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Folder Title:
Consolidation Problems: DL [Direct Loan]/ ICR [Income Contingent Repayment] Consolidation

Stack:	Row:	Section:	Shelf:	Position:
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Status of Loan Consolidation Applications Received by EDS			
Number of Consolidation Applications	**9/15/97 data reported in 9/18/97 testimony**	**Through Monday 9/22/97***	**Progress Since Testimony**
Received	142,856	142,856	0
In Process	84,078	81,483	-2,595
Step 1: Seeking complete application if incomplete	12,844	10,410	-2,434
Step 2: Obtaining lender information	34,963	28,848	-6,115
Step 3: In underwriting process	13,642	4,311	-9,331
Step 4: Obtaining signed promissory note from borrower	22,629	37,914	+15,285
Withdrawn/Deactivated	5,067	6,512	+1,445
Completed (Consolidated)	53,711	54,861	+1,150

The September 22, 1997 figures indicate EDS is on track to complete pending applications and resume accepting new applications by December 1, 1997. EDS expected most of the initial progress to be in the "in process" category, as applications move through Steps 1-4. For example, because 15,285 additional promissory notes were mailed to borrowers for their signature, nearly half of the applications in process are now in Step 4. EDS expects the number of completed applications to increase more rapidly in the coming weeks.

* The September 22, 1997 figures do not include any new records created by EDS as part of its quality control process to resolve conflicting information.

U.S. Department of Education
September 24, 1997

Former Students Caught in a Mo

Associated Press

BOSTON—All of their possessions had been loaded on a rented truck, but Angela and Curtis Jamison didn't know if they had a home to drive it to.

The lease had run out on their apartment and their lender had told the couple they would have to consolidate their student loans before the mortgage on their new house could go through.

But like at least 134,000 other graduates, the Jamisons already had been waiting for their student loans to be refinanced by the government.

They're still waiting.

A change in federal financial aid that was supposed to make the system more efficient has instead created such a backlog for consolidating student loans that the government has stopped accepting applications.

"We're just in limbo somewhere," said Angela Jamison, 32, an economic analyst in Washington. "When I call I get a message that says, 'Due to an extremely high volume, we can't take your call at this time,' and it hangs up on you."

"My company could never keep a contract if we performed like this," she said. "There are standards we have to live up to."

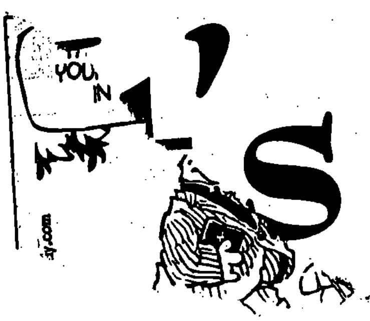
Only a last-minute break from the mortgage company kept the Jamisons from becoming homeless. They were allowed to temporarily defer their $950 monthly student loan payments and obtain a mortgage.

They have been told that the loans are now consolidated, but the amounts don't add up correctly; they have been unable to get their questions answered and must resume making payments next month.

The tangled situation stems from the separate student loans many students take out for each year of college.

Rolling these loans into one usually lengthens the repayment schedule, lowers the monthly payments and simplifies the borrower's personal finances. Mortgage lenders commonly demand such refinancing.

The direct-lending program under which the Department of Education now makes most education loans requires that consolidations be han



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CLINTON LIBRARY PHOTOCOPY

ON POST

rtgage Bind Over College Loans

dled by a government contractor, Electronic Data Systems. But the backlog is so large that the department has stopped accepting applications until at least December.

While some borrowers have won deferrals in the meantime, the interest on their loans continues to grow. Others face huge monthly payments.

"I'm being bullied by loan providers that were supposed to help me get an education, not stuff me into a financial hole," said David Whalen, a 1996 graduate of the Savannah College of Art and Design in Georgia, who has waited more than eight months to consolidate his 11 student loans.

"What started out with irritation turned into major frustration and fury and finally panic when I started to get threats that I could go into default," said Whalen, a 28-year-old graphic designer living in Arlington.

He owes about $30,000 and faces monthly payments of more than $600 while he waits to consolidate his loans to make smaller monthly payments.

Politics plays at least a small part in the problem.

Republicans prefer the old system under which the government subsidized loans from banks and other private lenders, while President Clinton pushed direct loans as the more efficient of the two alternatives.

Ted Freeman, president of the Education Resources Institute, a nonprofit organization that guarantees student loans and studies financial aid, said of the backlog: "This will only hurt the students. They've been struggling, they've been sustaining themselves. If they can't consolidate, they may fall behind."

Elizabeth Warner owes $14,500 for her education at the University of Wisconsin. That comes out to $220 a month. She could cut the payments for the six separate loans in half if she consolidated them.

