



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
Chicago/Kansas City/Dallas Audit Region

December 15, 2009

Control Number
ED-OIG/A05J0013

Paul Thornburgh
President and CEO
Great Lakes Educational Loan Services, Inc.
2401 International Lane
Madison, WI 53704-3192

Dear Mr. Thornburgh:

This **Final Audit Report**, *Great Lakes Educational Loan Services, Inc.'s Compliance with Selected Requirements of the Ensuring Continued Access to Student Loans Act of 2008*, presents the results of our audit. The objectives of the audit were to determine whether Great Lakes Educational Loan Services, Inc. (Great Lakes), as a Servicer under the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA)¹ Loan Participation Purchase (LPP) Program, complied with the program requirements for (1) having an Eligible Servicing Agreement (ESA) with the Custodian;² (2) preparing and submitting Weekly Loan Schedules, Month-End Loan Schedules, Exception Reports, and Lender's Interest and Special Allowance Request and Reports; (3) coding loans as owned by the Custodian; and (4) remitting collections on LPP Program loans to the Custodian. Our audit covered Great Lakes' servicing of LPP Program loans for academic year 2008-2009 during the period from August 29, 2008, through June 30, 2009.

The audit did not disclose any material instances of noncompliance. Therefore, this audit report does not include any recommendations for corrective actions.³

¹ Pub. Law 110-227, enacted on May 7, 2008.

² A Custodian is a third party to the LPP Program that holds the loans in trust.

³ We provided a preliminary copy of this report to Great Lakes for comments. Great Lakes responded with editorial comments that we incorporated into this report.

BACKGROUND

Great Lakes is the principal loan servicing subsidiary of the Great Lakes Higher Education Corporation (GLHEC). GLHEC is a non-profit corporation created in 1967 and headquartered in Madison, Wisconsin. It serves more than 2,700 schools and 1,400 lenders across the nation. GLHEC employs more than 1,200 professionals, services student loans for more than 2 million borrowers, and holds guarantees on nearly \$51 billion in loans under the Federal Family Education Loan (FFEL) Program. Under the ECASLA LPP Program, Great Lakes services loans in which the U.S. Department of Education (Department) purchased a participation interest.

ECASLA added a new Section 459A to the Higher Education Act of 1965, as amended (the HEA), giving the Department the authority to purchase, or enter into forward commitments to purchase, subsidized Stafford, unsubsidized Stafford, and PLUS loans. The Department's purchasing of loans was intended to encourage eligible FFEL Program lenders to provide students and parents access to Stafford and PLUS loans for academic year 2008-2009.⁴ Under the LPP Program, the Department purchases participation interests in FFEL Program loans made by lenders (Sponsors) for academic year 2008-2009.⁵ The Department's participation interest represents a 100 percent beneficial ownership in the principal portion of such loans. The loans in which the Department purchases a participation interest under the LPP Program are held in a trust by the Custodian. The LPP Program for academic year 2008-2009 expired on October 15, 2009. Upon expiration, Sponsors had to redeem the Department's participation interest by either (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.

The LPP Program is conducted pursuant to the terms of a Master Participation Agreement (MPA).⁶ According to Section 12(a) of the MPA, each loan that is subject to the LPP Program shall be serviced by a Servicer (which may also be the Sponsor) at the direction of the Custodian under the terms of an ESA and in accordance with Department regulations. Section 12(c) of the MPA specifies the terms required to be included in an ESA.

⁴ Pub. Law 110-350, enacted on October 7, 2008, extended the Department's loan purchase authority to loans for academic year 2009-2010. The Department will offer a separate LPP Program for academic year 2009-2010 loans.

⁵ Made for academic year 2008-2009 means that the loan was for a loan period that includes, or begins on or after, July 1, 2008, and the first disbursement was made on or after May 1, 2008, but not later than July 1, 2009, and the loan was fully disbursed no later than September 30, 2009.

⁶ The MPA was issued on July 25, 2008, as an attachment to the Department's "Loan Purchase Programs Electronic Announcement #8."

For academic year 2008-2009, Great Lakes serviced ECASLA LPP Program loans for eight Sponsors.

Table 1: Academic Year 2008-2009 Sponsors

Sponsor	Custodian	Loan Principal (as of March 31, 2009)
Sallie Mae*	Wells Fargo	\$358,325,152
Northstar	Wells Fargo	\$190,371,656
Edamerica	Bank of New York Mellon	\$57,944,798
Student Lending Works	Wells Fargo	\$18,992,241
Nelnet	M&T Bank	\$5,905,918
Graduate Leverage	Wells Fargo	\$808,815
National Education Financing	Wells Fargo	\$331,532
Key Bank**	Bank of New York Mellon	\$0
Total		\$632,680,113
* SLM Education Credit Finance Corporation.		
** Key Bank participated in the program from November 13, 2008, through December 9, 2009, when it redeemed its loans from the LPP Program. As a result, Key Bank's loan principal balance was zero as of March 31, 2009.		

AUDIT RESULTS

The objectives of our audit were to determine whether Great Lakes, as a Servicer under the ECASLA LPP Program, complied with the program requirements for (1) having an ESA with the Custodian; (2) preparing and submitting Weekly Loan Schedules, Month-End Loan Schedules, Exception Reports, and Lender's Interest and Special Allowance Request and Reports; (3) coding loans as owned by the Custodian; and (4) remitting collections on LPP Program loans to the Custodian.

