BROKEN PROMISES

How The Department of Education Failed America’s Public Servants
REPORT SUMMARY

The Department of Education has failed the vast majority of students in PSLF by only approving **1% of applications**. Students are paying the price for this administration's incompetence.

The Department’s **own internal watchdog** found that the agency failed to properly implement the program, breaking a promise made to tens of thousands of borrowers.

The loan servicer was found to **incorrectly classify** employers, **mistakenly disqualify** payments, and provide **erroneous information** to borrowers.

Previously unreleased documents (attached to this report) show the Department was **aware of PSLF management issues as early as 2017**, but despite repeated evidence of these problems from various federal and state authorities it has **failed to address these issues**.
Congress created the Public Service Loan Forgiveness (PSLF) program and the newer Temporary Expanded PSLF program to make it easier for college graduates to serve the country in the public sector by forgiving a portion of their student loan debt. However, the program is not living up to its promise. While borrowers have been eligible to apply for forgiveness since September 2017, the Department of Education (“Department”) has only approved one percent of applications, according to the Government Accountability Office (GAO).\(^1\)

The Department has passively watched as its loan servicers—companies contracted to advise borrowers and manage their loans—provide borrowers with misleading or false information about PSLF year after year, ultimately causing systemic program failures.

Undoubtedly, PSLF is a complicated program. To receive forgiveness under PSLF, borrowers must have Direct Loans and make 120 payments in either the standard repayment plan or certain income-based repayment plans, while working at a qualifying government or non-profit organization. Due to the program’s complexity, and the Department’s indirect management of the program through its contracted loan servicers, successful administration of PSLF requires that the Department provide clear guidance to loan servicers coupled with rigorous oversight. Unfortunately, the Department has failed on both counts and has yet to change course.

Over the last year, GAO has repeatedly decried the Department’s lack of comprehensive PSLF guidance.\(^2\) Moreover, this year the Department’s Inspector General found that the Department “rarely hold[s] servicers accountable” leading to “continued [servicer] noncompliance that harms students and their families.”\(^3\) Other federal and state watchdogs including Consumer Financial Protection Bureau (CFPB)\(^4\), GAO\(^5\), and States’ Attorneys General\(^6\) have sounded similar alarms regarding the Department’s ineffectual loan servicer oversight.
Previously unreleased internal Office of Federal Student Aid (FSA) audits of the loan servicer the Department designated to implement PSLF, FedLoan Servicing ("FedLoan"), contextualize the Department’s years-long inactivity. Specifically, **FSA’s staff discovered that FedLoan was incorrectly classifying employers, missing qualifying payments, and providing misleading information to borrowers.** These audits demonstrate the Department’s awareness of FedLoan’s systemic PSLF servicing errors as early as July 2017, but to date it has failed to compel FedLoan to make critical reforms.

To the detriment of public servants across the country the Department has not prioritized addressing these issues in the years following the audits. In fact, two subsequent GAO investigations found many of the same risks as the FSA audits and made similar recommendations. 8. **To date, the Department has not implemented any of the eight GAO recommendations to improve program management and communication with borrowers.** 9 And many of the issues FSA staff identified as plaguing FedLoan’s program implementation in 2017 persist. By failing to prioritize servicer oversight and program reform, thousands of borrowers may continue to miss out on the benefits they’ve earned.

**Issues FSA Staff Uncovered Years Ago Persist**

Both the Department’s 2017 internal audit and recent GAO reports found that loan servicers, particularly FedLoan, face challenges around key PSLF elements: verifying public service employment, counting qualifying payments, and providing information to borrowers. Recent borrower complaints quoted below demonstrate that as the Department delays action, servicers’ mismanagement of PSLF harms more public servants every day. 10

**Employment Verification**

The Department’s 2017 internal audit found that FedLoan created an ad hoc database of PSLF-eligible employers to make eligibility determinations, but that errors pervaded this list. For instance, FSA’s audit identified at least 3,664 employers on FedLoan’s approved and conditionally-approved list that were likely religious organizations, 242 of which FedLoan listed as Government Organizations. 11 Though FedLoan may have told borrowers
employed by these organizations that they were on-track for PSLF, when they ultimately apply the Department may deny them.\textsuperscript{12}

FSA found that FedLoan was also inconsistently adding employer organizations to its database, stating “There appears no explanation as to why some entities (even common federal agencies such as the Department of Education) would appear in the database while others would not.”\textsuperscript{13} FedLoan’s patchwork employer database could cause the servicer to approve one employee, but deny their co-worker.

\begin{quote}
\textit{I submitted a request to FedLoan Servicing [about] my employer, the Department of Interior Bureau of Land Management...they denied my employer.}
\textit{Borrower complaint, May 2019}
\end{quote}

In 2018, GAO reported a parallel problem: The Department had failed to provide FedLoan with sufficient information about qualifying employers. In that report GAO recommended that the Department could address this program weakness by providing FedLoan with a comprehensive qualifying employer database.\textsuperscript{14} In 2019, GAO reiterated that although the Department had not addressed this problem, if Education were to implement GAO’s recommendation it would “reduce the risk of errors”.\textsuperscript{15} The previously unreleased audit demonstrates that FSA staff identified the issues pervading FedLoan’s employer database over a year before GAO’s report. Yet the Department reported not being on track to address this root cause of FedLoan misinformation until some point in 2020, three years after FSA staff first reported the issue internally.\textsuperscript{16}

The Department recently testified that it “encourage[s] borrowers interested in PSLF to submit an [employer certification form] annually to receive feedback on the eligibility of their employment and payments on an ongoing basis.” While the Department encourages borrowers to take responsibility for confirming their PSLF eligibility, it has failed to take basic steps to protect borrowers following its advice from servicers that are ill-equipped to respond accurately.

\textit{Qualifying Payment}

In 2018, GAO also found that the Department does not ensure that borrowers’ prior loan payment information is transferred in a consistent or accurate manner when loans are transferred to FedLoan.\textsuperscript{17} However, these issues existed for years, and FedLoan’s response to a second FSA review demonstrates the Department’s awareness as early as January 2017.

\begin{quote}
\textit{The student loan servicer has mishandled my calculations about the number of PSLF payments I made and will not respond with an updated count which I requested 14 months ago...I’m told they have to count the payments “by hand” and going through one month’s payment takes a person 30 minutes. Surely this is unreasonable for a national agency who has won the sole federal contract to be the provider for PSLF?}
\textit{Borrower complaint, February 2019}
\end{quote}
In its response, FedLoan stressed the importance of FSA requiring all servicers to provide payment histories in a similar data format but noted that FSA had failed to take this step. FedLoan recently told GAO they still receive inconsistent and unreliable information from the other servicers, which increases the risk they will miscount qualifying payments. The Department claimed that it will finally require other servicers to standardize the loan information it sends to FedLoan by 2020, more than three years after FedLoan requested this change.

In addition to substantively failing borrowers by not immediately addressing this program weakness, the Department’s inaction raises questions about its claims to borrowers. For instance, the Department’s website asserts that after it transfers a borrower’s loans from one servicer to another, the borrower’s “previous loan servicer and new loan servicer will work together to make sure that all payments [made] during the transfer process are credited to [the borrower’s] loan account with the new servicer.” Further, the Department’s representation—that servicers will “make sure” payment counts are transferred—implies a level of certainty that is belied by FedLoan’s pending request for better data and GAO’s matching unresolved recommendation.

**Confusing or Misleading information**

Several reports have highlighted that the Department has failed to ensure that loan servicers provide borrowers with consistent information on PSLF requirements. This has caused confusion as borrowers who thought they were on track for forgiveness had in fact made no progress at all. For example, in 2018 GAO reported that over 370,000 interested borrowers had their employment and loans approved, two of the three steps needed to qualify, but had not made any qualifying payments because they were enrolled in the wrong repayment plan, among other issues. This suggests a critical informational disconnect.

A year before the GAO report, CFPB reported it had received numerous complaints that servicers did not tell borrowers about PSLF even when they noted they worked in public service. Borrowers also complained that after explicitly expressing interest in PSLF, their servicer enrolled them in a non-qualifying plan. As a result, borrowers spent years thinking they were making progress towards forgiveness only to learn that their servicer had misled them.

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*When I learned about [PSLF], I called my loan servicer and said, “I’m a teacher. What do I need to do to qualify for the PSLF program?” I made these calls repeatedly to different loan servicers over a span of several years. The answer was always the same: “Just keep making payments, and after 120, you will qualify.” After 10 years of making student loan payments... the Department of Education denied my application for Public Service Loan Forgiveness. The reason, which no loan servicer had ever raised, was that one of the loans was not a direct loan... I was told to reconsolidate so that all my loans would qualify. Once I reconsolidated, I was transferred to Nelnet, and I called and asked, “All of my loans qualify. What do I need to do now?” I was told that my qualifying payments had been reset to zero and I would have to keep paying for 10 [additional] years.*

*Kelly Finlaw, September 2019*
The Human Cost of Education’s Inaction

The Department contracts with student loan servicers to help borrowers navigate PSLF but has failed to meaningfully hold those servicers accountable or expediently make reforms recommended years ago by GAO, FSA’s staff, and FedLoan itself. Since FSA’s 2017 internal review, CFPB has received more than 600 complaints from borrowers, nearly 80% of which asserted that the Department’ servicers communicated bad information about PSLF or inaccurately counted borrower’s payments. This only represents the fraction of borrowers facing servicer issues who are savvy enough to file a CFPB complaint. But GAO’s reporting on PSLF demonstrates that these servicer errors pervade the program.

These errors can trigger extra payments and interest charges, or render the borrower’s loans entirely ineligible for PSLF, even after a decade working in public service. Many of these borrowers’ loan servicers had assured them year after year that they were on track to qualify, only to receive a denial notice when they applied for forgiveness. Had the Department acted in a timely manner, many of these borrowers would have no cause for complaint.

Because of the lies I was told, repeatedly, I now have... [four additional years of payments (currently at $1100.00 a month)... These years and these payments make a huge difference in my daily life. I am a married mother to a toddler in full-time daycare. I have another child on the way...the lies I was told by [my servicer] have had a lasting impact on my life.

Borrower complaint, July 2019
When GAO publicly revealed the extent of PSLF’s systemic program failures in September 2018, more than 150 Democratic members of Congress immediately demanded answers.25 To date, the Department has failed to fully respond to this request. Given this, and the Department’s delay addressing the program’s core issues, the Committee on Education and Labor called an oversight hearing to examine the Department’s mismanagement of PSLF. At this hearing, the Trump Administration claimed that “[t]he high denial rates in PSLF are by Congressional design, not by accident or failed implementation by the Department.”26 In contrast to the Department’s account, the previously unreleased audits attached to this report tell a story of Departmental inaction despite being repeatedly presented with evidence of crisis.