"It may not sound like much, but when you're right out of college you're not going to be making a lot of money," said Warner, 25, an office manager at an Idaho nursing home who has been trying since March to get her loans refinanced. "You have tons of loans, you have car payments. And what can we do about it? Nothing. It's so frustrating."

ore You've

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

600 Independence Avenue, SW
FOB-10, Rm 6261
Washington, DC 20202-0500

Telephone Number: (202) 401-1000 **Fax Number:** (202) 401-3095

FAX COVER SHEET

TO: Bob Shireman

FAX: 456-2223

FROM: Mike Smith

NUMBER OF PAGES TO FOLLOW, INCLUDING COVER SHEET: 10

IF YOU DID NOT RECEIVE THE COMPLETE TRANSMISSION, PLEASE CALL (202) 401-1000.

MESSAGE:

Call w/ Any questions
- Sarah

UNITED STATES DEPARTMENT OF EDUCATION

THE DEPUTY SECRETARY

July 24, 1997

The Honorable Pete Hoekstra
Chairman
Subcommittee on Oversight and Investigations
Committee on Education and the Workforce
U.S. House of Representatives
2181 Rayburn House Office Building
Washington, DC 20515-6100

Dear Chairman Hoekstra:

This letter responds to the concerns you raised in your letter dated June 12, 1997, about an Education Department contract with Electronic Data Systems (EDS). Secretary Riley asked me to respond on his behalf.

Before responding to your specific questions, I will address the difficulty encountered by Shannan Carlson and David and Robyn Higbee in consolidating their loans. We are pleased to report that both Ms. Carlson's and the Higbees' consolidation loans are completed and both borrowers have begun to make payments. We recognize the gravity of their circumstances and greatly regret the difficulty they encountered. The problems were intolerable. We do realize that there are continuing problems in the consolidation program, including processing delays and difficulty in contacting customer service representatives. We are committed to addressing these problems and describe the actions we are taking below.

The experience of these two borrowers, unfortunately, is not unique. There are three underlying problems we have experienced with student loan consolidation:

- Inherent complexity of student loan consolidation
- Higher volume than anticipated
- Transition from one contractor to another

Each of these items has affected the efficiency of the consolidation process.

Inherent complexity of student loan consolidation

Direct consolidation loans enable borrowers to merge all of their loans into one loan with one lender and select one of our flexible repayment options. Ironically, despite the ease and flexibility a consolidated loan affords the borrower, the process of consolidating loans is complex. Every consolidation involves several different parties, including the consolidator, the borrower, credit bureaus and several lenders (on average at least four). Erroneous, incomplete, or late information from any one of these parties results in additional time needed to complete the consolidation. For example, some borrowers misidentify their college or university as their lender or provide inaccurate information about the amount of their student loan(s). When this happens it is necessary to process the application manually in order to identify the actual holders and amounts of the loans. While EDS works diligently to get prompt, complete and accurate information, it must rely on the cooperation of often many other parties as well to complete loan consolidations.

<u>Higher volume than anticipated</u>
The interest in the consolidation program has been greater than we originally anticipated, resulting in higher than expected loan volume. We expected to receive an average of 8,000 loan consolidation applications per month, the approximate amount received by CDSI under the prior contract. In actuality, an average of 13,000 loan consolidation applications have been received each month since EDS took over the contract last September. In December 1996, more than 18,000 applications were received. The large volume created regrettable delays that impeded the consolidation of Ms. Carlson's and the Higbees' student loans.

<u>Transition from one contractor to another</u>
Lastly, the transition of the loan origination/loan consolidation contract from CDSI to EDS has resulted in delays and problems. Some of the problems encountered were routine for such transitions, and were fixed quickly. A second group of issues required more time and resources than anticipated. I provide below more detail about the EDS contract and the transition from CDSI to EDS in response to your specific questions.

It is important that the problems with the consolidation process be put in perspective. In the first ten months of operation, CDSI successfully consolidated the loans of 18,785 borrowers. In comparison, during EDS's first ten months of operation, EDS successfully consolidated the loans of 44,750 borrowers, an increase of 138%.

We are committed to improving and streamlining consolidation so that students can benefit from an efficient and timely process. EDS assures us that they are also committed to improving the consolidation process. They have reorganized their staff devoted to consolidation and hired temporary employees to augment their permanent staff. The Department is working jointly with EDS to develop both short and long-term plans for streamlining the process and shortening the time required to consolidate a loan. For the short-term we are developing an action plan for reducing the inventory of applications. We are considering options for having other contractors augment EDS efforts in customer service. In addition, the Department requested Price Waterhouse to examine the Direct Loan consolidation process and recommend a reengineering plan. We only recently received this report and and are currently reviewing it.

