



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

Audit Services
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Troy Standish
Senior Vice President
Servicing Operations
Sallie Mae, Inc.
220 Lasley Avenue
Wilkes-Barre, PA 18706

Dear Mr. Standish:

This **final audit report**, titled "Sallie Mae, Inc.'s Compliance with Selected Requirements of the Loan Participation Purchase Program Authorized by the Ensuring Continued Access to Student Loans Act of 2008," presents the results of our audit. Our audit objective was to determine whether Sallie Mae, Inc. (Sallie Mae), as a Servicer under the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) Loan Participation Purchase (LPP) Program, was in compliance with its Eligible Servicing Agreements (ESAs). Specifically, our audit was limited to determining whether Sallie Mae (as Servicer) (1) had an ESA with each Custodian; (2) prepared and submitted Weekly Loan Schedules, Month-End Loan Schedules, Exception Reports, and Lender's Interest and Special Allowance Request and Reports; (3) coded loans as owned by the Custodian; and (4) remitted collections on LPP Program loans to the Custodian. Our audit covered Sallie Mae's servicing of LPP Program loans for academic year 2008-2009 (the 2008-2009 LPP Program)¹ and selected aspects of its servicing of LPP Program loans for academic year 2009-2010 (the 2009-2010 LPP Program).

We determined that Sallie Mae (as Servicer) complied with its ESAs, except for its noncompliance with a specific section in one of the agreements. We found that Sallie Mae (as Servicer) serviced about \$96 million of ineligible loans as if they were eligible loans during the 2009-2010 LPP Program. The U.S. Department of Education (Department) had purchased a 100 percent ownership interest in the principal portion of the loans from a subsidiary of Sallie Mae's parent corporation.

¹ For purposes of the LPP Program, an academic year 2008-2009 loan is one that (1) has a loan period that includes, or begins on or after, July 1, 2008, (2) has a first disbursement made on or after May 1, 2008, but no later than July 1, 2009, and (3) was fully disbursed no later than September 30, 2009.

BACKGROUND

ECASLA (Public Law 110-227) was enacted on May 7, 2008. ECASLA added a new Section 459A to the Higher Education Act of 1965, as amended, giving the Department the authority to purchase or enter into forward commitments to purchase Federal Family Education Loan (FFEL) Program loans. The purpose of the LPP Program, in part, was to ensure that lenders had a reliable source of funds to originate new FFEL Program loans. Furthermore, Public Law 110-350 was enacted on October 7, 2008, in part, to extend the Department's loan purchase authority to academic year 2009-2010 loans. The Department offered a separate LPP Program for academic year 2009-2010 loans.

Under the 2008-2009 LPP Program, Sallie Mae serviced FFEL Program loans in which the Department purchased participation interests from eligible FFEL program lenders or holders of eligible FFEL Program loans (herein referred to as "Sponsors"). The Department's participation interest represented a 100 percent ownership in the principal portion of such loans. The loans in which the Department purchased a participation interest under the LPP Program were held in a trust by a Custodian.² The 2008-2009 LPP Program expired on October 15, 2009. Upon expiration, Sponsors redeemed the Department's participation interest either by (1) remitting to the Department an amount equal to the Department's purchase price of the participation interest plus a yield on the purchase price, or (2) selling permanently the underlying loans to the Department under the ECASLA Loan Purchase Commitment Program. Under the ECASLA Loan Purchase Commitment Program, the Department purchased outright fully disbursed, eligible FFEL Program loans.

The 2008-2009 LPP Program was conducted according to the terms of a Master Participation Agreement (MPA) dated July 25, 2008. According to Section 12(a) of the MPA, each Custodian shall enter into an ESA with a Servicer (which may also be the Sponsor) to service each loan subject to the LPP Program. Section 12(c) of the MPA specifies the terms that must be included in an ESA.

SLM Corporation is the parent company of Sallie Mae (a Servicer) and SLM Education Credit Finance Corporation (SLM ECFC) (an eligible lender and Sponsor).³ As of September 2010, SLM Corporation, through its subsidiaries, managed \$182 billion in education loans and served 10 million student and parent customers. SLM Corporation was originally created in 1972 as a government-sponsored entity. In 2004, the company terminated its ties to the Federal government. SLM Corporation is a publicly held, private sector company that offers services to a range of institutional clients, including colleges and universities, student loan guarantors, and State and Federal agencies.

² A Custodian was an eligible lender that was a national or State-chartered bank that was not affiliated with the Sponsor.

³ SLM Corporation is the official name of the company commonly known as Sallie Mae to the public. For purposes of this audit, Sallie Mae refers to the Servicer and SLM ECFC refers to the Sponsor.

The 2008-2009 and 2009-2010 LPP Program loans, for which Sallie Mae was the Servicer, were serviced at Sallie Mae's loan servicing center located in Wilkes-Barre, Pennsylvania. This center performs services such as correspondence processing, payment processing, claims processing, and records research. According to Sallie Mae, the facility processes 2.5 million student loan payments per month and handles more than 14.5 million pieces of correspondence and record updates annually.

During the 2008-2009 LPP Program, Sallie Mae serviced loans for three Sponsors and two Custodians (see the Table below).

Table – 2008-2009 LPP Program Sponsors and Custodians Serviced by Sallie Mae			
Sponsor	Custodian	LPP Program Loans	Original Loan Amount⁴
SLM ECFC	Wells Fargo Bank, National Association (Wells Fargo)	4,587,246	\$21,442,043,351
USC Credit Union (USC)	Manufacturers and Traders Trust Company (M&T Bank)	11,893	103,894,945
Access to Loans for Learning Student Loan Corporation (ALL)	M&T Bank	1,471	10,379,118
Total		4,600,610	\$21,556,317,414

AUDIT RESULTS

Except for its noncompliance with Section 3.1 of its ESA⁵ with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor), Sallie Mae (as Servicer) complied with its ESAs. Our audit was limited to determining whether Sallie Mae (as Servicer) (1) had an ESA with each Custodian; (2) prepared and submitted Weekly Loan Schedules, Month-End Loan Schedules, Exception Reports, and Lender's Interest and Special Allowance Request and Reports; (3) coded loans as owned by the Custodian; and (4) remitted collections on LPP Program loans to the Custodian.