Instead of focusing on what borrowers and Congress can do to improve PSLF, Education must address its longstanding issues managing the program. These issues were raised by FedLoan in January 2017, by FSA in 2017, by GAO in 2018 and again in 2019. Each of these four documents include specific steps that the Department should immediately take to improve program performance without legislative action. While each of the improvements is not a panacea, borrowers’ outcomes would improve if the Department prioritized PSLF program reform and engaged in rigorous servicer oversight. Until the Department faithfully attempts to fix the longstanding issues plaguing PSLF implementation loan servicers will trudge on, fomenting false expectations and frustration amongst the nation’s public servants.

Please please please help, I feel like I am screaming into a &!#% void
Borrower complaint, July 2019

10 All borrower complaints cited below were collected from CFPB’s Consumer Complaint Database accessible at https://www.consumerfinance.gov/data-research/consumer-complaints/.
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11 See Exhibit 2 at 4. ("As an example, a simple search of all approved and conditionally approved employers, for key words such as "church," "catholic," and "Christ," show that 3,664 unique organizations are affiliated with these terms. Simply by researching these organizations, one can reasonably conclude that they are religious in nature; nevertheless, 242 of these organizations were reported as "GO" or government organization.")

12 Education’s PSLF regulations exclude employers “engaged in religious activities, unless the qualifying activities are unrelated to religious instruction, worship services, or any form of proselytizing.” 34 C.F.R. § 685.219.

13 See Exhibit 2 at 5.


16 Id. at 10. ("However, Education said more specific information to help the PSLF servicer make employer eligibility determinations and an employer database will not be available until 2020.")

17 According to GAO “Borrowers interested in pursuing loan forgiveness under PSLF, or the temporary expanded process, must have their loans eventually transferred to Education’s sole PSLF loan servicer in order to proceed. This designated PSLF servicer handles day-to-day activities associated with the PSLF program.” Public Service Loan Forgiveness: Opportunities for Education to Improve Both the Program and Its Temporary Expanded Process, GAO-19-717T at 3.

18 See Exhibit 1 at 10.


22 See Staying on track while giving back: The cost of student loan servicing breakdowns for people serving their communities. CFPB. June 2017.

23 Data was generated through the Consumer Financial Protection Bureau’s online Consumer Complaint Database using the search term “public service loan forgiveness” and a date range of July 1, 2017 through October 9, 2019. The data was further filtered by “student loans” and “federal student loan servicing”. This resulted in 606 complaints with the following sub-issues: 307 related to “receiving bad information about your loan”, 175 related to “trouble with how payments are being handled”, and 99 related to “problem with customer service”. The remaining 85 complaints are grouped in the “other” category. CFPB’s complaint database available at https://www.consumerfinance.gov/data-research/consumer-complaints/.

24 The report analyzed complaints submitted by borrowers from March 1, 2016 through February 28, 2017. Almost a quarter of the complaints it received against FedLoan regarded its management of the PSLF program. CFPB, Staying on track while giving back: The cost of student loan servicing breakdowns for people serving their communities. June 2017.

25 Chairman Robert “Bobby” Scott et al, Letter to Secretary Betsy DeVos (October 16, 2018).”

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Washington, DC

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Review Methodology

REVIEW OBJECTIVE

Review accounts to determine if qualifying payments have been properly counted and tracked. The review will include an analysis of manual and automated payment counts.

STANDARDS

The Public Service Loan Forgiveness program is authorized under the William D. Ford Federal Direct Loan Program under Title IV, Part D of the Higher Education Act of 1965, as amended, 20 U.S.C. 1087e(m) et seq, and the regulations thereof (34 CFR §685.212(l) and §685.219).

Other program requirements include Federal Loan Servicer Requirements, and PSLF Single Servicer Business Requirements.

METHODOLOGY

Sampling.

From a population of 449,640 borrowers participating in the Public Service Loan Forgiveness program, 40 accounts were chosen by random sample to be reviewed. FSA staff completed a review of 34 accounts.

Materials Requested.

While on-site, the review was performed using access to FedLoan Servicing’s Loan Servicing platform ("HERA/COMPASS"), FedLoan Servicing’s Imaging systems, NSLDS, independent research of employers using NCES, and the IRS’ Charitable Organization Lookup. Additional information and clarification was requested from the servicer as needed.

Testing.

The review team examined the following to ensure that business requirements, regulations, and Change Requests were followed properly in the servicing of the PSLF borrowers:

- System notes, account information, and recipient histories.
- Imaged forms and letters as compared to information on servicer’s system.
- Servicer processing of ECFs including validation of data and employer eligibility as compared to requirements.
- Payment history review and comparison of qualifying payments to servicer records.
Review Observations

The review team observed FedLoan Servicing’s general Public Service Loan Forgiveness processing procedures, which included Employment Certification Form (“ECF”) validation, qualifying payment (“QP”) counts, and PSLF call monitoring. The review team notes no issues in the areas of ECF validation and PSLF call monitoring at this time. The review team did, however, note areas in which general processing could be enhanced to achieve greater efficiency and clarity in communication(s) to program participants.

EMPLOYER CERTIFICATION FORMS

ECF Borrower Communication

While there were no issues identified in the review of ECFs, the review team identified some conflicting information in a denial notice sent in response to one ECF. An EFC reviewed was found to have conflicting information; however, the denial notice stated that the EFC had missing information, which was inaccurate. The review team notes that FedLoan Servicing’s notice is a template, and has multiple denial reasons that can be used; the assumption is that FedLoan Servicing uses the closest response to what is actually needed. However, the closest response may not always be accurate and could be misleading to an applicant.

QUALIFYING PAYMENT COUNTS

Approximately 53% of the accounts reviewed had zero (0) qualifying payments, and of that cohort 39% were in an ineligible repayment plan and 61% of the cohort had qualifying periods of employment that ended more than one (1) year ago. Common reasons for zero (0) qualifying payments are:

1) borrower making payments but had no current ECF to allow counting of current payments;
2) borrower is on an ineligible repayment plan; and,
3) the employment certification provided precedes the qualifying loan(s) (e.g. borrower consolidated).

Manual Count of Qualifying Payments.

There were no qualifying payment issues observed in this area. Utilizing the servicing histories provided, and the Public Service Loan Forgiveness Payment Tracker (“PSTRK”), the review team was able to confirm that 100% of the manually counted qualifying payments reviewed during this visit were tracked and recorded correctly.
Automated “System” Count of Qualifying Payments.

The review team found one (1) instance in which qualifying payments were not correctly tracked and recorded by FedLoan Servicing’s automated account scripting. This represents a 3% (1 of 34 accounts) error rate in system-counted qualifying payments.

Further research on the one (1) account-related issue shows the following:

In the specific instance observed, FedLoan Servicing determined that a Direct Consolidation Loan borrower (Sample #354432) was entitled to receive credit for three (3) qualifying payments, which were made at a prior servicer. The manual calculations performed by FedLoan Servicing’s staff were performed correctly. However, the same payments were analyzed and recorded by FedLoan Servicing’s automated account scripting, and the results differed from the manual calculations performed by staff.

Specifically, the automated account scripting credited three (3) qualifying payments towards only one portion of the Direct Consolidation Loan, and credited only two (2) qualifying payments towards the other portion of the Direct Consolidation Loan. This resulted in the borrower having different expected forgiveness dates, for the same Direct Consolidation Loan.

FedLoan Servicing initially believed that the root cause of the issue was due to payment splitting. Payment Splitting relates to how payments are split across multiple portions of the same loan. In some instances, when a payment is split across multiple loan sequences, an amount credited towards one portion of a loan may appear short and cause the system to undercount the number of qualifying payments on that one portion.

Further research revealed, however, that payment splitting was not an issue in this observation. Rather, the root cause of the issue was due to data updates occurring after the initial supplemental/automated processes had already occurred on the account. FedLoan Servicing reported that when an account update occurs after the initial supplemental file/automated process, this will at times reinitiate the supplemental/automated process thereby causing automated account scripting to run a second time, but stops after updating only one loan sequence. In this particular case, the supplemental file/automated process did run a second time and automated account scripting captured a qualifying payment that was previously manually counted. This caused an increase in the system-counted “pre-conversion” qualifying payments on one loan sequence; the other loan sequence was unaffected.

In this particular observation, on both loan sequences, FedLoan Servicing initially credited one (1) manual “pre-conversion” and two (2) system-counted “pre-conversion” qualifying payments. However, after the supplemental/automated process was reinitiated, the system count of
qualifying payments increased to three (3) on one loan sequence thereby causing the borrower to have one (1) more qualifying payment than he was eligible to receive. The review team noted that when the supplemental/automated process was reinitiated, it did not remove the manually tracked payment on the affected loan even though the manually tracked payment was now included in the system-counted qualifying payments. FedLoan Servicing reported that it is aware of the aforementioned issues and believes these issues may be resolved in upcoming PSLF changes though no projected dates were provided. Moreover, FedLoan Servicing indicates that these occurrences are typically discovered when borrowers call regarding qualifying payment discrepancies which is not an accurate or recommended way to ascertain these issues.

SUPPLEMENTAL FILE

The review team found one (1) instance in which there was an error in data transferred as part of the supplemental file process. This represents a 3% (1 of 34 accounts) error rate.

Further research shows the following:

In the specific instance observed (Sample #341489), a borrower’s IDR certification date appeared to have become out of synch somewhere in the transfer process between Navient and FedLoan Servicing. On 12/28/12, the borrower was placed on an IBR plan with a zero ($0) dollar monthly payment with an annual re-certification date of 12/28/13. This information was not accurately added to FedLoan Servicing’s loan servicing platform and the borrower’s certification date was changed to 07/28/2013 resulting in an inaccurate reduction of the borrower’s annual certification period and caused a recalculation of the borrower’s monthly payments sooner than otherwise required. It is not clear where this issue originated; however, whether on Navient’s or FedLoan Servicing’s end, it is evident that there is a need for a robust quality assurance check of supplemental files.
Risks and Resolution/Recommendations

POTENTIAL RISK

Potential risks are defined as system constraints, processes, and operator errors that have the potential to incorrectly credit, remove, or under/over counting of Public Service Loan Forgiveness qualifying payments. The review team noted the following scenarios, which represent potential risks:

The review team observed that there is no measure in place to ensure that qualifying payments counted by HERA/COMPASS are correct, or that info transferred into HERA/COMPASS is accurate via the supplemental file; this is true even when FedLoan Servicing staff is conducting a manual review of an account to manually calculate qualifying payments. This represents a potential risk and a missed opportunity, as incorrect data loaded into FedLoan Servicing’s loan-servicing platform can cause HERA/COMPASS and automated account scripting to inaccurately count qualifying payments. Case in point is the loan with a recalculated IDR repayment schedule/certification date (Sample #341489).