You note in your letter that EDS is expected to be paid more than $525 million in Direct Loan Program funds over the next five years. It is important to understand that an estimate of $525 million includes two contracts, an estimated $162 million over five years for loan origination and consolidation and an estimated $378 million over five years for loan servicing activities. The loan servicing systems covered under the second contract are currently being tested, and EDS servicing under this contract will not begin until the required standards have been met.

The questions you raised regarding the services afforded customers like Ms. Carlson and the Higbees pertain only to the first contract, which was awarded on July 13, 1995, to support loan consolidation and a loan origination system. The origination and consolidation contract is comprised of two parts. First, the Department paid $11.7 million for development and start-up costs. Second, EDS is paid at a fixed rate for various production deliverables such as processing promissory notes and electronic records, answering phone calls, producing reports, and responding to written and oral inquiries from customers. EDS is also paid on a fixed price or time and materials basis for task orders for changes or enhancements during the life of the contract. The total estimated dollar amount to be paid over the life of this part of the loan origination and consolidation contract is $149.8 million.

Responses to your specific questions follow.

1. **How long does it take for the loan consolidation process to be completed from the first contact with EDS until the time that the individual is notified of the consolidation?**

   The Department expects it to take from 60 to 90 days for the loan consolidation process to be completed. Nevertheless, EDS's average turnaround time for consolidated loans since it began consolidating last September is 142 days. We believe that this turnaround time is completely unacceptable and are working vigorously with EDS to improve it. Since the loan consolidation system became operational last September, the Department and EDS staff have been committed to identifying and correcting problems, and improving processes and eliminating bottlenecks. After ten months of operating the loan consolidation system at EDS, we are now seeing approximately one-quarter of the incoming consolidation applications completing the process within the expected 60 to 90-day time frame.

2. How long did it take for the loan consolidation process to be completed from the first contact with CDSI until the time that the individual was notified of the consolidation?

After working with CDSI for more than a year on process improvements, the majority of loan consolidations were completed within the Department's expectation of 60 to 90 days. When CDSI began the loan consolidation process in the winter of 1994-1995, however, the process was taking much longer than the Department's expectation of 60 to 90 days. Regrettably, as with EDS, some CDSI applications took unreasonably long periods of time. Recall that we mentioned that the volume of consolidation applications received by EDS is over 60% greater than the volume received by CDSI.

3. A complete listing of how many loan consolidation applications are currently awaiting processing by EDS.

Consolidation statistics for applications received by EDS:

Applications received	122,427
Applications canceled by borrower	-4,800
Applications processed	-46,767
Applications in process	70,860

Of the 70,860 applications in process, the application status is:

Application stage	2,550	
Lender certification stage	+50,575	(requires information from lender)
Promissory note stage	+17,735	(requires signed note from borrower)
Applications in process	70,860	

4. An explanation as to why the Department changed contractors if EDS was not prepared to process loan consolidations in a timely fashion.

We conducted a competitive acquisition for loan consolidation and based upon technical and cost criteria, EDS was selected in July 1995. EDS's proposal provided lower cost and greater capacity for increased volume.

The EDS contract was initially scheduled to be implemented in January 1996. In December of 1995, the Department determined that EDS was not prepared and delayed implementation. The Department worked closely with EDS from January until April 1996, at which time we determined that EDS was still not prepared to process loans in a timely fashion. Rather than risk processing delays and difficulties, the Department decided to retain the services of CDSI for consolidation and origination until September 1996 and March 1997 respectively.

By September 1996, the prognosis for EDS was entirely different. EDS had designed and developed a new consolidation system, which was to be more cost effective than that of CDSI. The system went through formal System Integration Testing (SIT) and System Acceptance Testing (SAT), which is the standard testing procedure for systems.

Based on the review and approval of all systems testing by Price Waterhouse, the Independent Quality Control Unit (IQCU) for this contract, the Department determined that EDS was ready for consolidation loan processing, and the system was formally accepted by the Department in September 1996. (Your letter refers to Coopers & Lybrand, but Coopers & Lybrand is not involved in any of the Department's contracts with EDS.)

5. **An explanation as to why the Department did not switch back to the original contractor when the problems with EDS surfaced.**

As delineated in the previous response, the Department did "switch back" or extend CDSI's contract in April 1996 due to concerns about the readiness of EDS to process loans. Only after EDS successfully completed systems testing did the Department authorize EDS to begin production.

When problems surfaced after production began at EDS, we considered extending the CDSI contract a second time. We determined that again extending CDSI's contract would have created even greater problems than working to improve EDS's performance. There are several reasons for this. CDSI did not have the hardware and software capacity to handle the volume of loans that we believed EDS would be capable of processing. In addition, CDSI would have to try to rehire staff if the contract was extended again. Furthermore, because EDS offered a new comprehensive technical system, extending again CDSI's contract would require converting data back to CDSI's data format and would have substantially increased the cost of the contract.