We found that Sallie Mae (as Servicer) was not in compliance with Section 3.1 of its ESA with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor) for the 2009-2010 LPP Program because it serviced ineligible loans as if they were eligible loans. Under the 2009-2010 MPA, loans are ineligible if the Department had previously purchased a participation interest in the loans. We identified 28,913 loans, with a total outstanding principal balance of \$96,185,703 as of August 3, 2010, that were participated in both the 2008-2009 and 2009-2010 LPP Programs.

⁴ The LPP Program Loans and Original Loan Amounts for SLM ECFC are based on the Month-End Loan Schedule for the month ended October 31, 2009, and for USC and ALL are based on the Month-End Loan Schedule for the month ended September 30, 2009.

⁵ Section 3.1 of the ESA between Sallie Mae, Wells Fargo, and SLM ECFC states that reasonable care shall be used when managing, servicing, administering, making collections on and calculating any amounts owed to the Department on Purchased Eligible Loans.

We provided a draft of this report to Sallie Mae for review and comment. In its comments to the draft report, Sallie Mae did not concur with our finding and recommendation. Based upon Sallie Mae's response, we modified the finding and revised the recommendation. Sallie Mae also commented on the Other Matters section of the draft report. We revised the Other Matters section in response to Sallie Mae's comments.

Except for personal identifiable information (that is, information protected under the Privacy Act of 1974 (5 U.S.C. § 552a)), the entire narrative of Sallie Mae's comments is included as an Attachment to this report. Because of the personally identifiable information contained in the Excel Spreadsheet attachment to Sallie Mae's comments, we have not included it in the Attachment.

FINDING – Sallie Mae Serviced Ineligible Loans During the 2009-2010 LPP Program

Sallie Mae did not comply with the terms of its ESA with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor), because it serviced 28,913 ineligible loans under the ESA. The 28,913 loans had a total outstanding loan principal balance of \$96,185,703 as of August 3, 2010. The ineligible loans did not meet the definition of a Purchased Eligible Loan under the 2009-2010 MPA, because the Department had purchased participation interests in the loans in both the 2008-2009 and 2009-2010 LPP Programs. In addition, Sallie Mae did not comply with its Custodian Agreement with Wells Fargo and SLM ECFC, because the Loan Schedules prepared by Sallie Mae contained the 28,913 loans that were not Purchased Eligible Loans under the 2009-2010 MPA.

Sallie Mae Serviced Ineligible Loans Participated by SLM ECFC

Under Section 3 of the 2009-2010 MPA, loans are ineligible for the 2009-2010 LPP Program if the Department had previously purchased a participation interest in the loans. Section 3 of the 2009-2010 MPA defines "Purchased Eligible Loan" as "an Eligible Loan in which a Participation Interest has been purchased by the Department." In addition, Section 3 of the 2009-2010 MPA defines an "Eligible Loan" as:

[A] Loan that meets the following criteria as of the applicable Purchase Date . . . [w]ithout limitation, the following loans shall not be eligible for sale to the Department pursuant to the terms of this Agreement . . . (v) loans in which the Department has previously purchased a Participation Interest, whether or not that interest has been redeemed.

Under the terms of the MPA and ESA, only Purchased Eligible Loans were to be serviced under the ESA. Section 12(a) of the 2009-2010 MPA, states:

Each Eligible Loan which is subject to a Participation Interest shall be serviced by a Servicer (which may be the Sponsor) at the direction of the Custodian pursuant to the terms of an Eligible Servicing Agreement

Section 3.1 of the ESA between Sallie Mae, Wells Fargo, and SLM ECFC states:

The Servicer, for the benefit of the Custodian, as trustee for the benefit of the Department and the Sponsor, . . . shall manage, service, administer, make collections on and calculate any amounts owed to the Department with respect to the Purchased Eligible Loans with reasonable care, using that degree of skill and attention that the Servicer exercises with respect to similar student loans that it services on behalf of SLM Corporation or any of its affiliates . . .

In servicing ineligible loans under the ESA with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor), Sallie Mae did not comply with Section 3.1 of the ESA.

We analyzed the ownership history and the Month-End Loan Schedules for 65 loans participated in the 2008-2009 LPP Program and found that 4 of 65 loans sampled were participated in both the 2008-2009 and 2009-2010 LPP Programs.⁶ According to the Month-End Loan Schedules, all four loans had first disbursement dates on or after May 1, 2009, and on or before July 1, 2009, and anticipated final disbursement dates on September 30, 2009, which indicated the loans were initially eligible for the 2008-2009 LPP Program. The Month-End Loan Schedules showed that these four loans were redeemed from the 2008-2009 LPP Program on October 16, 2009, and that the most recent disbursement dates were after September 30, 2009. The disbursement dates after September 30, 2009, made the loans ineligible to be included in the 2008-2009 LPP Program. Furthermore, the ownership history in the National Student Loan Data System (NSLDS) and in Sallie Mae's CLASS loan servicing system (CLASS) showed that these four loans were also participated in the 2009-2010 LPP Program.

Based upon the results of our sample, we queried NSLDS to identify all SLM ECFC LPP Program loans that had the lender identification number (LID) associated with Wells Fargo as Custodian for SLM ECFC for the 2009-2010 LLP Program (LID 834487) and for the 2008-2009 LLP Program (LID 834422). Of the 4,587,246 loans participated by SLM ECFC in the 2008-2009 LPP Program, we identified 28,913 loans (approximately 0.63 percent) that had both the 2008-2009 and 2009-2010 Wells Fargo Custodian LIDs. These 28,913 loans had a total outstanding loan principal balance of \$96,185,703 as of August 3, 2010. Included in these 28,913 loans were the four loans from our sample that were participated in both programs.

We notified Sallie Mae of the ineligible loans on August 2, 2010. Sallie Mae's Audit Coordinator stated that a possible explanation for the loans being participated in both programs was that the loans were originally participated in the 2008-2009 LPP Program and the borrower's school subsequently changed a portion of the loans (such as the scheduled final disbursement date occurring after September 30, 2009).⁷ The Audit Coordinator also stated that SLM ECFC redeemed the loans out of the 2008-2009 LPP Program and then participated those same loans in the 2009-2010 LPP Program. Sallie Mae's Senior Vice President and Deputy General Counsel stated that loans participated in the 2008-2009 LPP Program could be participated in the 2009-2010 LPP Program because the programs were independent of each other. In

⁶ For our sample of loans, we randomly selected 60 loans which Sallie Mae serviced from the 2008-2009 LPP Program and 5 judgmentally selected loans which Sallie Mae serviced that were not sold to the Department from the 2008-2009 LPP Program. See the **Objective, Scope, and Methodology** section of this report for further details on the selection of our sample of 2008-2009 LPP Program loans serviced by Sallie Mae.