The automated account scripting issue discussed earlier also represents a potential risk, as this issue would not be routinely discovered. Currently FedLoan Servicing indicates that it runs quality assurance queries to identify specific automated account scripting errors; however, it appears that such queries would be insufficient in capturing the type of issue observed by the review team. As mentioned earlier, to identity the type of issue observed by the review team, FedLoan Servicing would rely on borrower escalation. Relying primarily on borrowers to raise issues is not an effective accounting control, and often borrowers are not knowledgeable to discern these types of qualifying payment counting errors.
RESOLUTION NEEDED/RECOMMENDATIONS

As borrowers will begin to receive forgiveness under the Public Service Loan Forgiveness program in October 2017, it is imperative that FedLoan Servicing and FSA partner to ensure only those truly eligible for forgiveness receive this benefit. To do this, both partners need to immediately put into place frequent quality assurance checks that look at qualifying payment counts made by automated account scripting, manual processes, and those tracked by FedLoan Servicing loan servicing platform (HERA/COMPASS). FedLoan Servicing only performs quality assurance on a sample of manually tracked payments, and on payments counted via automated account scripting; however, FedLoan Servicing’s quality assurance would not capture issues caused by automated account scripting being reinitiated as discussed in the aforementioned scenario. As a general practice, FSA believes that FedLoan Servicing should perform a quality assurance review on all types of payment counts whether being counted initially or subsequent to account updates.

FedLoan Servicing Response received via email November 4, 2016:
As part of the PSLF reset that will begin in April 2017, we will be recounting qualifying payments previously captured by supplemental file process, manual processes, and the FedLoan Servicing platform. This will result in a quality assurance opportunity for all borrowers resubmitting Employment Certification Forms (ECFs). Conducting a broad quality assurance review at that time will minimize conflicting communication to borrowers in contrast to conducting multiple, overlapping quality assurance efforts of prior ECFs in the interim.

Going forward, in addition to our present efforts, we will perform quality assurance of a random statistical sample of system counts each week to identify if there are unknown initial system issues. We will also develop a data analytics report to identify anomalies such as the issue in the sample account. While this was not an initial system counting flaw and would not be caught in a weekly system check; it was the result of system initiated process after the original payment evaluation. Data analytic reporting will quickly and accurately identify issues such as this, where accounts whose qualifying payments exceed the number of eligible months. These changes will be implemented effective December 1, 2017.

Moreover, we emphasize our agreement with FSA's recommendation for, and our willingness to support, expanded FSA quality assurance and monitoring.

Quality Assurance.

In reviewing past monitoring reports, it has been noted that errors resulting from automated account scripting has been a recurring issue. Recent monitoring reports suggest that changes have been made to reduce the number of errors in this area. Before we can understand the scope of this potential risk and determine the necessary quality assurance needed, we need to understand what has been done to address errors in this area and what opportunities still exist.
It is therefore recommended that FedLoan Servicing prepare a detailed analysis of this error identifying changes made to mitigate identified issues, and identify what changes and resources are needed to close additional gaps. The analysis should include a detailed description of all quality assurance efforts, the frequency of such efforts, and the overall scope (e.g., issues looked at and the number of accounts reviewed). FedLoan Servicing should provide this information by 11/18/16. This information may be delivered as part of a meeting with FSA provided a written analysis be given at such time.

FedLoan Servicing Response received via email November 4, 2016:
We expect to provide this information on or before November 18, 2016.

FedLoan Servicing Response received via email November 18, 2016:
On November 8, 2016, PHEAA began a weekly QA process on the PSLF Supplemental files received from the other TIVAS. After analyzing historical supplemental files, PHEAA has identified six categories where a reasonable statistical sampling should and will occur weekly to mitigate the risk. Those categories include:

1. Consolidation loans with mismatched payment counts
2. Non-Consolidation loans with same repayment start date and mismatched payment counts
3. Loans which have been in repayment prior to the switch to direct lending
4. Loans with 50 or more qualifying payments
5. Loans that have a repayment start date in the future but still have a qualifying payment count
6. All other loans that due not fall into one of the above categories.

Should any category exhibit a higher than acceptable error rate, PHEAA will increase the size of the sample to be reviewed for that category.

We have assembled a team to perform a robust analysis of the entire qualifying payment counting process, including the issue observed in the referenced Sample. This team has commenced a review of our current automated and manual processes to establish a roadmap of system and operational improvements. The goal of the roadmap is to identify the efforts that will improve the accuracy and efficiency of the current qualifying payment processing. We will coordinate these changes with recounting efforts that will begin in April 2017. We are targeting the end of January 2017 to have our roadmap developed and at that time we would share our vision for the future state with FSA, along with details of areas of risks and the recommendations to address them. These recommendations will include additional QA and potential operational or system changes.

FedLoan Servicing Response received via email January 31, 2017 completing the review of their current processes to establishing a roadmap of system and operational improvements:
As FSA suggested during their on-site visit and subsequent site report, PHEAA has made great strides in reducing the number of errors as a result of automated and
manual payment counting, including changes to account for discrepancies across
the various systems that may manage borrower accounts prior to their tracking in
Public Service Loan Forgiveness (PSLF). Beyond facilitation of the earliest
supplemental files and day-to-day collaboration with servicers to understand and
interpret the program, we have identified and corrected issues - most recently PSLF
due date vs. effective date payment counts - to ensure accuracy in borrower
qualifying payments as often as possible. Such accuracy in administering the
program has certainly come with some unique challenges initially unknown to
PHEAA, but we continue to work diligently, in cooperation with FSA, to resolve
process issues for the benefit of borrowers and FSA.

Our pre-existing quality assurance processes have helped to limit borrower issues
and inaccuracies in our qualifying payment processes – both manual and
automated.

Automated processes - For automated processes, PHEAA historically performed
quality assessments with the implementation of any change to established
automation, or if we were alerted to a concern through an existing channel. On
November 8, 2016, we began a weekly QA process of the PSLF Supplemental files.
After analyzing historical supplemental files, we identified areas of potential risk and
began a weekly statistical sample of each category. If errors are identified in any
category, an additional sample is performed for that category. Processors perform a
manual review of all identified areas of risk and make appropriate corrections if
necessary.

The categories include:
• Consolidation loans with mismatched payment counts
• Non-Consolidation loans with same repayment start date and mismatched
  payment counts
• Loans which have been in repayment prior to the switch to Direct Lending
• Loans with 50 or more qualifying payments
• Loans that have a repayment start date in the future but still have a
  qualifying payment count
• Loans that have more payments than ECF months
• Level schedules received with less than 120 months

Manual processes - In addition, we perform manual processing quality assurance
weekly based on the potential risk for errors. New hires are QA’d at 100 percent for
8 weeks, with an extended QA period, if necessary, based on productivity and error
rates. All other manual processing QA is a random selection based on the
borrower’s number of loans. If any manual errors are identified, processors are
counseled and additional training is offered.

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<tr>
<th>Borrower</th>
<th>QA Percentage</th>
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<tr>
<td>1 - 4</td>
<td>Loans 1%</td>
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<tr>
<td>5 - 9</td>
<td>Loans 1%</td>
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<tr>
<td>10+</td>
<td>Loans 10%</td>
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In addition to the detailed quality assurance efforts we already perform, as a proactive partner with FSA, PHEAA recognizes that some of these issues - such as program complexities and time-intensive manual processes - also create opportunities for sensible process enhancements, additional quality assurance, and improved user experiences. These improvements could result in less confusion and more satisfaction among participating borrowers.

For example, please consider that PHEAA expected, as part of the original PSLF proposal, that FSA would require all servicers to provide payment histories in a similar data format that would enable automated processing. This has not occurred, which requires borrowers with multiple prior servicers to be manually processed. This manual work increased processing time for a significant volume of borrowers and created a higher risk for error, which we must now account for through quality assurance processes and system improvements.

While PHEAA is committed to an accurate and timely qualifying payment count for borrowers, these unexpected complexities are counterintuitive to these efforts and our shared goals. While our response to FSA’s Servicing Review addresses specific issues, we would look forward to an opportunity to discuss our resolutions and recommendations for a larger solution to manual complexity issues of the PSLF qualifying payment process. The ability to store systematically historical information from multiple servicers is an effort that would require time to develop, but would provide benefits to both FSA and PHEAA. This historical repository would also allow for any unexpected changes in program guidelines.

In the meantime, we have completed a thorough review of PSLF’s automated and manual processes to identify appropriate improvements. These enhancements, along with existing or anticipated FSA change requests, are included in Attachment 1 (PSLF Project Plan). The PSLF Project Plan includes both changes we have identified that FSA can help make to prevent inaccuracies in PSLF Qualifying Payment counts, and changes that PHEAA can make to correct system or manual issues we found in our review. The number of potential impacted borrowers is also provided when available.

Short-Term Opportunities - As described in Attachment 1, for several issues that FSA and PHEAA can improve, we will begin weekly queries on February 6, 2017 to prevent issues going forward, and will make appropriate adjustments to borrower cases if/when subsequent ECFs are submitted.

Quality Assurance - In addition to proactive identification of known scenarios for FSA or PHEAA to improve, PHEAA will enhance current quality assurance efforts. The quality assurance approach will include manual and automated processing described above, as well as a review of borrowers approaching potential loan forgiveness. Manual processing quality assurance and automated processing will continue to be performed weekly based on the potential risk for errors.

Borrowers Approaching Potential Forgiveness - PHEAA will complete a full review by April 14, 2017 of the 207 potential borrowers eligible for forgiveness in 2017. These
borrowers were identified by ECFs submitted covering employment in 2007 who also had qualifying payments in 2007 and continued to make monthly qualifying payments on any subsequent ECFs after 2007.

Long-Term Opportunities - After making the applicable system adjustments described in Attachment 1 (PSLF Project Plan) and obtaining and implementing guidance from FSA on the remaining guidance requests, PHEAA proposes to perform a qualifying payment recount for any borrower submitting a new ECF. Such reviews would be prioritized based on the borrower’s proximity to loan forgiveness. Accordingly, PHEAA would continue to monitor borrowers approaching forgiveness and identify those borrowers for validation and review. Since this recount has several dependencies, including pending FSA guidance and change requests, the recount and methodology should be collaboratively defined with PHEAA and FSA, with focus on minimizing impact and confusion for borrowers.