6. **A copy of any and all reports, memorandum, electronic mail communications, notes, or other documents in the Department's possession or control which discuss any of the contracting difficulties the Department is having with EDS.**

We are delivering the first set of materials to you today in response to this request. We are transmitting these materials to you in your capacity as chairman of the Subcommittee on Oversight and Investigations of the Committee on Education and the Workforce pursuant to 5 U.S.C. § 552(d), and not as a public disclosure under the Freedom of Information Act (FOIA). The materials transmitted herewith contain confidential proprietary information, and other information exempt from public disclosure under 5 U.S.C. § 552(b). Therefore, these documents should be made available only to Members of the Committee and Committee staff, as necessary in the exercise of the Committee's duties, and are not authorized to be disclosed to the public.

We are in the process of gathering additional materials. Due to the scope of the request, our response requires significant time and resources.

7. **A copy of any and all reports, memorandum, electronic mail communications, notes, or other documents in the Department's possession or control which discuss in any way any systems testing done by Coopers & Lybrand or any other contractor or the Department of any of the FDSLP contractors.**

We are delivering the first set of materials to you today in response to this request. We are transmitting these materials to you in your capacity as chairman of the Subcommittee on Oversight and Investigations of the Committee on Education and the Workforce pursuant to 5 U.S.C. § 552(d), and not as a public disclosure under the Freedom of Information Act (FOIA). The materials transmitted herewith contain confidential proprietary information, and other information exempt from public disclosure under 5 U.S.C. § 552(b). Therefore, these documents should be made available only to Members of the Committee and Committee staff, as necessary in the exercise of the Committee's duties, and are not authorized to be disclosed to the public.

We are in the process of gathering additional materials. Due to the scope of the request, our response requires significant time and resources.

8. What steps, if any, were taken by the Department to ensure a smooth transition between contractors?

As stated previously, EDS's loan consolidation system was formally accepted by the Department in September 1996 and EDS began loan origination in March 1997. Starting in early August 1996 for loan consolidation and October 1996 for loan origination, the Department convened weekly transition meetings that were attended by Department, CDSI, and EDS staff. Transition managers were assigned by each contractor and the Department directed the Configuration Management team leaders for both contracts to manage the transition from within the Department. The purpose of the transition meetings was to ensure a smooth transition from CDSI to EDS by providing a weekly forum to identify all requirements and schedules for the transition process, to assign action items to process owners, and to implement and monitor the transition.

For loan origination, we transferred all work in progress; this was a complete cutover from one contractor to another. To ease the risks of transition, CDSI contractor staff and ED staff were detailed to the EDS Loan Origination Center in Montgomery both before and after the transfer of loan origination. For consolidation, we did not transfer applications that were in process. CDSI continued to process those applications that were in process and continued to consolidate loans through March 1997. Daily conference calls that include Department and contractor staff are still held as part of the continuing effort for both loan origination and consolidation to ensure immediate problem identification and resolution.

To provide a framework for the transition, the Department developed a "Cutover Plan" to track all activities that were to be completed for a successful transition. The "Cutover Plan" was a living document that was used to drive transition implementation and to monitor the progress of the transition.

9. A detailed analysis of EDS's performance under the loan origination and consolidation contract and a discussion of the Department's efforts to ensure taxpayer funds are being appropriately spent in this instance.

EDS was awarded a contract on July 13, 1995, to develop, maintain, and operate a loan origination system (LOS) and loan consolidation system. Under this contract, EDS was to deliver fully functional loan origination and consolidation systems by January 15, 1996.

The conversion proved to be more complex than anticipated by EDS. EDS found the effort required to move the system from one operating environment to another and to convert and run the computer programs using the system documentation from the prior contractor to be extremely difficult. Although staff from the Department and CDSI were available to answer questions and provide other information, converting the system and getting EDS staff fully educated on its operation took longer than they expected.

From late 1995 through April 1996, the Department delayed implementation of EDS's loan origination and consolidation systems because testing by Price Waterhouse, the Independent Quality Control Unit (IQCU) for the contract, showed that the system had not yet achieved the functionality necessary to serve the program and participating schools.

Beginning in April 1996, the loan origination system and the loan consolidation system progressed on different tracks. At that time, it became clear that EDS was not going to be able to meet the schedule for bringing the loan origination system up in 1996, and the Department took steps to secure loan origination services for 1996-97 through the incumbent contractor, CDSI, delaying implementation of the new EDS origination system until the 1997-98 school year.