⁷ In performing our audit, we did not verify the reasons loans were participated in both the 2008-2009 and 2009-2010 LPP Programs.

September 2010, Federal Student Aid (FSA) instructed Sallie Mae to redeem the participation interests in the ineligible loans by selling the underlying loans to the Department under the ECASLA Loan Purchase Commitment Program. On October 12, 2010, the 28,913 loans were sold to the Department.

Sallie Mae Prepared Month-End Loan Schedules That Included Ineligible Loans Participated by SLM ECFC

Sallie Mae did not comply with Section 11(c) of its Custodian Agreement with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor), because it did not exercise due care in preparing the Loan Schedules that would be relied upon by the Custodian, as trustee for the benefit of the Department. The Loan Schedules prepared by Sallie Mae contained loans that were not Purchased Eligible Loans under the 2009-2010 MPA. In preparing the data for the Loan Schedules, Sallie Mae should have reviewed its CLASS loan servicing system, which contained the loans' ownership histories that showed the loans were participated in both the 2008-2009 and 2009-2010 LPP Programs. In exercising due care, Sallie Mae should have notified the Custodian that the loans were not Purchased Eligible Loans under the 2009-2010 MPA.

Section 11 of the Custodian Agreement states:

Servicing Acknowledgements and Agreements. The parties hereto [that is, Sponsor, Custodian, and Servicer] acknowledge and agree that:

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(c) As and when the Custodian is required by the [MPA] to provide the following, the Sponsor . . . shall provide or cause the Servicer or other entities to provide to the Custodian on a timely basis information, including the electronic data file(s) which list all of the Purchased Eligible Loans for each Participation Purchase Request, necessary for inclusion in:

(i) Loan Schedules and Custodial Certifications; . . .

The Sponsor and the Servicer expressly acknowledge that the Custodian intends to rely on such information in preparing the Loan Schedules, Custodial Certifications, Exception Reports and Settlement Date Reports in delivering documentation required of the Custodian under the [MPA].

SLM ECFC's Noncompliance with the MPA

When SLM ECFC identified the loans in which to sell Participation Interests to the Department, SLM ECFC did not comply with the MPA Section 10(b)(ii); it represented to the Department that each loan subject to any Participation Interest was an Eligible Loan.⁸ Section 10(b) of the 2009-2010 MPA, states:

⁸ Although Sallie Mae (as Servicer) was our auditee, we are reporting SLM ECFC's noncompliance with the MPA, because (1) SLM ECFC identified the loans in which it sold a Participation Interest to the Department, and (2) SLM ECFC is a subsidiary of the same corporate parent as Sallie Mae.

Loan Level Representations. The Sponsor . . . represents and warrants to the Department as to the Eligible Loans subject to any Class A Participation Interest as of each related Purchase Date and as of each date such Loans are subject to a Class A Participation Interest . . . (ii) Each Loan is an Eligible Loan and the description of and information regarding the Loans set forth in the Participation Purchase Request and the Loan Schedule is true, complete and correct.

Based on our audit work at Sallie Mae (as Servicer), we found that SLM ECFC (as Sponsor) did not comply with the terms of the 2009-2010 MPA, because it sold participation interests in 28,913 ineligible loans under the 2009-2010 LPP Program. Sallie Mae did not comply with the terms of its ESA and Custodian Agreement with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor), because Sallie Mae serviced the ineligible loans and included the ineligible loans in the Month-End Loan Schedules submitted to the Department. As a result of selling participation interests in the 28,913 ineligible loans to the Department in the 2009-2010 LPP Program, SLM ECFC received the financial benefit of having a reliable source of funds, which it was not entitled, to make these loan commitments twice: first under the 2008-2009 LPP Program and then again under the 2009-2010 LPP Program.

Under the terms of the MPA, a Sponsor can be held liable for its actions. Section 14(a) of the 2009-2010 MPA, states, “The Sponsor shall be liable in accordance herewith only to the extent of the obligations specifically undertaken by the Sponsor under [the MPA]”

RECOMMENDATIONS

We recommend that the Chief Operating Officer for FSA—

1. Hold SLM ECFC (as Sponsor) responsible, to the extent permitted under Section 14(a) of the MPA, for any liabilities arising from the participation of 28,913 ineligible loans (with a total outstanding loan principal balance of \$96,185,703 as of August 3, 2010) under the 2009-2010 LPP Program.
2. Ensure that Sallie Mae complies with the terms and conditions of its agreements with the Department and related instructions.

Sallie Mae Comments

Sallie Mae did not concur with our draft finding and recommendation. Sallie Mae argued that SLM ECFC did not violate the 2009-2010 MPA when it participated loans in both the 2008-2009 LPP Program and the 2009-2010 LPP Program, because the language in the 2009-2010 MPA was not as broad as stated in the audit report. The 2009-2010 MPA specifically excluded only loans in which the Department has previously purchased a “Participation Interest,” which is a defined and capitalized term under the 2009-2010 MPA, and, therefore, specific to only those loans participated in the 2009-2010 LPP Program. Consequently, the prohibition does not extend to loans that were participated in the 2008-2009 LPP Program. The audit report used the lower case, undefined term “participation interest” and interpreted the phrase as meaning any participation interest, whether created under the 2008-2009 LPP Program or the 2009-2010 LPP Program.

Sallie Mae stated that the 2008-2009 LPP Program and the 2009-2010 LPP Program were two separate and distinct programs with separate documents and that the two programs were not linked. In the 2009-2010 MPA, a “Participation Interest” can only refer to participation interests created under the 2009-2010 MPA, and not to participation interests created under the 2008-2009 MPA.

Sallie Mae disagreed that it violated its ESA or Custodian Agreement with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor). According to Sallie Mae, the ESA provides for the Servicer to “act with reasonable care, using that degree of skill and attention that the Servicer exercises with respect to the student loan files relating to similar student loans that the Servicer services on behalf of SLM Corporation or any of its affiliates” Sallie Mae stated that the proper selection of loans to be participated was a requirement of the 2009-2010 MPA. Sallie Mae (as Servicer) was not a party to the 2009-2010 MPA; SLM ECFC was the Sponsor under the 2009-2010 MPA and was the party responsible for interpreting the 2009-2010 MPA. Sallie Mae (as Servicer) acted at the direction of the Sponsor in placing loans for participation with the Department. Sallie Mae (as Servicer) believes that it acted with reasonable care, and, therefore, cannot be held responsible for the asserted violations with the 2009-2010 MPA.