PHEAA would like to propose we include a discussion item to review the current PSLF guidance. While the intent of PSLF is to encourage student loan borrowers to work full-time in public service jobs, PHEAA could partner with FSA to make worthwhile recommendations that would improve clarity for the borrower while still achieving the intent of the program. This could also eliminate the potential for the disqualification of borrowers at forgiveness due to unintended technical issues that would not be the fault of the borrower, such as a disparity of data received from multiple servicers. PHEAA continues to suggest that FSA credit a borrower for a PSLF qualifying payment regardless of the method or timing of the payment while still requiring 10 years of qualifying employment. This could further be clarified that any installment payment that is satisfied not later than 15 days after the scheduled due date becomes a qualifying payment as of the due date for that specific installment. This guidance would provide clarity to borrowers and at the same time achieve the intent of the program.

**General Public Service Loan Forgiveness Processing.**

Currently, inbound calls from borrowers participating in Public Service Loan Forgiveness program are directed to Public Service Loan Forgiveness telephone staff though it does not appear that the callers have to indicate that they have a Public Service Loan Forgiveness question/concern. This observation is based on the fact that the review team listened to a variety of call scenarios that were handled by Public Service Loan Forgiveness telephone staff that were not related to the program. In the interest of efficiency and accurate call center reporting, it is recommended that FedLoan Servicing make changes to call center processes to ensure that only those calls that truly relate to Public Service Loan Forgiveness are directed to such a work queue.

**FedLoan Servicing Response received via email November 4, 2016:**
We acknowledge that directing only calls that truly relate to PSLF to telephone staff who have been specially trained to handle more complex PSLF calls will promote
efficiency and accuracy, both of service and of reporting. To promote this, we are reviewing options for changes for future potential implementation.

Lastly, FSA recommends that FedLoan Servicing review communication templates and revise denial reasons to accurately depict any missing denial reasons such as conflicting information identified during the review. In the meantime, if no denial reasons provided in their template are accurate for the circumstance, then a customized letter should be sent to the borrower.

*FedLoan Servicing Response received via email November 4, 2016:*
We have been working on a project to create a new interface with which to process ECFs. This processing interface will systematically capture, store, and communicate denial reasons that provide more specificity to the borrower regarding why we could not accept the ECF as submitted. We recently provided a suggested draft of the ECF Denial communication to FSA for review. We will look to update the system denial letter to account for this scenario in the future.

Until those efforts are in production, we have implemented an updated workflow to send communications to a borrower if the existing system denial reasons do not apply. We will create a new communication to account for scenarios when a borrower submits multiple ECFs that contain conflicting information which result in additional information being needed from the borrower. This includes EIN, Employment Begin Date, Hours Per Week, or Employment Status (Full Time/Part Time). PHEAA will draft the applicable communications and submit to FSA for Special Program communication review by November 11, 2016.

*FedLoan Servicing Response received via email November 14, 2016:*
FedLoan submitted the borrower communication that will accommodate denials due to multiple ECFs containing conflicting information to FSA’s Non-Standard and Special Programs Communication Review team today. As you likely know from your assistance with such reviews, we will typically receive responsive feedback within ten business days.

*FSA Reaction to all FedLoan Servicing Responses:*
FedLoan Servicing provided all requested responses by Friday, 11/04/16 and we have no further questions or issues with their responses. FSA will add the items discovered in this site visit to our quarterly monitoring review components completed by the Monitoring Team as well as add an emphasis on those items in our future on-site reviews.

FedLoan Servicing was given until Friday, November 18 to complete an analysis on the automated account scripting issue. FSA received their response on 11/18/16, included in this final report. They have identified several risk categories they will be monitoring and have set dates in 2017 to complete the review of their current automated and manual processes to establish a roadmap of system and operational improvements (late January 2017) which are now included in this report and to coordinate needed changes with recounting efforts (beginning April 2017.) FSA has
added these open items to the Servicer Liaison Issue Tracker database to keep track of FedLoan’s timeliness of actions and resolutions.

**Additional FSA Reaction to FedLoan’s Recent Response dated January 31, 2017:**
FedLoan provided a review of their current automated and manual processes to establish a roadmap of system and operational improvements and provided FSA a summary of those processes and recommendations dated January 31, 2017. With FedLoan’s weekly QA process of PSLF Supplemental files, several areas of potential risk were identified and processors perform an additional manual review of all identified areas of risk and make appropriate corrections if needed. We agree with this new QA process and applaud FedLoan for their efforts.

We are in receipt of Fedloan’s recommended changes to the program. As stated above in FSA’s original response, all FedLoan open items have been added to the Servicer Liaison Issue Tracker to track FedLoan’s timeliness of actions and resolutions.
Report Date: July 27, 2017

Washington, DC

Christian Lee Odom, Lisa Oldre, Larry Porter, Michael Wood, Lauren Honemann, Taneka Chialastri and Cynthia Battle

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Executive Summary

This review focused on servicing of loans for applicants of the Public Service Loan Forgiveness Program. All applicants under this program held loans made under the William D. Ford Federal Direct ("Direct") Loan Program authorized under Title IV of the Higher Education Act of 1965, as amended, as amended, 20 U.S.C. 1087a et seq. (34 C.F.R. Part 685). The Public Service Loan Forgiveness ("PSLF") program is authorized under the William D. Ford Federal Direct Loan Program under Title IV, Part D of the Higher Education Act of 1965, as amended, 20 U.S.C. 1087e(m) et seq., and the regulations thereof (34 CFR §685.212(i) and §685.219).

This report examines FedLoan Servicing's handling of:

1) PSLF Employer determinations to include a review of their approval and denial process, and a review of the employer escalation process;

2) PSLF Qualifying payment counts to include a review of payments counted manually and via automated processes;

3) PSLF Quality assurance measures currently in place and those most recently implemented as a result of PSLF site visit October 2016; and

4) Implementation of recently issued guidance resulting from Business Requirement Change Requests 3757 and 4141.

This report also delineates observations from pre-examination reviews of the data/information provided by the PSLF servicer, as this information was discussed while on-site. This report identifies key observations made while on-site and corresponding recommendations to remedy issues identified; in total, the review team made four (4) process and procedure observations and seven (7) account related observations; the team also provided corresponding recommendations.

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1 CR 4141 is an informational only CR that provides guidance on qualifying payment counting. CR 3757 is the PSLF forgiveness CR that lays out the forgiveness process for applicants and the PSLF servicer.
Preface

The nature of this review was a bit different from past reviews in that it consisted of a cross-functional team comprised of FSA’s Process Monitoring Group, Program Management, and the Servicer Oversight/Liaison team. In past on-site reviews, the focus has primarily been on validating qualifying payment counts. This on-site review was broader in nature due largely to the increased focus on the PSLF servicer’s handling of employment determinations. As such, leading up to the review the review team expressed a desire to have key staff available during the duration of the review from key areas such the PSLF servicer’s Employer Certification processing business unit, Employer Determinations Compliance unit, and Qualifying Payment processing business units. Key staff members from the employer certification/ determination business units were not present during the duration of the review, and as such, the review team’s ability to examine all aspects of this newer review area, and address unanswered questions, was delayed to some extent; ultimately all questions and issues were addressed. Additional review of employer determinations is needed and will be conducted during off-site monitoring activities if possible. Based on the current annual monitoring schedule, we expect this to be as early as 11/2017.

This report contains three unique responses from the PSLF servicer. On page 14, readers will find responses to all on-site questions that were formulized and provided after the duration of the review; page 18 contains the PSLF servicer’s initial responses to the draft report; and page 28 contains the PSLF servicer’s amended response drafted in response to FSA’s request for clarification.
On-site Observations

The review team observed FedLoan Servicing’s PSLF servicing in the areas of employer determinations, qualifying payment counts, quality assurance of the PSLF processing, and implementation of technical guidance related to PSLF. Each subsection to follow delineates the team’s observations.

PSLF Organization database

Organization Reporting.

The team’s review of this area consisted of monitoring of sample accounts and pre-examination activities (i.e. reviewing list of approved organizations and rescinded approvals). Because of pre-examination reviews, the team noted concerns in how Employer Certification form (“ECF”) information is recorded and reported by the PSLF servicer. The team found instances in which data from the PSLF Organization database inaccurately reported employer types. As an example, a simple search of all approved and conditionally approved employers, for key words such as “church,” “catholic,” and “Christ,” show that 3,664 unique organizations are affiliated with these terms.\(^2\) Simply by researching these organizations, one can reasonably conclude that they are religious in nature; nevertheless, 242 of these organizations were reported as “GO” or government organization.

Additionally, a random review of the approved and conditionally approved list of organization shows that the following organizations are reported as government organizations as well:

- FAMILIES FIRST OF MN CCRR (EIN 38-2575895)
- FACE TO FACE HEALTH & CONSELING (EIN 41-0986780)
- PARENTS IN COMMUNITY ACTION (EIN 41-0986226)
- SEGUE, INC. (EIN 38-2643107)
- DOMUS VITA (EIN 38-2651006)

However, a simple name search for each reveals that they are private or non-profit organizations. The PSLF servicer reports that, while processors’ research may reveal the nature of the employer, they enter the employer as shown on the ECF. This concerned the review team given that this very same data is used in PSLF reports provided to FSA and the public that delineates the makeup of PSLF participants\(^3\). Based on the review team’s findings, it is likely that these numbers are not an accurate representation of the PSLF population. Moreover, the PSLF servicer has recently implemented an optical character recognition process whereby employer information and type is inserted into the system.

\(^2\) This is based on ECF data provided by the PSLF servicer on 05/31/2017

\(^3\) The most recent IDR PSLF Characteristics Report for June 2017 reports a makeup of 62% government, 38% Public, Non-Profit, .15% Private, Non-Profit, and .18% Other.
automatically. While the PSLF servicer will gain efficiency with this process, this may increase the likelihood that inaccurate information is reported as there will be no intelligent (or common sense) validation; the system will enter information as it is written on the form despite the research performed by processors.

Additionally, the review observed instances in which the PSLF servicer entered generic identifiers (e.g. employer name "." and EIN 999999999 or 111111111). Referring to the PSLF servicer’s procedures and when questioning staff on-site, it was revealed that this is the standard practice in cases where a borrower is denied for having no eligible loans. All employers associated with this cohorts ECFs are represented in the PSLF Organization database by the entry of "." This means there is a great likelihood, that when providing listings of EINs for all approved and denied ECFs that the data presented is incomplete and likely missing a large number of employers who are all represented by the generic identifier of "." (period).

