not the same program as the original program. If the student has re-enrolled in another TEACH Grant-eligible program (either the same program or a different program) at the same level, there would be a single service obligation, and the 8-year clock would start when the student completes or otherwise ceases enrollment in the program.*

Note: In mid-2014, we began to receive CIP code data for TEACH Grant recipients. We believe now is a good time to begin coordinating the servicing of those recipient who have this data on all of their grants.

- FedLoan Servicing will propose suggested changes to requirements with known challenges.
- During your last visit, as with prior visits, we proposed changes to requirements (and as a result, regulations) which have caused challenges and pain points for PHEAA, TEACH Grant recipients and/or FSA. Below is a brief description of our suggested changes:
  1. Proportional discharge of financial obligation as a result of respective completion of service obligation. *This is recommended for a number of reasons, including to avoid known situations in which a recipient may have completed three (out of four) years of teaching service but then is promoted to an administrator (i.e. Principal) and unable to satisfy their complete obligation but has to repay the entire amount of the grants disbursed with interest accrued from the date of disbursement.*
  2. Approval to reinstate grant status, on grants that converted to loans, based on evidence of eligible teaching service completed. *A reason for a grant to convert to a loan may be as simple as the recipient not certifying their intent to teach annually. This reason for conversion does not mean that the recipient did not complete their teaching service obligation or still could not complete their teaching service obligation. We believe the program will have better accountability and outcome measures if we could reinstate grant status for those who complete their service obligation within their expected obligation period, regardless of loan status. We believe that certification is an obstacle for TEACH Grant recipients to*



*completing their service obligation, and doesn't represent their having no intention to honor the meaning behind the grant: that they serve a low income school in a high need field.*

3. Remove complex certification eligibility requirements based on separation reason (graduated versus withdrawn.) *As you may know, recipient have varied certification requirements based on the reason for their separation from the program of study for which they received their TEACH Grant. However, this adds complexity to our service, communication, and general understanding from the recipient of their obligations. Added to this are updates we receive from institutions which often change or correct separation reasons after we've already 'triggered' or captured a recipient's separation. We believe that, if a recipient is able to satisfy their teaching obligation (whether they graduated or not), they should be given the opportunity to do so, and be held to the same expectations for sending in certification documentation as other TEACH Grant recipients.*
4. Create additional suspension opportunities (time or reasons). *Compared to the Direct Loan Program, recipients of a TEACH Grant do not have comparable time or opportunities to suspend their obligation for life circumstances.*

We welcome the discussion of any of the items above or other items which FSA would suggest we focus on for the improvement of the program. As you may know, we have completed and have open, a number of TEACH improvement items that we implementing for better servicing.

- FedLoan Servicing previously completed a QA process on 100% of denied certifications. During the site visit, it was suggested that accepted certifications be included in the QA review as well as denied. After the site visit, notification was received from FedLoan Servicing that the recommendation was being implemented; however, the QA process was decreasing from 100% of denied certifications to 5% for both denied and approved certifications. Moving from a 100% QA to a 5% QA concerns FSA especially with the issues that were discovered during the site visit that included denied certifications that were QA'd. FSA would highly recommend that FedLoan Servicing increase the QA process for certifications in light of the issues uncovered during the visit.
- The Certification QA Database is being modified to select a variety of certification forms processed across both denied and non-denied/accepted accounts. The database will have the flexibility built-in to modify the volume extracted for QA review on a daily basis. Based upon the analysis of errors identified the percentage selected can be modified on-demand to increase the percentage of records reviewed.
- Note: With the exception of the critical error account, accounts identified with errors were corrected by FedLoan Servicing while researching questions from the reviewers.

## Potential Risk

- Quarterly interest statements not being sent to recipients as intended can be an indication of systemic issues and quality control issues. Additionally, it creates risk by failing to advise recipients of potential financial obligations.
- According to the TEACH Grant requirements, requirement 3.1 specifically states that the servicer must notify TEACH Grant recipients at least quarterly about the amount of interest that has accrued on their TEACH Grant disbursements and the obligation to repay that interest along with the amount disbursed **if they fail to fulfill their teaching obligations**. When the TEACH Grant is converted to a loan, the recipient has already failed to fulfill their teaching obligation. The loan is serviced as a Direct Unsubsidized Loan and would then fall under those regulations and requirements. Current Direct Loan regulations do not require quarterly interest statements be sent to borrowers. However, as you are aware, FSA CR3192 will require us to send quarterly statements that include accruing interest to borrowers who are in an in-school or grace status. Also, in conjunction with Requirement 3.1, there was a Q&A (57) that further clarified the requirement.
- Processing errors as well as multiple separation dates can result in the misalignment of the eight-year period for completion and can lead to recipient confusion and unnecessary conversion to a loan.
- We agree, and in response to processing errors, we have implemented new tools/software to increase communication and awareness to changes and issues, training software and curriculums to increase effectiveness and QA processes to catch errors in a timelier manner. Multiple separation dates can misalign or create multiple obligations for a single program type, but this is based on our assumptions of the requirements as discussed above.
- Multiple denial letters can result in recipient confusion and unnecessary conversion to a loan.



We agree and have taken action to reduce the number of denial letters being sent as the result of processing certification forms for multiple programs. We have requested a system change to only send one denial letter (or approval letter) to each recipient when the recipient has multiple programs that would specify which grant programs the decision applies to. Effective September 2015, we have implemented a process to cancel any duplicate denial letters so that the recipient will receive only one copy as the result of form processing until this system change is in place.

## Review Methodology

### REVIEW OBJECTIVE

To determine if the TEACH Grants are being serviced according to regulations and requirements.

### STANDARDS

#### Statutory & Regulatory

The regulations governing TEACHER EDUCATION ASSISTANCE FOR COLLEGE AND HIGHER EDUCATION (TEACH) GRANT PROGRAM are:

- 34 CFR 686.1 – 34 CFR 686.43

### METHODOLOGY

#### Sampling

From a sample of 5000 TEACH Grant recipients, 28 accounts were chosen by random sample to be reviewed.

#### Materials Requested

While on-site the review was performed using access to COMPASS, TEACH Admin UI, NSLDS, In-house User Account Access, and Imaging Systems. Additional information was requested from the servicer as needed.

#### Testing

We reviewed the following to ensure that servicing requirements, regulations, and Change Requests were followed properly in the servicing of the recipient's grant(s):

- System notes, account information, and recipient histories.
- Imaged forms and letters and compared to information servicer's system.
- Servicer processing of eligibility for service obligation benefit, if applicable.

- Service processing of intent to teach, if applicable.
- NSLDS for separation dates and compared to servicer's system.
- Communications to and from the recipient.