Finally, Sallie Mae disagreed that a “Sponsor Event of Default” may have occurred. Sallie Mae stated that it responded promptly in communicating with the Department when notified of the finding.

OIG Response

We considered Sallie Mae’s comments and have modified the finding and revised our recommendation. However, we did not modify our conclusion regarding Sallie Mae’s noncompliance with its ESA and Custodian Agreement with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor) and SLM ECFC’s noncompliance with the 2009-2010 MPA.

Sallie Mae’s argument that the capitalization of the term “Participation Interest” in the 2009-2010 MPA limits the ineligibility provision only to loans that were participated twice during that same program year is contradicted by express instructions and guidance to the contrary from the Department.

Throughout the course of both the 2008-2009 and 2009-2010 LPP Programs, FSA conducted multiple webinar sessions to provide guidance to Sponsors, Custodians, and Servicers. FSA provided notice of the live webinars on its public Web site, and after the webinars were completed, FSA posted the presentation slides and, in most instances, the transcript of the webinars on its public Web site, as a resource and guidance for program participants. The presentation slides for three separate webinars state that loans may be participated only once in the LPP Program.

During FSA’s webinar on June 17, 2009,⁹ one of the FSA presenters provided these instructions and guidance:

⁹ FSA provided public notice of the webinar in Electronic Announcement Number 65, “Live Internet Webinar on the Department of Education’s 2009-2010 Loan Purchase Programs,” dated June 15, 2009.

[Director of Policy Liaison & Implementation, FSA]: . . . if a loan is put into our participation and then it is taken out by the lender, redeemed and taken out by paying the amounts and [the Chief Financial Officer, FSA] will talk about that later, you cannot put the loan back into the participation. You may not put the loan back into the participation. And too, if I may to anticipate a question, a loan that was put into the 2008-2009 participation and then is taken out by the lender, to the extent that that loan might also be eligible for 09/10 because there is a little bit of crossover, that loan cannot be put into the 09/10 participation. Once it is in a participation and it comes back to the lender, it never goes into participation again, either from the other year or from the same year.

The same point was made again, later in the webinar, by another presenter:

[Chief Financial Officer, FSA]: And to follow up I think I saw part of that question was, for example, if the disbursement date got pushed out. So if it was eligible for 08/09 but the final disbursement date got pushed into October, it is no longer eligible to have to be redeemed and it cannot be re-participated in the 09/10 program.

Because Sallie Mae (as Servicer) serviced ineligible loans, it did not comply with the terms of the ESA with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor), as described in the finding. In addition, because Sallie Mae (as Servicer) prepared Loan Schedules that contained ineligible loans, it did not comply with Section 11(c) of the Custodian Agreement with Wells Fargo (as Custodian) and SLM ECFC (as Sponsor). In preparing the data for the Loan Schedules, Sallie Mae (as Servicer) should have exercised due care and reviewed its CLASS loan servicing system, which contained the loans' information that showed the loans were participated in both the 2008-2009 and 2009-2010 LPP Programs. Sallie Mae (as Servicer) had access to the same data as SLM ECFC (as Sponsor) because the data resided on the same CLASS loan servicing system that was used by both parties.

We concurred with Sallie Mae's comments concerning a Servicer and/or Sponsor Event of Default. As a result, we removed the language in the finding and the associated recommendation regarding a Servicer and/or Sponsor Event of Default. We have modified our finding and revised our recommendations.

OTHER MATTERS

Lack of Cross-Training in the Monetary Processing Department

During our walk-through of Sallie Mae's mail facility at its Wilkes-Barre, Pennsylvania, location, we discovered that there was only one employee, a Monetary Suspense Research Analyst (Analyst), who was trained to perform extensive research on collections that had not been posted to a borrower's account in a timely fashion. The Analyst performed the last research step on payments prior to payments being filed as unclaimed property. The Analyst reviewed payments that could not be processed (for example, a check without a normal payment amount and borrower's name, or a cashier's check without borrower information). Although Sallie Mae's Director of Monetary Processing stated that staff members were cross-trained throughout the collection and claims process, the Analyst was the only employee trained to perform this

function. Employees who are cross-trained at different job functions can help ensure the effectiveness and efficiency of daily operations through understanding processes and performing consistently.

Incorrect Loan Status Codes Reported

Sallie Mae reported incorrect loan status codes on the Month-End Loan Schedules. According to the “Loan Schedule and Custodial Certification Data File Fields – Definition and Submission Procedures,” attached to the Department’s Electronic Announcement Number 62, updated September 2, 2009, the loan status codes contained in Appendix B of the NSLDS Guaranty Agency Data Provider Instructions (GA Data Provider Instructions) were to be reported under the Loan Status field on the Month-End Loan Schedule. Sallie Mae provided the Department with Month-End Loan Schedules for SLM ECFC, ALL, and USC. Of the 65 loans we reviewed, 36 loans had loan status codes that were reported as “PF” (Paid in Full) on the Month-End Loan Schedules. For the 36 loans, we compared the loan status codes contained in NSLDS and Sallie Mae’s CLASS system to the Month-End Loan Schedules. For 27 of the 36 loans, NSLDS and CLASS both showed that the loans were not paid in full as reported on the Month-End Loan Schedules.¹⁰ As a result, Sallie Mae did not report the loan status codes as shown in NSLDS, but instead reported incorrect loan status codes on the Month-End Loan Schedules. The incorrect loan status codes on the Month-End Loan Schedules did not result in any negative financial impact on the Department or borrowers.

LIDs Not Properly Updated in NSLDS

We identified 20 of the 60 randomly sampled loans for which the Original LID or the Custodian LID was not properly updated in NSLDS. The guaranty agencies are responsible for updating NSLDS. Although Sallie Mae was not responsible for the incorrect data in NSLDS, the discrepancies found represented a data reliability problem concerning the loans’ ownership histories contained in NSLDS. Specifically, we found:

- For 15 loans, the loans’ lender histories in NSLDS showed that the Original LID was reported in both the Original LID field and Custodian LID field, even though the loans were participated and held by the Custodian. We identified 14 SLM ECFC loans and 1 ALL loan in this category.
- For one ALL loan, the loan’s lender history in NSLDS showed that the Custodian LID was reported in both the Original LID field and Custodian LID field.
- For four SLM ECFC loans, the loan’s lender histories in NSLDS only reported the Original LID. A Custodian LID was never reported in NSLDS.