Database Consistency.

The review team noted that when searching organizations connected to some accounts sampled, there were no entries even though the ECF was approved or denied. The PSLF servicer reports that not all organizations are entered into the database; only organizations that cannot be conclusively identified using approved resources are entered. However, when searching EINs for government agencies found in the sample population, the review team was able to find several instances in which the organizations were entered into the PSLF Organization database for other borrowers, but not those sampled. The review team notes that while the employer was the same for each borrower (e.g. state or county government), the agency or department within that employer was different. However, processors would have been able to equally locate each agency or department shown in the database using the state or local government’s name, URL, etcetera. There appears no explanation as to why some entities (even common federal agencies such as the Department of Education) would appear in the database while others would not. It does not appear that processors are consistent in their use in this respect.

On the other hand, the review team also noted instances in which organizations were included in the PSLF Organization database when the PSLF servicer’s policy stipulates they should not be included. The review team found instances in which ECFs were denied, but the employer was nevertheless entered into the PSLF Organization database. When questioned about this, the PSLF servicer indicated that at times some processors would enter organizations into the database even when it is not required; this is common amount newer processors.

Employer Certification and Determinations

The team’s review of this area consisted of monitoring of sample accounts, direct observation of ECF processing and determinations, and a high-level review of the ECF processes and procedures. The review team notes several issues and concerns in this area.
ECF Decision Notices.

FSA PSLF Business Requirement 206.01 requires that a separate written communication be provided to borrowers conforming that a certification form was received; informing the borrower of the process of validation of qualifying employment; describing the actions the borrower may take if any required information is missing, employment cannot be determined, or if the borrower needs to dispute a determination; and the outcome of any initial review. Moreover, PSLF Business Requirement 206.02 provides that upon concluding the initial review, the PSLF servicer shall notify the borrower of the number of qualifying payments made while employer in qualifying public service based on the dates indicated on all approved ECFs. The PSLF servicer currently sends one notice to each applicant to satisfy requirements 206.01 and 206.02; however, the language of the requirements suggests that the written notices should be separate. Each ECF sample reviewed failed this test. FSA will discuss this item internally.

Observation 1 (ECF samples 98, 197, and 208).

In ECF samples 98, 197, and 208, the review team struggled to find decision notices for these accounts. The team found that when an account is not held by the PSLF servicer and the ECF is denied, decision notices are stored in a database not normally visible to FSA reviewers; this was the case in ECF sample 208. This image repository is titled “Non-508.” However, its use does not appear consistent, as in sample 98, the ECF was approved and the decision notice was still stored in a separate image repository whereas other approval notices were stored in the standard correspondence library, which is accessible by FSA. In sample 197, the PSLF servicer could not locate the decision notice in any repository and ultimately concluded that it was not sent. It is unclear as to how they made this final determination given the account notes indicated that the notice was sent to the borrower. One could just as easily reasonably conclude that the notice may have been sent, and simply not stored in a consistent manner. The review team ultimately cannot conclude if this notice was sent and sees this as an example where processors are not consistently following procedure.

Conditional Approvals.

The review team noted a number of “conditional approvals.” Conditional approvals occur when individuals meet all requirements except for the “full-time” requirement found in 34 CFR § 685.219 and PSLF Business Requirements 202.03. The “Instructions for Reviewing a PSLF Employment Certification form (ECF)”, appendix B from Mod 0022 Task Order 5 PSLF Single Servicer contract, part 5, indicates that an ECF should not be approved if the full-time requirement is unmet. Moreover, the borrower’s federally held loans are to remain with the borrower’s original servicer until a valid ECF is submitted.
Observation 2 (ECF sample 115).

As observed in ECF sample 115, the review team found that the PSLF servicer transferred a borrower’s federally held loans even though the borrower was working only 20 hours a week and ineligible for participation in the PSLF program and would not undergo PSLF qualifying payment tracking. The PSLF servicer indicates that FSA provided written direction granting permission to conditionally approved individuals falling into this category and to transfer their loans for future tracking. The review team notes that Q&A documentation provided shows that the approval was sought and granted during program implementation. FSA will discuss this item internally.

Observation 3 (ECF sample 117).

In ECF sample 13, the review team found that the PSLF servicer approved an initial employment period and then conditionally subsequent employment period where the borrower was working less than 30 hours a week (i.e. failing to meet the full-time requirement). The borrower was notified in writing of the conditional approval and then told by a phone representative that his or her employment period counted going back to the initially approved employment period from 2012 through the date of the conditionally approved period. It is clear in this case, the conditional approval caused confusion for the representative and the review worries that it may also cause confusion for borrowers as it gives the appearance that they are somehow still participating in the PSLF program even during their non-qualifying period. The review team notes no requirement or authority allowing the PSLF servicer to conditionally approve any borrower. This additional status appears to create a new status which is somewhere between an approval and denial; the concern is that a conditionally approved status may be confusing to borrowers and PSLF-servicer-phone representatives.

Inconsistent Processing

The review team notes several processing errors that were clarified and addressed while on-site. The errors related to ECF samples 18 and 290. Official responses to those areas can be found on page 15. ECF sample 18 involves an ECF that was approved in error, as there were changes made to the ECF form that were not initialed. A response to ECF sample 18 has been recorded under PSLF Servicer Account Number 2257533938.

Observation 4 (ECF sample 290).

In ECF sample 290, a military borrower applied for PSLF and indicated that he or she could not obtain employment certification from his employer. The PSLF servicer denied his ECF and requested that he return to his employer to obtain certification. EFC validation instructions provide that if a borrower certifies that there is no authorized official, he or she should be able to provide additional documentation that supports his or her claim of qualifying employment. The PSLF servicer rejected the ECF based on the employer still being functional and the fact that the servicer actively receives certifications from the same entity for other borrowers.
Qualifying Payment Counts

The team's review of this area consisted of monitoring of sample accounts and a high-level review of the qualifying payment (QP) counting process and procedures.

Observation 5 (QP samples 105, 108, and 167).

In QP samples 105, 108, and 167 the review team notes that several consolidation loans had mismatched qualifying payment counts on their underlying subsidized and unsubsidized components. These errors were clarified and addressed while on-site. A response to QP samples 105, 108, and 167 has been recorded on page 15 respectively under PSLF Servicer Account Number 2193301506, 8531397169, 1534922244. 

Observation 6 (QP sample 152).

In QP sample 152, the review team notes that a consolidation loan had mismatched qualifying payment counts on their underlying subsidized and unsubsidized components. This error was clarified and addressed while on-site. A response to QP samples 152 has been recorded on page 15 under PSLF Servicer Account Number 5885259695.

Observation 7 (QP sample 136).

In QP sample 136 the review team noted that a consolidation loan had mismatched qualifying payment counts on their underlying subsidized and unsubsidized components. This was the result of a processing effort whereby a processor applied forbearance to only one component of the consolidation loan.

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4 Each sample represents a known issue identified spring 2016 that has been targeted for clean via a system change March 2018. The issue relates to a paid ahead status on the PSLF servicer's system. PSLF servicer's system is looking at the date a bill was satisfied and not the action that took place within a given month. Therefore, a borrower with a monthly amount due of $50 who pays $75 in January would see his or her January bill satisfied in full and $25 applied towards February in advance and potentially more than 30 days before February's bill is due. Then in February he or she may still pay the full monthly installment of $50, but because that bill was already partially satisfied from the overage in January, and because that overage was more than 30 days in advance of the February bill due date (therefore not eligible for PSLF), he or she would not receive PSLF credit for February, as the system would not recognize that the borrower still paid the full installment that was due in February. The targeted system change would fix this issue by updating system logic to evaluate monthly payment periods based upon transactions occurring within the “30/15” qualifying payment window.

5 This issue relates to a known supplemental file issue involving payment proration in supplemental files. This occurs when a prior servicer does not apply payments based on installment amounts of bills; this can cause the PSLF servicer's supplemental file process to treat the borrower as if he or she is past due on a loan when he or she has actually paid the full installment amount on the account. This issue will be resolved via a system change scheduled March 2018.
PSLF quality assurance measures

While on-site, the PSLF servicer provided an overview of quality assurance performed on PSLF qualifying payment tracking and ECF processing. The PSLF servicer provided written presentations covering both areas as well as a presentation delineating trends in quality assurance. Both will be retained and can be shared upon request. The PSLF servicer addressed outstanding questions on quality assurance measures, and responses can be found on page 17. The review team recognizes that there are areas that lack quality assurance reviews, and the absence of such reviews presents a potential risk to the program. The areas are as follows:

1. OCR and automated scripting: Given that the OCR process will enter information as shown on forms, this presents an area of opportunity, as the new OCR process may automate the entering of inaccurate information. Moreover, given that the new IRS scripting may lead to automatic approvals of ECFs, this presents an area of opportunity.6

2. There is no internal QA or oversight of the work performed by the Compliance Unit and much of its work is received and utilized by the ECF business unit.

Implementation of CR 3757 and 4141

The review team noted no concerns in this area. The PSLF servicer has agreed to provide demonstrations of system enhancements related to the implementation of CR 3757.

Live Process Monitoring

FSA’s Program Management team conducted this aspect of the review. The review team observed ECF processing, employer escalations, and listed to live PSLF calls. Refer to recommendations.

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6 The PSLF servicer implemented a process that scans for organizations listed as a 501(c)(3), and such organizations are annotated in the PSLF organization database as qualifying entities.
Risks and Resolutions/Recommendations

Potential Risks

Potential risks are defined as system constraints, processes, and operator errors that have the potential to incorrectly qualify employment for PSLF purposes, and have the potential to credit, remove, or undercount PSLF qualifying payments.

Resolution Needed/Recommendations

The following actions are needed / recommended to resolve the aforementioned issues.

Observation (PSLF Organization database).

There is no unique requirement that requires the PSLF servicer to maintain such a database. However, as the servicer utilizes this database as a source of approval, it must comply with ECF validation standards. FSA PSLF Business Requirement 202.01 requires that the PSLF servicer follow the steps delineated in the, “Instructions for Validating a Qualifying Public Service Organization.” To the extent each employer listed in the PSLF Organization database does not conform to prescribed validation requirements, the PSLF servicer should not rely upon this tool as a sole source of approval. FSA will discuss this item internally to determine what resources and relationships FSA can leverage to improve employer determinations.

Observation (Decision Notices).