The Department continued the contract with EDS, rather than terminating it, because despite the failures on the part of EDS to perform up to expectations, EDS was making progress and the proposed EDS system had the potential to be more efficient than our previous system. To ensure continued improvements and progress, the Department provided EDS with a modified delivery schedule that included very specific, critical milestones that EDS had to meet for continuation of their contract. The most significant conditions were that (1) EDS's project management needed to change and that (2) the Department would not provide additional development funds until the system became operational. EDS met the milestones and test criteria. In fact, EDS replaced the entire management team assigned to the project and the new team has been much more successful in developing the system.

It is important to stress that in no way were standards ever lowered for EDS throughout the testing process; rather, additional assurances were built into the contract. Ultimately both the loan origination and loan consolidation modules passed all testing requirements and received Price Waterhouse's approval before either subsystem became operational.

In the months since EDS implemented loan origination and consolidation, the Department has escalated its oversight and management of EDS's performance. We now receive weekly and quarterly reports from the Independent Quality

Control Unit (Price Waterhouse) for the EDS contract, which provide an assessment of many aspects of both the origination and consolidation operations. We diligently review the invoices submitted by EDS, to assure that we do not pay for services that are unacceptable. In addition, we have meetings with senior Department executives (minimum of one each week), during which we review progress and establish priorities. We have selected one of our most senior managers in the Department's systems area, and assigned her to the role of EDS Contracting Officer's Technical Representative. We have established direct lines of communication between Department staff and our customers, in order to understand first-hand the problems that they are facing.

I hope this information is helpful to you. I deeply regret the delay in responding to your letter. I have taken steps to ensure that such a delay will not occur again. David Longanecker and I can respond to any additional questions you may have when we meet with you.

Sincerely,

Marshall S. Smith

Marshall S. Smith
Acting Deputy Secretary

FAX COVER

Education Branch
Executive Office of the President
Office of Management and Budget
Washington, D.C. 20503

TO: Bob Shireman

FAX NUMBER: 62223

FROM: CT

DATE:

TIME:

NUMBER OF PAGES: Cover + 7

Notes:

Some more loan consolidation mail —

Education Branch Fax Number: 202/395-4875
Voice Confirmation: 202/395-5880

MAJORITY—(202) 225-4527
(TTY)—(202) [illegible]
MINORITY—(202) [illegible]
(TTY)—(202) [illegible]

SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS

COMMITTEE ON EDUCATION AND THE WORKFORCE

U.S. HOUSE OF REPRESENTATIVES
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6100

July 23, 1997

VIA FACSIMILE: 202/401-0596

The Honorable Richard Riley
Secretary of Education
U.S. Department of Education
600 Independence Ave., SW
Washington, DC 20202

Dear Secretary Riley:

The Committee on Education and the Workforce's Subcommittee on Oversight and Investigations (Subcommittee) is charged with ensuring the effective, efficient and economical operation of the Department of Education (Department). The Subcommittee is also responsible for ensuring that the activities of the Department are consistent with all applicable law.

On June 12, 1997, this Subcommittee requested information about the loan consolidation process in the William D. Ford Direct Loan Program (FDSLP). A copy of the letter is attached. As of this date, the Subcommittee has not received a reply from the Department. Significant concerns were raised in our June 12, 1997 letter and are exacerbated further as a result of new information which has come to our attention.

Specifically, we have received complaints about substantial delays in processing loan consolidation requests from students and schools participating in FDSLP. An example of the trouble faced by one family is detailed in the attached letter which was sent to the Subcommittee. The Lowman family attempted to consolidate their loans for nearly six months. The Lowmans state "it was 100 times easier to buy our house and get that paperwork completed than it has been to deal with this loan consolidation. I have never dealt with a more incompetent operation in my life!"

Additionally, in a recent telephone discussion with Subcommittee staff, Mr. Russomano, Director, Program System Services, in the Office of Postsecondary Education was asked whether there would be a shutdown of operations at Electronic Data Systems Corporation (EDS) for the course of two weeks to cure many of the problems that were outlined in the Subcommittee's June 12, 197 letter. Mr. Russamano informed the Subcommittee that there would be no shutdown.

The Subcommittee learned recently there will be a partial shutdown of operations in the area of consolidation loan processing. The Subcommittee believes this information should have been provided by the Department in a timely manner.

Further, the Subcommittee received information with regard to another problem the Department is experiencing at EDS. Enclosed are two letters addressed to Monica Moultrie, the Certification Representative at the Department from the Student Loan Fund of Idaho Marketing Association. The letters reflect an alarming problem with the Department's loan consolidation process. "Out of the 41 borrowers, two were not paid at all, 15 were underpaid and 19 were overpaid. Only five of the accounts were paid in full appropriately." This state of affairs is wholly unacceptable. No private bank would run its business in this fashion, nor should the Department run its loan consolidation program in this manner.