For all 20 loans described above, the loans’ lender histories were correct in the CLASS system.

¹⁰ We did not verify nine loans because Sallie Mae was no longer the Servicer of these loans.

Sallie Mae Comments

In its comments, Sallie Mae stated that—

- Its employees were cross-trained and that there have been 10 individuals since January 2010 that have performed the Suspense/Unclaimed property process. Sallie Mae provided a spreadsheet detailing the time spent by each individual on the Suspense/Unclaimed property process.
- When participated loans are Put to the Department, they are transferred from CLASS to Sallie Mae's Department of Education Loan Servicing System (CLASS-ED). The loans are identified in the CLASS system and subsequent Month-End Loan Schedules as paid in full, but the CLASS-ED system reflects the loans' proper status.
- In regards to LIDs not properly updated in NSLDS, for the third bullet, the loans were part of a direct Put sale, and there is no requirement to sell a loan to a Custodian before a direct Put sale. (Sallie Mae provided explanations for the other discrepancies we noted, but did not dispute them.)

OIG Response

Our responses to Sallie Mae's comments are provided below:

- Sallie Mae did not provide adequate documentation to support that cross-training was performed in the Monetary Processing Department. The spreadsheet Sallie Mae provided indicated that only 8 individuals performed the Suspense/Unclaimed property function (not 10), and did not provide the dates that these 8 individuals performed the function.
- According to the "Loan Schedule and Custodial Certification Data File Fields – Definition and Submission Procedures," the NSLDS loan status codes contained in Appendix B of the GA Data Provider Instructions were required to be reported under the Loan Status field on the Month-End Loan Schedule. For 27 of the 65 loans we reviewed, Sallie Mae did not report the correct loan status codes as required. Sallie Mae reported a "PF" loan status code for these loans, which was not the proper status of the loans at the time, because the loans were not Paid in Full. Rather, Sallie Mae used the "PF" code to indicate that loans were transferred from the CLASS to the CLASS-ED servicing system. As a result, Sallie Mae reported incorrect loan information to the Department through the Month-End Loan Schedules.
- Under the LPP Program, a Custodian held title to a loan in which a participation interest was sold to the Department. As such, the loan's lender history in NSLDS should have reflected the Custodian LID for the period of time the loan was subject to a participation interest, regardless whether the Sponsor redeemed the loan or sold the loan to the Department under the MPA's Put Option.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our audit objective was to determine whether Sallie Mae, as a Servicer under the ECASLA LPP Program, was in compliance with its ESAs. Specifically, our audit was limited to determining whether Sallie Mae (as Servicer) (1) had an ESA with each Custodian; (2) prepared and submitted Weekly Loan Schedules, Month-End Loan Schedules, Exception Reports, and Lender's Interest and Special Allowance Request and Reports; (3) coded loans as owned by the Custodian; and (4) remitted collections on LPP Program loans to the Custodian. Our audit covered Sallie Mae's servicing of 2008-2009 LPP Program loans and selected aspects of its servicing of 2009-2010 LPP Program loans.

To achieve our objective, we performed the following procedures:

1. Reviewed relevant laws, regulations, guidance, and agreements, including applicable portions of (a) ECASLA and Public Law 110-350; (b) Federal Register notices dated July 1 and July 17, 2008 (73 FR 37422 and 73 FR 41048, respectively); (c) the Department's electronic announcements; (d) the Department's "Loan Participation Purchase Program Frequently Asked Questions"; (e) the 2008-2009 and 2009-2010 MPAs issued by the Department; and (f) Sallie Mae's ESAs.
2. Interviewed Sallie Mae officials from the following departments: Claim, Lender Relations, Compliance and Audit Support, Financial Reconciliation, Risk Management and Internal Audit Management, General Counsel (Legal), Monetary Processing, Training, and Mail Center and Customer Service.
3. Reviewed the MPA Adoption Agreements and Custodian Agreements for SLM ECFC, ALL, and USC.
4. Compared all three of Sallie Mae's ESAs (for SLM ECFC, ALL, and USC) with the requirements of Sections 12(c) and 18 of the MPA.
5. Verified that Sallie Mae performed the duties required under the ESAs by obtaining and reviewing reports generated by Sallie Mae.
6. Verified that Sallie Mae prepared the Lender's Interest and Special Allowance Reports under the Custodian LIDs for 2008-2009 LPP Program loans.
7. Obtained and analyzed the January 2009 through September 2009 Month-End Loan Schedules for the 2008-2009 LPP Program submitted by Sallie Mae for ALL and USC. Obtained and analyzed all Month-End Loan Schedules for the 2008-2009 LPP Program (combined in one file) for SLM ECFC.
8. Reviewed 60 randomly sampled loans of the 4,600,610 total loans from the 2008-2009 LPP Program and 5 judgmentally sampled loans of the 112,624 total loans from SLM ECFC that were not sold to the Department under the 2008-2009 Loan Purchase

Commitment Program (see **2008-2009 LPP Program Loans Sample Selections** section below for complete information on the selection of our samples). For all 65 loans sampled, we reviewed the Notice of Intent approval dates, loan type eligibility, loan lender history, loan disbursement dates, Master Promissory Notes, and general loan information from the NSLDS and CLASS systems.

9. Reviewed collections made on the 60 randomly sampled loans to determine whether Sallie Mae remitted all collections to the Custodians within 2 business days of receipt.

We obtained an understanding of the system of internal controls, policies, procedures, and practices applicable to Sallie Mae's servicing of LPP Program loans through interviews, walk-through of processes, and a review of prior audit reports and reviews.¹¹ We identified an internal control weakness in Sallie Mae's lack of cross-training in the monetary processing department. This weakness is fully discussed in the Other Matters section of this report.