The PSLF servicer should retain notices in the same image repositories as ECFs where possible. Additionally, such image repositories should be available to FSA staff performing remote monitoring. This recommendation also applies to Observation 1 (ECF samples 98, 197, and 208). Additionally, Denial letters that are routed from Compliance to the Escalated team for non-government, non-501(c)(3) organizations not providing a qualifying public service as their primary purpose should have detailed denial reasons (similar to ad hoc disputes or retraction letter) noting the exact reasons for not qualifying.

Observation 2 (ECF sample 115).

This item will be discussed internally. The result of this change had the effect of awarding TIVAS volume to the PSLF portfolio and it is not clear if that was the intention.

Observation 3 (ECF sample 117).

The PSLF servicer should provide additional guidance to staff and clarification to borrowers to ensure they understand the effect of a conditional approval. From a PSLF standpoint, a borrower is either approved or denied participation in the program; there is no conditional participation. FSA will discuss this observation internally as well, as it is unclear to the review team upon what authority conditional approvals rely.
Observation 4 (ECF sample 290).

The control the PSLF servicer put into place has the effect of creating an additional requirement for borrowers unable to obtain a certifying official. The PSLF servicer should develop guidance for ECF processing staff that meets the ECF validation instructions provided by FSA.

Observation 5 & 6 (QP samples 105, 108, 152 and 167).

This issue is being resolved by an anticipated system fix. The review team has no recommendations at this time.

Observation 7 (QP sample 136).

The PSLF servicer needs a measure in place to ensure that individual components of consolidation loans are always aligned. Processors should never be able to apply program options such as deferments and forbearance to only one of the underlying consolidation loan's components.

Observation (PSLF quality assurance measures)

While there are no unique PSLF Business Requirements calling for specific quality assurance reviews, to minimize incorrect ECF decisions, the review team would recommend additional oversight/quality assurance reviews in the following areas:

1. Automated data entries by the OCR process and IRS scripting,
2. Determinations made by Compliance Unit, and
3. Implementation of employment determinations made by Compliance Unit to include communications with borrowers.

Observation (Live Process Monitoring).

In terms of ECF processing, whenever communication is needed the PSLF servicer should communicate with borrowers to inform them when an employer is contacted, but does not respond. The review team notes that FSA’s validation instructions require the PSLF servicer to make contact attempts to both the borrower and employer where appropriate before returning an ECF to the borrower; from the presentation and account reviews, it is not clear if the PSLF servicer is consistently doing both.

In terms of employer escalations, when ECF processors flag an organization for review to determine eligibility, it is recommended that all organizations under that same EIN be reviewed, as they may have been approved or denied in error.

Moreover, in terms of PSLF call center operations, phone representatives should utilize standard scripting or reference material to ensure their responses are correct and comprehensive. The phone representative observed was new and FSA did not observe the representative reviewing notes or training materials to respond to the calls taken. One call observed involved an unemployed borrower, and the phone representative never
considered whether they qualified for an unemployment deferment; this was a missed
topportunity and could be avoided with appropriate information material.

Additionally, during another call involving a PSLF borrower, the phone representative
misquoted the PSLF program’s start date as July 1 2007; the program is actually effective
for all payments after 10/01/2007. Again, this was a missed opportunity and could be
avoided with appropriate information material; it also represents a case of misinformation
or a servicing error that has the potential to result in future disputes. The PSLF servicer
should identify all borrowers handled during live observation period and perform outreach
to ensure each borrower receives appropriate counseling and information about the
aforementioned program options.
Methodology

Review Objectives

To determine if FedLoan Servicing is appropriately servicing accounts under the PSLF program in the areas of employment determination, ECF processing, and qualifying payment counts.

Standards

The Public Service Loan Forgiveness program is authorized under the William D. Ford Federal Direct Loan Program under Title IV, Part D of the Higher Education Act of 1965, as amended, 20 U.S.C. 1087e(m) et seq, and the regulations thereof (34 CFR §685.212(i) and §685.219).

Other program requirements include Federal Loan Servicer Requirements, and PSLF Single Servicer Business Requirements.

Samples

FSA staff reviewed twenty-nine (29) randomly selected accounts testing for qualifying payments counts and thirty-one (31) randomly selected accounts testing for employment determinations. In total, FSA reviewed sixty (60) unique accounts via direct observation.

FSA staff also performed 1 hour of direct observation of call center staff, ECF processing, and ECF escalation handling.

Materials Requested

The review was performed using FedLoan Servicing’s loan servicing platform (COMPASS), image repositories; PSLF Organization database; and additional information and/or clarification was requested from the servicer as needed. All records and information available to FSA were examined to ensure proper servicing under the PSLF program and other applicable federal regulations.

Additional Materials

For employer determinations, where applicable and necessary, the review team utilized external web databases for research.

Testing

The review examined the following to ensure that business requirements, regulations, and Change Requests were followed properly in the servicing of Direct Loans:

- System notes, account information, and borrower servicing histories;
- Imaged forms and correspondence; and
- Prior servicing histories.
Attachment: On-Site Responses

FedLoan Servicing: Public Service Loan Forgiveness Review
REPORT DATE: July 27, 2017

Responses to Questions Received from FSA During On-Site PSLF Review
August 1, 2017

Account Number: (0)(8)

Michael asked: Can you locate the 8-22-17 manual denial letter?

FSA: PHEAA: The manual denial letter was not sent to the borrower. The representative responsible for this processing error will be revisited accordingly. Communication of the error will be sent to the borrower.

Account Number: (0)(8)

Lary asked: What is the difference in qualifying Payments for the sub accounts portions of this Consolidation Call?

FSA: PHEAA: This account is a consolidation. The previous loan servicer made 18 qualifying payments on the sub accounts. This is also qualifying payments on the consolidation portion of the call. Can answer with this language.

FSA: PHEAA: This account is a consolidation. The previous loan servicer made 18 qualifying payments on the sub accounts. This is also qualifying payments on the consolidation portion of the call. Can answer with this language.

Larren asked: This is a consolidation call where Servicers had made 18 qualifying payments on the sub portion. 18 qualifying payments on the consolidation portion of the call. Can answer with this language.

FSA: PHEAA: This account is a consolidation. The previous loan servicer made 18 qualifying payments on the sub accounts. This is also qualifying payments on the consolidation portion of the call. Can answer with this language.

Account Number: (0)(8)

Christian asked: This borrower's number is 616 is entered in the database several times for different reasons. It reporter as a government employee but it is difficult to enter from the website. Should it have been entered in the database the correct? BLS 620-000-616.

FSA: PHEAA: The BLN was not placed in the individual database because the representative was not sure if the borrower was an employee. The loan servicer was asked to verify this information. 

The information provided was not sufficient to identify the borrower as a government organization (DoD) and the appropriate resources were not used by the PSLF team.
Christian asked: Can you tell me if this is the final or an approved status as of 01-22-2017?

FedLoan Servicing: This is to inform the borrower that he has been approved for PSLF. The borrower has completed 120 months of service as of 01-22-2017.

Christian asked: Can you tell me if this is the final or an approved status as of 01-22-2017?

FedLoan Servicing: This is to inform the borrower that he has been approved for PSLF. The borrower has completed 120 months of service as of 01-22-2017.

Christian asked: Can you tell me if this is the final or an approved status as of 01-22-2017?

FedLoan Servicing: This is to inform the borrower that he has been approved for PSLF. The borrower has completed 120 months of service as of 01-22-2017.

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Responses to Questions Received
from FSA During On-Site PSLF Review
August 1, 2017

F.L.S. FHEAA A call to the borrower was made on 07.06.17 to ensure the loan was added to the borrower's PSLF application and to confirm the borrower's service status. The loan was added to the borrower's application on 07.06.17 and confirmed at the status of 40 hours per week, however the processor only adjusted ECL Sequence 9 to reflect the new information. ECL Sequence 9 was not approved as far. This was a processing error since the processor for Sequence 9 should have attempted to use the information initially. The processor is no longer with the agency, therefore the processing is unclear.

Based on the 2011 PSLF call from the employer, ECL sequence 9 was approved correctly. Please disregard the initial response pertaining to ECL sequence 9.

Account Number 091064

Lauren asked: Another call to the borrower was made with different eligible payments - sub 3 sub-portion had 0 qualifying payments while the unsubsidized portion only had 4. Borrower's name is Justin.

F.L.S. FHEAA This is relative to the unsubsidized accounts being tracked in the PSLF Tracker database. The accounts in the system. Due to the past allowed system, the loan sequence 18 is short 5 payments. A system change and system cleanup needs to be done by updating the PSLF tracker process to ensure monthly payment periods based upon transactions occurring within the 130-83 qualifying payment periods.

Account Number 091065

Chasen asked: The 07.02.2017 ECL was properly approved. Shouldn't the 130-83 borrower start working? It seems like we are making things easier here or still not eligible for PSLF at this time. I saw that because we were able to get 07.02.2017 where it appeared that the program was not approved going back to 2003.

F.L.S. FHEAA The representative did not correctly counsel the borrower regarding the enrollment from 07.10.2003. We intend to perform outreach to the borrower to clarify the process of qualifying for enrollment and a payment plan with the borrower. Additionally, the representative responsible for the misinformation will be suspended accordingly.

Account Number 091066

Lauren asked: This is another consideration, but where the sub portion had 11 eligible payments in the sub portion had 0 payments this does not appear that FSA requested any additional payments be applied to the account.