The lack of timely and proper payment to the original loan holder creates numerous problems. First, the delay may cause difficulty for former students in financing a home. Second, when the Department fails to properly pay off loans, there is a period of time when the student is charged interest by both the proper loan holder (the original holder) and by the Department. Lastly, this can result in the Department maintaining inaccurate information about what is owed to the Department by thousands of loan holders whose consolidation loans were improperly overpaid or underpaid.

In the next six weeks the Department plans to begin operating three new FDSLP contracts. These three new contracts will ultimately cost the taxpayers more than $1 billion. Before those contracts become effective the Department needs to ensure that EDS is capable of meeting its contractual responsibilities. This Subcommittee would like assurance from the Department that EDS can handle these contracts responsibly.

Pursuant to the Subcommittee's authority and responsibility under Rules X and XI of the Rules of the House of Representatives, please provide the following information:

1. An immediate and thorough response to the Subcommittee's June 12, 1997 request;
2. The total number of loans consolidated by EDS;
3. The total number of Federal Family Education Loans which the Department consolidated that are identified as overpaid, underpaid or not paid;
4. The total dollar amount of all loans which have been overpaid;
5. The total dollar amount of all loans which have been underpaid;
6. The total dollar amount of all loans which have not been paid;
7. A copy of any and all reports, memoranda, electronic mail communications, notes, or other documents in the Department's possession or control which discuss any of the

consolidation problems or shutdown or delay in any EDS consolidation operations; and,

8. An explanation of whether EDS is paid based on performance measures or based on transactions.

Your cooperation in providing the Subcommittee with two copies of your written response no later than the close of business, August 4, 1997 will be appreciated. We trust you will agree that the issues raised here need immediate attention if this program is to be operated effectively and efficiently. If there are any questions please contact Mark Brenner at 202-225-7101.

Sincerely,

PETE HOEKSTRA
Chairman
Subcommittee on Oversight
and Investigations

CHARLES NORWOOD
Vice-Chairman
Subcommittee on Oversight
and Investigations

cc: The Honorable Jim Jeffords
The Honorable William Goodling
The Honorable Howard "Buck" McKeon
The Honorable William Clay
The Honorable Dale Kildee
Mr. Thomas Bloom, Office of Inspector General
U.S. Department of Education

July 16, 1997

Mr. Mark Brenner
B346 of the Rayburn House Office Bldg.
Washington, D.C. 20515

Sent Via Facsimile # (202) 225-3909

Dear Mr. Brenner:

I was so relieved to get your name and find out that someone is addressing the problem with the William D. Ford Direct Consolidation Loan Program. I wanted to summarize the problems we have had and continue to have with this program so you have something to refer to. Let me tell you that it was 100 times easier to buy our house and get that paperwork completed than it has been to deal with this loan consolidation. I have never dealt with a more incompetent operation in my life!

We sent in the completed "In-School Consolidation" application to have my husband's student loans consolidated on January 20, 1997. We wanted to include the final loan for his final semester (He received his MBA in May) and couldn't turn it in until the funds were disbursed according to the Direct Loan center. So right after he started his final semester we sent in the application. We received a letter from them dated 2/7/97 the middle of February stating that "due to an unexpected high volume of applications it may take additional time, blah blah blah" They indicated they would be back to a normal processing schedule within 6-8 weeks. That would have been mid-April and it's now mid-July and we still are not completed! They told us to continue making payments on the loans and if we couldn't then we could pursue a deferment or forbearance. Todd was in school so we had everything in deferment at that point. Something that bothered me though was that although a forbearance makes it possible for you to not make payments, interest continues to accrue & is capitalized when payments restart. People having to get a forbearance shouldn't have to pay the interest, the Direct Loan program should have to pay it since they take an unreasonable amount of time to complete the consolidations. My sister-in-law has been waiting for their consolidation for nearly a year! This process for us has to date been **178 days - which is 25 ½ weeks** since we initially sent in the application and it's still NOT completed - that just doesn't seem reasonable no matter who you are dealing with.

In April I called to check the status of the loan. I spent 50 minutes on hold just waiting for someone to answer the phone & talk to me and I finally had to hang up because I had an appointment. The next day I did it again, after 35 minutes on hold I talked to someone who could tell me nothing and really didn't care by the tone of her voice. She said "we just have so many to process it is taking extra long", she thought in the next month we should hear something. I asked if anything was pending on the application and she said nothing that she could see. She said they had sent for information from our only other lender besides them, Student Loan Fund of Idaho (SLFIMA), and that could have held it up, but now they had everything so it shouldn't be long.
I waited a month and called again May 7, 1997 - I spoke to Florence Hooker. After she put me on hold another 15 minutes, she said it shouldn't be long but couldn't give me a definite date and again mentioned that getting the information from SLFIMA may have delayed things. So I called