We relied, in part, on computer-processed data on the Month-End Loan Schedule data Sallie Mae provided to us that consisted of a total of 4,600,610 LPP Program loans for SLM ECFC, USC, and ALL. Of the 4,600,610 LPP Program loans: 4,587,246 were from the October 31, 2009, Month-End Loan Schedule for SLM ECFC; 11,893 were from the September 30, 2009, Month-End Loan Schedule for USC; and 1,471 were from the September 30, 2009, Month-End Loan Schedule for ALL. We used data analysis software to combine and summarize all the data Sallie Mae provided by loan number and loan type. To determine whether the data provided by Sallie Mae was complete and accurate, we performed tests of the data. We compared data from the NSLDS loan participation tables to the Month-End Loan Schedule data.¹² We found that Sallie Mae's record count either matched the NSLDS totals or Sallie Mae's record count was greater; however, the difference was insignificant. We reviewed the loan information contained in the Month-End Loan Schedules, the CLASS system, and NSLDS. Based on our tests, we concluded that the Month-End Loan Schedule data Sallie Mae provided were sufficiently reliable for the purpose of our audit.

2008-2009 LPP Program Loans Sample Selections

Sallie Mae serviced 4,600,610 loans during the 2008-2009 LLP Program for three Sponsors: SLM ECFC, USC, and ALL. To obtain an unbiased cross section of the 2008-2009 LLP Program loans Sallie Mae serviced, we selected a random sample from each of the three Sponsors. We used data analysis software to randomly select a total of 60 loans from the 2008-2009 LPP Program. For SLM ECFC, we randomly selected 40 of the total 4,587,246 LPP Program loans to test. For USC, we randomly sampled 10 of the total 11,893 LPP Program loans to test, and for ALL, we randomly sampled 10 of the total 1,471 LPP Program loans to test.

¹¹ The prior audit reports and reviews we analyzed were Sallie Mae's Annual 10-K filings for 2007 and 2008, Sallie Mae's Quarterly 10-Q filing for 2009, Sallie Mae's Internal Audit reports, Sallie Mae's Attestation Compliance reports, Sallie Mae's Agreed Upon Procedures Attestation Engagement Reporting Package for the 2008-2009 LPP Program, and Sallie Mae's Common Review Initiative reports conducted by guaranty agencies.

¹² Loan Participation Tables are tables found in NSLDS that contain loan-level detail data and loan-level history for loans participated in the 2008-2009 and 2009-2010 LPP Programs.

We judgmentally selected 5 of 112,624 loans from SLM ECFC that were not sold to the Department from the 2008-2009 LPP Program.¹³ We selected the judgmental sample based on the five loans with the most recent disbursement dates to determine whether Sallie Mae correctly serviced the loans that were not sold to the Department from the 2008-2009 LPP Program.

To identify loans in which a participation interest was sold to the Department in both the 2008-2009 and 2009-2010 LPP Programs, we compared the LIDs of all SLM ECFC LPP Program loans by using an NSLDS query. This query selected only the loans that had the LID associated with Wells Fargo as Custodian for SLM ECFC for the 2009-2010 LLP Program (LID 834487), which also contained the LID associated with Wells Fargo as Custodian for SLM ECFC for the 2008-2009 LLP Program (LID 834422). Loans with both these LIDs were participated in both the 2008-2009 and 2009-2010 LPP Programs.

We performed our fieldwork at Sallie Mae's loan servicing center located in Wilkes-Barre, Pennsylvania, from January 19, 2010, to July 8, 2010. We discussed the results of our audit with Sallie Mae on October 20, 2010.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹³ In order to select our judgmental sample, we first randomly sampled 25 of the 112,624 loans from SLM ECFC that were not sold to the Department. We then judgmentally sampled 5 loans from the 25 randomly sampled loans.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

This report incorporates the comments you provided in response to the draft report. If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Department of Education official, who will consider them before taking final Departmental action on this audit:

William J. Taggart
Chief Operating Officer, Federal Student Aid
U.S. Department of Education
Union Center Plaza, Room 122G1
830 First Street, N.E.
Washington, DC 20202

It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General for Audit

Electronic cc:
Laurent Lutz, Executive Vice President and General Counsel, SLM ECFC

Attachment

Abbreviations, Acronyms, and Short Forms Used in this Report

ALL	Access to Loans for Learning Student Loan Corporation
Analyst	Monetary Suspense Research Analyst
CLASS	Sallie Mae's Loan Servicing System
Custodian	A national or state-chartered bank that is also an eligible lender under the Higher Education Act of 1965, as amended, that holds, in a trust, the loans in which the Department purchases a participation interest.
ECASLA	Ensuring Continued Access to Student Loans Act of 2008
Department	U.S. Department of Education
ESA	Eligible Servicing Agreement
FFEL	Federal Family Education Loan
FSA	Federal Student Aid
GA Data Provider Instructions	NSLDS Guaranty Agency Data Provider Instructions
LID	Lender Identification Number
LPP Program	Loan Participation Purchase Program
M&T Bank	Manufacturers and Traders Trust Company
MPA	Master Participation Agreement
NSLDS	National Student Loan Data System
PF	Paid in Full
Sallie Mae	Sallie Mae, Inc.
Servicer	An organization (which may be the Sponsor) that services loans pursuant to an ESA.
SLM ECFC	SLM Education Credit Finance Corporation
Sponsor	Eligible lender or beneficial holder of loans in which the Department purchases a participation interest.

USC

USC Credit Union

Wells Fargo

Wells Fargo Bank, National Association

Attachment



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ANDREW G. WACHTEL
Senior Vice President and Deputy General Counsel

March 24, 2011

BY E-MAIL AND U.S. POSTAL SERVICE

U.S. Department of Education
Office of Inspector General
32 Old Slip, 26th Floor
New York, NY 10005
Attention: Daniel Schultz
Regional Inspector General for Audit

Re: Draft Audit Report Dated February 17, 2011 re Sallie Mae's ECASLA Loan Participation Program (the "Draft Audit Report")
Control No. ED-OIG/A02K0002

Dear Mr. Schultz:

This letter responds to the Finding in the above-referenced Draft Audit Report prepared by the United States Department of Education Office of Inspector General ("OIG"), as well as the Other Matters cited toward the end of the Draft Audit Report.

FINDING: SALLIE MAE SERVICED INELIGIBLE LOANS DURING THE 2009-2010 LPP PROGRAM

This Finding relates to the fact that certain loans were participated in the 2008-2009 Loan Participation Program (the "08-09 Program"), redeemed, and then subsequently participated in the 2009-2010 Loan Participation Program (the "09-10 Program").