F.L.S. FHEAA This is relative to unsubsidized accounts tracked under issue 2017-9. For the reason accounts in the system. Due to the past allowed system, the loan sequence 18 is short 5 payments. A system change and system cleanup needs to be done by updating the PSLF tracker process to ensure monthly payment periods based upon transactions occurring within the 130-83 qualifying payment periods.
Responses to Questions Received
from FSA During On-Site PSLF Review
August 1, 2017

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10020001234</td>
<td>Christian asked: On the EDR, the borrower crossed out a name written previously, but they didn’t notice the change. Why was this ignored?</td>
</tr>
<tr>
<td></td>
<td>FLS: PHEAA: The EDR was approved in error. Procedures require that such a change be initialed or otherwise confirmed by the employee to certify its accuracy. Since this change was not initialed by the employee, the representative will be instructed accordingly, and the borrower will be notified of the change in EDR status.</td>
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<tr>
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<td>General Question: Why do some denied EDRs result in entries in the employer database, while others do not?</td>
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<td></td>
<td>FLS: PHEAA: If they become co-sponsors with the borrower, they can contribute to the Employer Database. However, if the employer is not co-sponsored, there is no change in the employer database.</td>
</tr>
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<td></td>
<td>General Question: Were internal escalations, that are forwarded to Compliance to determine if the database needs are met?</td>
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<td></td>
<td>FLS: PHEAA: Prior to forwarding the organization to Compliance, which investigates any reviewed errors to the Organization Database to ensure that the information is correct, the individual reviewing the error will review the information. The individual reviewing the error will then make any changes to the database, and submit the error, however if the individual reviewing the error is unable to make a determination about the organization, it is forwarded to Compliance for further review.</td>
</tr>
<tr>
<td></td>
<td>General Question: Are there any records reporting to ensure that errors are all reviewed on the weekly and important, or supervisors report received?</td>
</tr>
<tr>
<td></td>
<td>FLS: PHEAA: Accounts identified through the report are reviewed and corrected as necessary. Notifications of errors made by processors are monitored to be reviewed and discussed with the processor.</td>
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<tr>
<td></td>
<td>General Question: Are their any root cause analysis performed or recommendations to identify the processors and business practices an organization is accused of being abusive?</td>
</tr>
<tr>
<td></td>
<td>FLS: PHEAA: Currently, no formal process exists in identifying root cause analyses for errors. However, if a processor is identified by the processor or supervisor, a potential recommendation is sent to the processor for further discussion.</td>
</tr>
</tbody>
</table>
August 4, 2017

Mr. Christian Lee Odom
U.S. Department of Education
Office of Federal Student Aid
50 United Nations Plaza
San Francisco, CA 94102

RE: Public Service Loan Forgiveness Review

Dear Mr. Odom,

This letter is in response to the revised Draft On-site Examination Report for PSLF ("revised draft report") received August 2, 2017. The information below is responsive to the noted observations as well as other commentary within the revised draft report.

With regard to statements contained within the Preface of the revised draft report and on behalf of FedLoan Servicing (FLS/PHEAA), I apologize that FSA's expectations were not met during this review. FLS/PHEAA Subject Matter Experts (SMEs) were on-site and available for questions and discussion, when needed, as was communicated to FSA during the review process. PHEAA utilizes a standard protocol for on-site reviews, which ensures that SMEs are readily available when called upon; however, they are intentionally located outside of the review location in order to provide the external party with some level of privacy, in addition to allowing the SME to remain productive, until needed. The revised draft report states that FSA's review of employer determinations was hindered by its inability to directly interface with FLS/PHEAA's SME. Moreover, the revised draft report states in part, "Additional review of employer determinations is needed and will be conducted during off-site monitoring activities, which shall be discussed later in this report." FLS/PHEAA was unable to locate any additional information in the remainder of the report that spoke to subsequent reviews on this subject; however, we certainly recognize the importance of FSA's oversight responsibilities and as such, we stand ready to accommodate FSA's needs in this regard. To that end, please provide FLS/PHEAA with a list of items that were unable to be reviewed and immediate responses will be provided in order to allow FSA to complete its review.

FSA Observation (PSLF Organization database):

There is no unique requirement that requires the PSLF servicer to maintain such a database. However, as the servicer utilizes this database as a source of approval it must comply with ECF validation standards. FSA PSLF Business Requirement 202.01 requires that the PSLF servicer follow the steps delineated in the,
Instructions for Validating a Qualifying Public Service Organization: To the extent each employer listed in the PSLF Organization database does not conform to prescribed validation requirements, the PSLF servicer should not rely upon this tool as a sole source of approval. FSA will discuss this item internally to determine what resources and relationships FSA can leverage to improve employer determinations.

FLS/PHEAA Response:

As discussed with FSA while on-site, the PSLF Organization Database is intended to provide Employment Certification Form (ECF) representatives a method for obtaining direction from a broader, more knowledgeable peer group. If this group is unable to make a determination, the escalation process involves the Compliance Department. In addition, the database may be used to search for an employer to determine if the Compliance Department had previously made a determination on an ECF with the same employer. The PSLF Organization Database is not intended to be, nor is it used as a collection of all eligible employers.

Pursuant to the FSA approved validation artifacts that PHEAA submitted in response to the PSLF Single Servicer requirement 202.01, FLS/PHEAA performs an initial review of the borrower's ECF form to check for completeness. If any information is missing, FLS/PHEAA attempts to obtain the missing information before denying the form, in which case the borrower receives a denial letter, identifying the missing information, and a new form. For forms that contain complete information, representatives verify qualifying employment for PSLF, by reviewing the directories, provided by FSA in the above referenced PSLF requirement. If the representative is unable to make a determination, they are instructed to reference the PSLF Organization Database as an additional resource and if still unsuccessful, then forward the ECF on to a designated group of knowledgeable peers, who conduct further research. If this group is unable to verify the organization's eligibility, the ECF is escalated to the Compliance Department. In the event the Compliance Department is unable to verify eligibility, the situation is escalated to the Department of Education (FSA) in accordance with the above referenced PSLF requirement.

The data within the PSLF Characteristics Report referenced in the footnote on Page 4 of 18 is not obtained from the PSLF Organization Database. This report is produced from data obtained from the COMPASSSM Loan Servicing System and provided to FSA each month.

FSA Observation (Decision Notices):

The PSLF servicer should retain notices in the same image repositories as ECFs, where possible. Additionally, such image repositories should be available to FSA.
staff performing remote monitoring. This recommendation also applies to Observation 1 (ECF samples 98, 197, and 208). Additionally, Denial letters that are routed from Compliance to the Escalated team for non-government, non-501(c)(3) organizations not providing a qualifying public service as their primary purpose should have detailed denial reasons (similar to ad hoc disputes or retraction letter) noting the exact reasons for not qualifying.

**FLS/PHEAA Response:**

FLS/PHEAA retains loan level documentation in several different repositories, which is based on factors such as, the type of documentation, the timeframe in which it was generated/received, etc. FedLoan Program Management will reach out to FSA to discuss the feasibility of providing FSA staff with access to document repositories for which access is currently not available. However, in the meantime, Client Contractual Testing can provide FSA reviewers with copies of loan level documentation required for FSA’s oversight needs.

FSA’s observation notes that denial letters are routed from the Compliance Department to the Escalated team; however, this is not FLS/PHEAA’s process. The Escalated team drafts the manual denial letters, which are subsequently sent to the Compliance Department for review. The Compliance Department reviews these denial letters for completeness. But, because FSA has not defined all of the eligible public services, FLS/PHEAA will work with FSA to develop appropriate denial reasons.

**FSA Observation 2 (ECF sample 115):**

This item will be discussed internally. The result of this change had the effect of awarding TIVAS volume to the PSLF portfolio and it is not clear if that was the intention.

**FLS/PHEAA Response:**

It is important to note that FSA approved FLS/PHEAA’s proposed response to a question regarding whether the PSLF servicer should initiate transfer of the borrower’s loans if a completed ECF is submitted by a qualified employer, where the borrower is not working full-time. This approval can be found in the attached document entitled: Q6 of the PSLF QA FSA Response 12.14.11.

FLS/PHEAA will await further information based on FSA’s internal discussion regarding this observation.

**FSA Observation 3 (ECF sample 117):**

In ECF sample 13, the review team found that the PSLF servicer approved an initial employment period and then conditionally subsequent employment period where the borrower was working less than 30 hours a week (i.e. failing to meet
fedloan servicing: public service loan forgiveness review

report date: july 27, 2017

the full-time requirement. the borrower was notified in writing of the conditional approval and then told by a phone representative that his or her employment period counted going back to the initially approved employment period from 2012 through the date of the conditionally approved period. it is clear in this case, the conditional approval caused confusion for the representative and the review worries that it may also cause confusion for borrowers as it gives the appearance that they are somehow still participating in the pslf program even during their non-qualifying period. the review team notes no requirement or authority allowing the pslf servicer to conditionally approve any borrower. this additional status appears to create a new status which is somewhere between an approval and denial, the concern is that a conditionally approved status may be confusing to borrowers and pslf-servicer-phone representatives.

the pslf servicer should provide additional guidance to staff and clarification to borrowers to ensure they understand the effect of a conditional approval. from a pslf standpoint, a borrower is either approved or denied participation in the program; there is no conditional participation. fsa will discuss this observation internally as well, as it is unclear to the review team upon what authority conditional approvals rely.

fls/pheaa response:

the letter fls/pheaa sends to the borrower regarding conditional approval states, "we received the public service loan forgiveness (pslf) employment certification forms you submitted and determined that the employers listed below are qualifying employers for the purpose of pslf." below this statement fls/pheaa lists the qualifying employers, followed by the below verbage and a definition of "full-time": "according to the information provided, you do not meet the qualifications for full-time employment. since you have shown an interest in tracking your eligibility for the pslf program and you are employed by a qualifying employer, we will begin to track your employment. if we receive another certification of employment from another qualifying employer for all or a part of the time period above, we will determine if, together, your employment meets the qualification for full-time employment." the letter referenced above was submitted in fls/pheaa's initial validation, to which fsa provided approval. a copy of which is provided with the response.

phone representatives are to advise that a "conditional approval" means that the borrower's employer qualifies, but their employment status does not. however, if the borrower provides an ecf that falls into the "conditional approval" category, representatives are to call the employer and verify the employment status. in these instances, if the employer verifies that the borrower is full-time, the ecf is approved. furthermore, if the borrower is working two part-time jobs, each with an eligible employer, the borrower can submit another ecf so that all eligible employment periods can be tracked towards potential qualification.
FSA Observation 4 (ECF sample 290):

In ECF sample 290, a military borrower applied for PSLF and indicated that he or she could not obtain employment certification from his employer. The PSLF servicer denied his ECF and requested that he return to his employer to obtain certification. ECF validation instructions provide that if a borrower certifies that there is no authorized official, he or she should provide additional documentation that supports his or her claim of qualifying employment. The PSLF servicer rejected the ECF based on the employer still being functional and the fact that the servicer actively receives certifications from the same entity for other borrowers.

FLS/PHEAA Response:

The borrower relative to this sample submitted two ECFs. The first ECF was appropriately denied because the borrower's organization is still operational and the borrower did not indicate inability to obtain the employer's signature. The second ECF was also appropriately denied due to the employer refusing to complete the form. Therefore, FLS/PHEAA correctly sent the borrower a letter requesting additional documentation to validate employment.

The control the PSLF servicer put in place has the effect of creating an additional requirement for borrowers unable to obtain a certifying official. The PSLF servicer should develop guidance for ECF processing staff that meets the ECF validation instructions provided by FSA.