SLFIMA - they are always on top of it and very helpful. They indicated they had received a request for information from the Direct Loan program on 2/28/97 and they sent it in on 3/3/97, 65 days prior to this phone call. So obviously they had NOTHING to do with the delay. I called Florence back and endured another 25 minutes on hold before I could speak with her. She then said she couldn't speak to me without a release because the loans were only in my husband's name which is accurate but why had they spoken to me at least twice before - I did not want to sit on hold again, I had spent half my day doing it already! Anyway, my husband faxed them a letter that afternoon giving authorization for me to receive & give any info on his behalf. He also reiterated the problems and delays asking them to call us that afternoon with an explanation. My husband works full time which is why I take care of these things and I have no idea how people that work full time would have time to sit on hold over 30-40 minutes multiple times trying to pursue the delays with these consolidations. My time is also valuable and my children don't like to sit and wait while mom is on hold for 40 minutes at a time! Someone did call me back the following day and said that I should receive something in the next week. I received a package Airborne Express 9 days later on May 16th with the promissory note Todd had to sign (why they are wasting money mailing things this way I don't know, it only saves a day or two and they are taking at least 178 days!). He completed the forms, signed them, and I Airborne Expressed them back on 5/19/97 (they also paid for that mailing, they had included a prepaid Airborne envelope for me to use - I know they do this for everyone and not just us because we confronted them, they Airborne Expressed my sister-in-law's documents also).

We got a statement from SLFIMA notifying us that we needed to make our June payment (since Todd was no longer in school & the consolidation was still not completed). I went ahead and made the June 1st payment because we have excellent credit and I did not want to risk a negative report on our credit. I also didn't want to have to take the time to complete the forbearance forms. When a statement came from SLFIMA stating that we had to make the July 1st payment - I called them because I couldn't believe they hadn't been paid yet by the Direct Loan place. They stated that we were on a list from the Direct Loan consolidation place and that a check was scheduled to arrive there on July 7th and our loan should be paid off at that time so I wouldn't need to make the July 1st payment. I called SLFIMA on July 14th because I wanted to make sure they received the payment from Direct Loans - they had not! SLFIMA had sent Direct Loans a request wondering what happened but hadn't received a response, I could tell they were extremely frustrated dealing with Direct Loans. So I got on the phone and called Direct Loans again, they now have a recording after 15 minutes of going thru the menus that says due to the large volume of calls please try back another time and then they disconnect you! I couldn't believe it. I called back three times and it was the same thing. I then called back and pressed the key for people interested in applying for a Direct Loan and I got to talk to someone within 10 minutes. Well the woman I spoke with, Bernadette, put me on hold for 15 minutes and then came back to explain that the payment that was supposed to arrive at SLFIMA on the 7th (for me and a long list of other borrowers) had to be reprocessed it had accidentally been sent out as a payment for loans on default which was not correct so they hoped to process it by the end of this month. I asked her what I should do because if I pay my July payment and they pay it off there will be an overpayment and what is the process for me to get my money back. She explained the Direct Loan center would get the money back from SLFIMA and then apply the money to the consolidation loan, I seriously wondered how long that would take. Well I couldn't risk the check not getting there and something bad going on our credit report because of The Direct Loan centers errors so I had to make my July 1st payment. And now we continue to wait 178 days later!

I think the most frustrating thing is that the William D. Ford Federal Direct Loan Program doesn't need to know the meaning of customer service because they have NO COMPETITION! We are not allowed to consolidate our loans using any other institution but them - and we wonder why they aren't in a hurry to process & complete the loan; they know we are at their mercy. In one of their pamphlets it reads "What are the advantages of Direct Loans for taxpayers? The Direct Loan Program is more efficient and less expensive than the current system. Over the next four years, Direct Loans will save the government billions of dollars: The government will not need to subsidize lenders and guaranty agencies. Plus, the choice of repayment plans and the simplicity of the repayment process will reduce the number of student defaults." What a joke! - First of all "EFFICIENT" - please!!!! And less expensive - I don't know how except at the borrowers expense. The amount of money they must spend just hiring people to answer the phones and tell people NOTHING has to be a bundle. And reducing the number of defaults - I bet the number of defaults has increased because people can't afford to WAIT so long to get the loan completed. I am speaking as a borrower but I can't imagine what a mess it is at the other loan institutions waiting for checks from this program and listening to story after story from their borrowers explaining that they are WAITING for the Direct Loan Consolidation! I would hate to be in a management position at any of those institutions.

Please let us know if you have any solutions to these issues. Please feel free to share our letter with anyone who might make a difference in this disastrous situation. I am sure there are thousands of people in the same situation.