The Finding asserts that under section 3 of the 2009-2010 Master Participation Agreement (the "09-10 MPA"), loans are ineligible for the 09-10 Program "if the Department had previously purchased a participation interest in the loans." We disagree with that fundamental premise, as it ignores the language actually used in the 09-10 MPA. The language in the 09-10 MPA is not as broad as the OIG contends. The language in the 09-10 MPA specifically excludes only loans in which the Department has previously purchased a "Participation Interest," which is a defined term under the 09-10 MPA. That defined term can only refer to participation interests created under the 09-10 MPA, and not to participation interests created under the 08-09 MPA. Consequently, the prohibition does not extend to loans that were participated in the 08-09 Program, and the re-participation of those loans is permitted.

As quoted in the Draft Audit Report, Section 3 of the 09-10 MPA defines an "Eligible Loan" as:

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[A] Loan that meets the following criteria as of the applicable Purchase Date...[w]ithout limitation, the following loans shall not be eligible for sale to the Department pursuant to the terms of this Agreement...(v) loans in which the Department has previously purchased a *Participation Interest (emphasis added)*, whether or not that interest has been redeemed.

The OIG paraphrased the prohibition in its opening argument, and, significantly, used the lower case, undefined term “participation interest,” interpreting that phrase as meaning any participation interest, whether it was created under either the 08-09 Program (through the 2008-2009 Master Participation Agreement (the “08-09 MPA”)) or a participation interest created under the 09-10 MPA.

However, the prohibition in the 09-10 MPA is clear: it excludes from the definition of an Eligible Loan for purposes of the 09-10 Program only those loans in which the Department had previously purchased a “Participation Interest,” which itself is a defined term under the 09-10 MPA. It does not in any manner reference the earlier 08-09 MPA, the 08-09 Program, or participation interests created under the 08-09 MPA. It does not use the lower case term “participation interests” as a generic term that might refer to participation interests created under either the 08-09 Program or under the 09-10 Program. It specifically uses the upper case, defined term “Participation Interest.”

As you know, the 08-09 Program and the 09-10 Program are two separate and distinct programs; the two programs were not linked. The Department specifically chose not to create the 09-10 Program through an extension or renewal of the 08-09 MPAs; it instead chose to create the 09-10 Program through completely separate documents – that is, entirely new documents were required to be executed to participate in the 09-10 Program. These documents, and the 09-10 Program itself, are separate and distinct from, and not linked with, the 08-09 Program.

Under the terms of the 09-10 MPA, which governs the 09-10 Program, the capitalized term “Participation Interest” is a defined term:

“Participation Interest” means a Class A Participation Interest or a Class B Participation Interest.

“Class A Participation Interest” means a participation interest in one or more Eligible Loans, which consists of (A) a 100% beneficial ownership interest in the principal portion of such Eligible Loans, and (B) the right to receive the Participant’s Yield in respect of such Eligible Loans.”

“Class B Participation Interest” means a participation interest in one or more Eligible Loans which consists of (A) the right to either redeem such Eligible Loans or to exercise the Put Option pursuant to Section 15 hereof and (B) the right to receive all Collections on such Eligible Loans other than (1) the Participant’s Yield, and (2) principal collections on such Eligible Loans.”

Both a Class A Participation Interest and a Class B Participation Interest, as those terms are used in the 09-10 MPA, can only come into existence after **both** (i) the 09-10 MPA is fully executed and (ii) the Adoption Agreement that is attached to the 09-10 MPA as Exhibit A is fully executed. As stated in the 5th “WHEREAS” clause of the Recitals to the 09-10 MPA:

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WHEREAS, upon the execution of the Adoption Agreement, the Custodian shall be appointed by the Sponsor and the Department to hold legal title to each such loan and ... *to issue the Participation Interests in such loans as provided herein* [emphasis added].

It is clear that “Participation Interests,” a defined term under the 09-10 MPA, cannot be created or issued until *after* the occurrence of all of the following: (i) the execution of the 09-10 MPA, (ii) the execution of the Custodian Agreement, and (iii) the subsequent issuance of Participation Interests as provided in those two documents. *Therefore, because the capitalized, defined term “Participation Interests,” as used in the exclusion from the Eligible Loan definition in the 09-10 MPA, required in its very definition that they could only be issued after the execution of both the 09-10 MPA and the Custodian Agreement that was attached to the 09-10 MPA, the term could not have referred to the lower case “participation interests” that may have been issued under the earlier, separate 08-09 Program.* Had the Department intended to exclude from the Eligible Loan definition those loans in which participation interests in the 08-09 Program had been previously purchased by the Department, it should have done one of the following in the Eligible Loan definition exclusion language in the 09-10 MPA: (a) used the lower case, uncapitalized term “participation interests,” or (b) specifically referred to “participation interests sold in either the 08-09 or 09-10 Programs.”

In conclusion, the language of the definition of “Eligible Loan” in the 09-10 MPA that specifically excludes “loans in which the Department has previously purchased a Participation Interest, whether or not that interest has been redeemed” can therefore only exclude loans in which the Department previously purchased a Participation Interest *under the 09-10 Program*. That is, all that is impermissible with respect to the 09-10 Program is selling Participation Interests in loans that were already participated in the 09-10 Program itself, because of the use of the defined term “Participation Interests.” Participating loans that had been participated in the earlier 08-09 Program is not prohibited. **Therefore, we respectfully submit that Sallie Mae, Inc. (“SMI”) did not violate either the 09-10 MPA or any applicable Servicing Agreement by reason of the re-participation of such loans.**

The remaining OIG statements in this Finding follow from what we believe is this erroneous interpretation of the language of the MPA. OIG asserts that SMI violated its Custodian Agreements and Servicing Agreements because it prepared loan schedules that contained loans that had been participated in both the 08-09 Program into the 09-10 Program. Again, we disagree with the fundamental premise that the loans were not eligible for participation in both the 08-09 Program and again in the 09-10 Program. Further, we disagree that this could be construed as a servicing error by SMI and thus a violation by SMI of its Servicing Agreements or Custodian Agreements. The Servicing Agreements provide for the Servicer to “act with reasonable care, using that degree of skill and attention that the Servicer exercises with respect to the student loan files relating to similar student loans that the Servicer services on behalf of SLM Corporation or any of its affiliates....” The proper selection of loans to be participated is a requirement of the 09-10 MPA. SMI, as the Servicer, is not a party to the MPA; SLM Education Credit Finance Corporation is the Sponsor under the Sallie Mae MPA and is the party responsible for interpreting the MPA. The Servicer acts at the direction of the Sponsor in placing loans for participation with the Department. We believe that SMI satisfied its requirements under the Servicing Agreement and acted with reasonable care, and therefore cannot be held responsible for asserted violations of the applicable MPA.