FLS/PHEAA Response:

Based on a conference call with FSA to discuss PSLF items, which occurred on May 10, 2012, FSA advised that their most recent guidance was that the ECF is a required federal form and should be provided by the employer. The allowance for alternative documentation to confirm employment is on an exception basis. From this guidance, FLS/PHEAA developed the following process for alternative certification. If it is apparent that the employer is still operational, the ECF is to be denied and the borrower notified that the employer is required to complete the ECF. If it is determined that the employer is no longer operational, or the borrower contacts FLS/PHEAA again regarding his/her inability to obtain certification, then FLS/PHEAA can advise the borrower to submit alternative documentation. Upon receipt of additional documentation, FLS/PHEAA is to send it to the Compliance Department for review.
Qualifying Payment Counts

FSA Observation 5 & 6 (QP samples 105, 108, 152 and 167):

This issue is being resolved by an anticipated system fix. The review team has no recommendations at this time.

FLS/PHEAA Response:

Currently, the system change to fix the issue identified for sample 152 has a release date of 8/27/17. The fix for the remainder of the samples is targeted to be released in March 2018. FLS/PHEAA will continue to provide status updates during the biweekly touchpoint calls with FSA in regards to these system changes.

FSA Observation 7 (QP sample 136):

In QP sample 136 the review team noted that a consolidation loan had mismatched qualifying payment counts on their underlying subsidized and unsubsidized components. This was the result of a processing effort whereby a representative applied forbearance to only one component of the consolidation loan.

The PSLF servicer needs a measure in place to ensure that individual components of consolidation loans are always aligned. Representatives should never be able to apply program options such as deferments and forbearance to only one of the underlying consolidation loan's components.

FLS/PHEAA Response:

FLS/PHEAA has identified an exception which occurs when applying a deferment or forbearance to another loan on an account, which allows the representative to adjust one portion of the consolidation loan and not the other. FLS/PHEAA is planning to make a system change to remediate this issue and will continue to provide status updates during the biweekly touchpoint calls with FSA in regards to these system changes.

PSLF Quality Assurance Measures

FSA Observation (PSLF quality assurance measures):

While there are no unique PSLF Business Requirements calling for specific quality assurance reviews, to minimize incorrect ECF decisions, the review team
would recommend additional oversight/quality assurance reviews in the following areas:

1. Automated data entries by the OCR process and IRS scripting.
2. Determinations made by Compliance Unit, and
3. Implementation of determinations made by Compliance Unit to include communications with borrowers.

FLS/PHEAA Response:

FLS/PHEAA is working to develop quality assurance controls for the newly implemented OCR process and IRS script process. FLS/PHEAA will provide status updates during the biweekly touchpoint calls with FSA.

In 2011, when PHEAA became the sole-servicer of the PSLF program, PHEAA did not have a Compliance Management System in place. Since this time, PHEAA has built a robust Compliance Management System with three lines of defense. The first line of defense is Business Unit with a Quality Assurance process who performs QA review. The second line of defense is the Compliance Testing area who tests the Business Unit processes. The third line of defense is the Internal Audit department who conducts independent appraisals to determine whether PHEAA's processes and controls are functioning properly. We recommend that the Employment Certification Form review process performed by Compliance be properly placed within the Compliance Management System which would start at the Business Unit level where it can be QA'd (first line of defense) and Compliance tested (second line of defense).

FLS/PHEAA is unclear about what is being stated in item #3 above. As such, we respectfully request additional information from FSA for clarity.

Live Process Monitoring

FSA Observation (Live Process Monitoring):

In terms of ECF processing, whenever communication is needed the PSLF servicer should communicate with borrowers to inform them when an employer is contacted, but does not respond. The review team notes that FSA's validation instructions require the PSLF servicer to make contact attempts to both the borrower and employer where appropriate before returning an ECF to the borrower; from the presentation and account reviews, it is not clear if the PSLF servicer is consistently doing both.
In terms of employer escalations, when ECF representatives flag an organization for review to determine eligibility, it is recommended that all organizations under the same EIN be reviewed, as they may have been approved or denied in error.

Moreover, in terms of PSLF call center operations, phone representatives should utilize standard scripting or reference material to ensure their responses are correct and comprehensive. The phone representative observed was new and FSA did not observe the representative reviewing notes or training materials to respond to the calls taken. One call observed involved an unemployed borrower, and the phone representative never considered whether they qualified for an unemployment deferment; this was a missed opportunity and could be avoided with appropriate information material.

Additionally, during another call involving a PSLF borrower, the phone representative misquoted the PSLF program’s start date as July 1, 2007; the program is actually effective for all payments after 10/01/2007. Again, this was a missed opportunity and could be avoided with appropriate information material; it also represents a case of misinformation or a servicing error that has the potential to result in future disputes. The PSLF servicer should identify all borrowers handled during the observation period and perform outreach to ensure each borrower receives appropriate counseling and information about the aforementioned program options.

FLS/PHEAA Response:

During ECF processing, FLS/PHEAA contacts the borrower and employer when information is missing or needs clarification. Examples of when the borrower and employer should be contacted can be found throughout Section B of the PSLF Index. As mentioned above, FLS/PHEAA will look for ways to improve the process surrounding the internal database and the escalation process, including a more efficient way to review all organizations using the same EIN.

Phone representatives have tools and resources that are available to them during a call with PSLF (or potential PSLF) borrowers. These tools include ICOnnect, Customer Relationship Manager (CRM), and access to Customer Service Lead representatives. Representatives have specific articles available as reference that help direct them through common scenarios and questions. They also have a direct link to the PSLF Index. These resources also provide the phone representatives with information on unemployment deferment. FLS/PHEAA requires representatives to appropriately counsel borrowers on the best option available to them, relative to the borrowers’ circumstance. Normal procedure dictates that representatives follow an internal standard call flow that guides the representative to the borrower’s best options.

In the instance referenced in the revised draft report, the phone representative should have obtained the start date of the PSLF program through one of the
available resources; however, FLS/PHEAA concurs that the representative misquoted the date. It is noteworthy to mention that based on the quality assurance performed on borrower calls, FLS/PHEAA does not see this specific issue as a trend and therefore has determined this to be an isolated human error.

FLS/PHEAA offers the following comments with respect to information contained on page 4 through the top of page 6 of the revised draft report:

**PSLF Organization Database Consistency**

**FLS/PHEAA Comment:**

The second paragraph in this section states in part, "The review team found instances which ECFs were denied, but the employer was nevertheless entered into the PSLF Organization database." It is important to note that employers are not entered into the database after being denied, but would be in the database due to a representative requesting guidance on an ECF which was subsequently denied based on the review performed by a knowledgeable peer group or the Compliance Department.

As discussed with FSA while on-site, the database is only used as an additional resource tool when other methods of verification fail; however, newer employees will often rely on the tool to provide validation when they are unsure of the information they obtain through other methods. Since the database is not used for reporting, FLS/PHEAA would prefer that representatives reach out for additional validation, rather than incorrectly making an ECF determination.

**Employer Certification Determinations/ECF Decision Notices**

**FLS/PHEAA Comment:**

FLS/PHEAA received approval of the current letters in use during the validation phase for ECF requirements in the initial implementation of PSLF. A copy of the approval of these artifacts submitted in direct response to the cited requirement is provided (206.01 zip) with this response. Therefore, FLS/PHEAA considers the current process compliant.
FLS/PHEAA values the relationship that has been established with FSA and it has been a pleasure working with FSA staff to facilitate this review. We look forward to working with you in the future in an attempt to better accommodate FSA's monitoring and oversight needs. Please feel free to contact me directly with any questions relating to the information provided above.

Sincerely,

Ted Putt
Manager
Client Contractual Testing

Encl.

c: Larry Porter, FSA
Lisa Olde, FSA
Lauren Hanemann, FSA
Michael Wood, FSA
Stephanie Martella, FedLoan Servicing
Dan Weigle, FedLoan Servicing
Vicky Roganish, FedLoan Servicing
Nicole Lewis, FedLoan Servicing
Tim Cummings, FedLoan Servicing
Chad Magee, FedLoan Servicing
Lauren Swett, FedLoan Servicing
Matt Eshelman, FedLoan Servicing
Amended: FedLoan Servicing’s Final Response

Response to FSA Emails Dated 8/5/17 & 8/7/17
August 10, 2017

I apologize that the initial response reversed the order of a portion of the ECF process, causing confusion to FSA. As provided during the on-site portion of this review, the Public Service Loan Forgiveness (PSLF) Index and the PSLF Processing Presentation provide an accurate account of the process used by representatives when determining employer eligibility in sections B and B.2.2, respectively.

PHEAA relies on the PSLF Organization Database as the sole source of employer validation if the applicable employer was confirmed as eligible in the database within one year. Government organizations are not re-evaluated. Below are the two methods used by processors if the employer is not listed as eligible in the database within the last year:

- If the Database indicates the employer decision as inconclusive or denied, and supporting documentation was received with the most recent ECF, the documentation is forwarded for an in-depth review and determination by a knowledgeable peer group.
- If the Database indicates the employer decision as approved, denied, or inconclusive and no supporting documentation was received with the most recent ECF, the processor continues to follow the normal ECF processing procedure without further research.

The employer decisions held within the PSLF Organization Database have been vetted using the validation instructions provided within requirement 202.01 of Modification 022 to our servicing contract. Employers are not considered approved until they have been identified in one of the various websites provided by this requirement or through a more stringent review process which is already known to FSA. These steps can be viewed on the PLS Validation Artifacts which was approved by FSA, 202.01 Procedure, which has been provided to the FSA review team associated with this review. Employers for which a definitive decision cannot be made using the above process are provided to FSA for review and decision.

Relative to the consistency of calling borrowers and employers to verify information, Section B of the Public Service Loan Forgiveness (PSLF) Index has numerous subsections advising representatives to call the borrower or employer directly to obtain missing information. For example, this is referenced on page 18 of the Index under the General Guidelines section.

Quality assurance measures are performed by the Servicing Quality Assurance (SQA) department as part of the first line of defense in the Compliance Management System (CMS). Currently, SQA does not quality assure the PSLF Organization Database; however, plans to add this to the SQA review process are under way. An implementation date has not been determined. In addition, all operational processes (including PSLF generally, and the ECF review process specifically) are subject to the risk assessment and risk-based compliance testing functions as described in PHEAA’s 2017-18 Enterprise Ethics, Compliance and Risk Management Program Overview, a copy of which is attached. PHEAA’s Compliance Testing function is currently testing PSLF activities.

We believe this will satisfy FSA’s observation by ensuring that decisions made regarding employment certifications are appropriate and further allow for trend analysis which will be used to shore up any areas where opportunities are identified.