Sincerely,

Suzanne and Todd Lowman
1975 S. Gull Cove Place
Meridian, ID 83642
Home # (208) 887-2227

July 16, 1997

Dear Mr. Mark Brenner,

I got your name from my sister-in-law Suzanne Lowman. I am going to email this to her and have her fax it to you. I am writing this letter to inform you of the ridiculous amount of time and effort I have spent simply trying to get my husband's student loans consolidated.

If the William D. Ford Student Loan Program allowed anyone to purchase their student loans, we would have surely had Sallie Mae purchase them by now, and the transaction would probably be complete.

This whole thing started about 10 months ago, we started the process of our student loan consolidation. We wanted to get started and have this process completed before my husband's loans went into repayment because we could not afford each loan's separate payment. I phoned in to check on the progress in November, however the man that I spoke with told me that it was probably too soon, and that we were not in the computer yet.

In December, I phoned the consolidation line again, only to be on hold for over an hour! Once I got through, the gal that I spoke with discovered that our consolidation packet had been one of many that had been considered "lost files". So, the process did not begin until then, three months after we actually sent in our paperwork.

I phoned again in early May to give them our change of address, and to check on the status of our consolidation. It took several attempts to even get through to be lucky enough to hold for the next hour or so. I was told at that time that our other loans should be funded by the end of that month. After getting forbearances to try and maintain our budget over and over again on different student loans each time, I decided to call again. This time, I set my alarm for 6:00am to be sure to get through first thing, 7:00am their time. I got through and was told that our promissory note should be on it's way. We received it about a week later, signed it, and it is now over a month later, and we have yet to have our other loans paid off.

They consolidated our two Federal Direct Loans in May, it is just the others that need to be consolidated at this point, but even at that, they left $30.00 hanging out there. When I called to ask about that, I was told to ignore it, and that they would make the adjustment, well, I got a statement for it again this month.

I have never dealt with such an unorganized company in my life. They need more employees to get these things funded in a timely manner, and more employees available to answer questions. Obviously, by making their loans not available for purchase by other student loan companies they have set themselves up to be bombarded with students who want their student loans consolidated. They have made a joke of the entire process!

If you have any further questions, please feel free to call us at 208-735-8172.

Sincerely,

Bradley & Gina Lowman
2653 Elizabeth Blvd.
Twin Falls, ID 83301

4/18/97

Debbie Brown, Pam Pesca, Wm Graham, Vladix / Barry, Betsy, Par, Jerry Messamore. ? Marilyn

ADS - live Sept 96

~~request app~~

- 92% error rate on app -

- what kinds of errors ??

- hardware backorders...

Goal: - backlog deployed - mid-May

$92 / 144M

Now $27

Leaders: most provide one on older basis...

sports: lose a w/2...

MP-VISION: web - formula - app x 800 #

→ Action Plan

– Cos have stopped quoting distribution caseloads.

1.85% → rebidding → 1.2% ?

└ make 3 mos @ 1% or 6 mos @ .5% in escrow

Come right in ahead – does each have a ...

– Refund through ?

– more off policy ?

Briefing: Operation Consolidation

April 15, 1997

CONSOLIDATION VOLUMES

	# BORROWERS	$ VOLUME
FY 1995	14 K	$342 M
FY 1996 12 mo.	82 K 6.83/mo.	$1.1 B CDSI
FY 1997* 6 mo.	27 K =4.5/mo.	$318 M

*COMBINES VOLUMES PROCESSED BY BOTH CDSI AND EDS (through 3/97)

STATUS OF APPLICATIONS (as of 4/7/97)

	REGULAR	FASTTRACK	TOTAL
APPLICATIONS RECEIVED	71,000	19,000	90,000
APPLICATIONS BOOKED	3,000	12,000	15,000

AGING SYSTEM INVENTORY

<u>0-60 DAYS</u>	<u>60-90 DAYS</u>	<u>OVER 90 DAYS</u>
50%	13%	37% "going down"

EXPECTED AVERAGE TURNAROUND = 60-90 DAYS

CHALLENGES

ELIMINATE BACKLOG

REENGINEER PROCESS

EXPAND CAPACITY

Pre - warehouse
- add w/ ~~[illegible]~~ & [illegible]
- IRC to the RDs [illegible]

POLICY ISSUE

DEFAULTED BORROWERS: STRIKING A BALANCE BETWEEN THE HEA & FCCS

DISCIPLINED APPROACH

PROVIDE BENEFITS

IMPOSE SANCTIONS

EMPLOY FOUR COLLECTION STAGES

POLICY RECOMMENDATION

DEFAULTED BORROWERS: PROPOSE TO LIMIT ACCESS TO CONSOLIDATION FOR SOME BORROWERS IN STAGE 3 AND ALL BORROWERS IN STAGE 4.