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Second, we disagree with OIG's assertion that this re-participation of loans may constitute a "Sponsor Event of Default." When Sallie Mae was notified of OIG's position, we responded promptly with communications among Sallie Mae, OIG, and the Department of Education's Office of Federal Student Aid ("FSA"). Given the ongoing communications among the parties, the fact that Sallie Mae was acting in good faith in interpreting the provisions of the 09-10 MPA when it participated the loans, and, as OIG itself determined, there was likely no harm to ED as a result of Sallie Mae participating these loans in both the 08-09 and 09-10 Programs, we do not believe the Department should be imposing the default interest rate. We therefore respectfully submit that FSA should determine that no violation occurred and should close the matter.

OTHER MATTERS RAISED IN THE DRAFT AUDIT REPORT

At the end of the Draft Audit Report, OIG raised three additional matters (although no Findings were issued with respect to these Other Matters). Set forth below are these Other Matters, together with Sallie Mae's response:

1. Lack of Cross-Training in the Monetary Processing Department

OIG Observation:

During our walk-through of Sallie Mae's mail facility at its Wilkes-Barre, Pennsylvania, location, we discovered that there was only one employee, a Monetary Suspense Research Analyst (Analyst), who was trained to perform extensive research on collections that had not been posted to a borrower's account in a timely fashion. The Analyst performed the last research step on payments prior to payments being filed as unclaimed property. The Analyst reviewed payments that could not be processed (for example, a check without a normal payment amount and borrower's name, or a cashier's check without borrower information). Although Sallie Mae's Director of Monetary Processing stated that staff members were cross-trained throughout the collection and claims process, the Analyst was the only employee trained to perform this function. Employees who are cross-trained at different job functions can help ensure the effectiveness and efficiency of daily operations through understanding processes and performing consistently.

Sallie Mae Response:

As stated by the Director of Monetary Processing during the OIG's walk-through of Sallie Mae's mail facility, employees at Sallie Mae are cross-trained. Sallie Mae's Quality Metric System (or QMS, a system that monitors employees' production, quality, and time spent performing a task) shows that from January, 2010, there have been 10 individuals who have performed this Suspense/Unclaimed property process, rather than the one individual as claimed by the OIG. (Attached under separate cover is a copy of the QMS report, which provides evidence of the existence of cross-training for this function.)

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2. Incorrect Loan Status Codes Reported

OIG Observation:

Sallie Mae reported incorrect loan status codes on the Month-End Loan Schedules. Sallie Mae provided the Department with Month-End Loan Schedules for SLM ECFC, ALL, and USC. The Month-End Loan Schedules contained loan status codes in the Loan Status field, which is the loan status code reported to NSLDS. Of the 65 loans we reviewed, 36 loans had loan status codes that were reported as “PF” (Paid in Full) on the Month-End Loan Schedules. For the 36 loans, we compared the loan status codes contained in NSLDS and Sallie Mae’s CLASS system to the Month-End Loan Schedules. For 27 of the 36 loans, NSLDS and CLASS both showed that the loans were not paid in full as reported on the Month-End Loan Schedules. As a result, Sallie Mae reported incorrect loan status codes on the Month-End Loan Schedules. The incorrect loan status codes on the Month-End Loan Schedules did not result in any negative financial impact on the Department or borrowers.

Sallie Mae Response:

When participated loans are PUT to the Department, those PUT loans are transferred from Sallie Mae’s CLASS Commercial Servicing System to Sallie Mae’s Department of Education Loan Servicing System (CLASS-ED) for continued servicing. Once a loan is PUT to the Department, the status on CLASS Commercial is updated to reflect a paid in full status (PF). The Month End Loan Schedules are created from Sallie Mae’s CLASS Commercial System. Therefore, any loans that were PUT to the Department would appear on these Month End Loan Schedules as reflecting a PF status. However, these loans would reflect the proper loan statuses/balances on the CLASS-ED system. Loans that are participated that have not been PUT would show the correct loan statuses/balances on the CLASS Commercial system. Sallie Mae completed a scan of all 65 loans sampled as part of this review. It was determined that the statuses in the Month End Loan Schedule (month end September, 2009; report created October 1, 2009) matched the loan status on CLASS Commercial.

3. LIDs Not Properly Updated in NSLDS

OIG Observation:

We identified 20 of the 60 randomly sampled loans for which the Original LID or the Custodian LID was not properly updated in NSLDS. The guaranty agencies are responsible for updating NSLDS. While Sallie Mae was not responsible for the incorrect data in NSLDS, the discrepancies found represented a data reliability problem concerning the loans’ ownership histories contained in NSLDS. Specifically, we found:

- 1) For 15 loans, the loans’ lender histories in NSLDS showed that the Original LID was reported in both the Original LID field and Custodian LID field, even though the loans were participated and held by the Custodian. We identified 14 SLM ECFC loans and 1 ALL loan in this category.

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- 2) For one ALL loan, the loan's lender history in NSLDS showed the Custodian LID was reported in both the Original LID field and Custodian LID field.
- 3) For four SLM ECFC loans, the loan's lender histories in NSLDS only reported the Original LID. A Custodian LID was never reported in NSLDS.

For all 20 loans described above, the loans' lender histories were correct in the CLASS system.

Sallie Mae Response:

- 1) Sallie Mae identified an issue with CAM RT 16 programming that prevented the reporting of loan sales on specific loans between 1/1/08-2/6/10. This reporting issue was corrected in February, 2010 and impacted only a limited number of guarantor agencies. Restoration files were created to include all active loans impacted by this issue and were sent to the appropriate guarantors between April and August 2010.
- 2) ACS was the original ED Servicer of this ALL loan when the loan was originally PUT by Sallie Mae and the loan is now being serviced by Department of ED/Great Lakes. Great Lakes confirmed that ACS listed the original lender code as the Custodian LID and the Original LID as the Custodian LID when the loan transferred from ACS to Great Lakes.
- 3) The identified loans were a part of a direct PUT sale. There is no requirement to sell a loan to a Custodian prior to a PUT sale. Loans can be PUT under the original lender code.

If you have any questions or need further information, feel free to call me at the above number or email me at the above email address.

At your request, I am also attaching a Word version of this letter to satisfy the accessibility requirements of Section 508 of the Rehabilitation Act of 1973, as amended.

Sincerely,



Andrew G. Wachtel

ATTACHMENTS:
Excel Spreadsheet
Word version