During our audit, we did not identify any material instances of noncompliance with the LPP Program's requirements (i.e., ECASLA, MPA, ESAs, and Federal Student Aid announcements) for the areas we tested. Because the scope of our audit was limited, the results cannot be projected to those areas and items that we did not test (See **Objectives, Scope, and Methodology**).

We did identify one minor instance of noncompliance. When no discrepancies existed, Great Lakes did not prepare Exception Reports. We also identified two minor types of inaccuracies involving LPP Program loans serviced by Great Lakes. However, the inaccuracies were not the result of any noncompliance on the part of Great Lakes (See **Other Matters**).

Exception Reports Not Prepared When No Discrepancies Identified

Great Lakes did not prepare Exception Reports stating that there were no discrepancies to report, as required by the ESAs with Wells Fargo as Custodian. According to Section 5(d) of the MPA, "On the initial Purchase Date . . . the Custodian shall prepare and deliver to the Department . . . a

report listing all discrepancies from the Loan Documents that are required to be delivered to the Custodian or its designee with respect to such Eligible Loans (an “Exception Report”).”

All five ESAs with Wells Fargo as Custodian state that the Sponsor or the Servicer should send to the Department an Exception Report, including a report that expressly specifies no discrepancies were identified.⁷ The five ESAs included detailed information that varies as to the responsibility of providing the Exception Report to the Department.

- One of the five ESAs (Northstar) stated that the Sponsor should provide the Exception Report to the Department.
- One of the five ESAs (Sallie Mae) stated that the Sponsor should provide, or cause the Servicer to provide, the Exception Report to the Department.
- Two of the five ESAs (Graduate Leverage and Student Lending Works) stated that the Servicer should provide the Exception Report to the Department.
- The remaining ESA (National Education Financing) stated that the Servicer should provide the Exception Report, but the ESA has conflicting information about whether it was required when no discrepancies are identified.

Great Lakes’ Chief Servicing Officer stated that there is an implied understanding that an Exception Report is submitted only if Great Lakes originated a loan with a discrepancy in the loan documents.

OTHER MATTERS

We identified two minor types of inaccuracies involving LPP Program loans serviced by Great Lakes: (1) common-line unique identification (UID) numbers recorded on Weekly Loan Schedules were changed, and (2) incomplete lender histories were recorded in the National Student Loan Database System (NSLDS). However, these types of inaccuracies were not caused by Great Lakes.

UID Numbers Changed on Weekly Loan Schedules

We identified 17 (of 19,784) Northstar loans whose UID numbers reported on subsequent Weekly Loan Schedules had changed from the UID numbers reported on the initial Weekly Loan Schedules containing the loans.⁸ According to Great Lakes’ Chief Servicing Officer, there appear to be two explanations for the change in UID numbers. Both explanations relate to the blanket guarantee program.⁹ Under the blanket guarantee program, a lender assigns the UID

⁷ The other three ESAs with different Custodians had no provision regarding providing Exception Reports when no discrepancies were identified. The three included the ESAs with (1) Edamerica as Sponsor and Bank of New York Mellon as Custodian, (2) Key Bank as Sponsor and Bank of New York Mellon as Custodian, and (3) Nelnet as Sponsor and M&T Bank as Custodian.

⁸ GLHEC did not guarantee any of the 17 loans.

⁹ According to Great Lakes’ Chief Servicing Officer, Northstar and Key Bank were the only two lenders that originated their own loans and, therefore, could use the blanket guarantee program. For the remaining six lenders, Great Lakes originated the loans and did not use the blanket guarantee program.

number when it originates the loan. After the lender disburses the loan, it submits the loan to a guaranty agency to receive a guarantee for the loan. Under the blanket guarantee program, the loan is disbursed prior to receiving a guarantee instead of being guaranteed prior to disbursement. The Chief Servicing Officer stated that the two explanations are based on correspondence with a guaranty agency, Northstar, and Great Lakes' information technology personnel.

Explanation 1: A student submitted the same loan application to multiple lenders. This resulted in multiple lenders originating and disbursing loans, each with a UID number, for the same student. Then, when the lenders submitted their loans for guarantee, the guaranty agency discovered multiple UID numbers. Whichever loan submission the guaranty agency received first was guaranteed, and the subsequent loan submissions were rejected. If a loan was rejected, the lender canceled the loan, and the disbursement was returned. When the guaranty agency received the multiple UID numbers for the same borrower's loan, the guaranty agency reported a change in the UID number directly on Great Lakes' loan servicing system. The loan's UID number was changed from the Northstar assigned number to a number assigned by a different lender, even though the Northstar loan was guaranteed and the loans from other lenders were canceled. The change in UID numbers was reported on the loan schedules. The incorrect UID numbers were corrected for the guaranteed loans but not corrected for the canceled loans. This explanation covers 16 of the 17 loans.

Explanation 2: The guarantee agency decided to assign its own UID number rather than use the Northstar assigned UID number. Northstar agreed to use the guaranty agency's assigned UID number, so Great Lakes reported the guaranty agency's assigned UID number on all future loan schedules. This explanation covers 1 of the 17 loans. Because this case applied to only one of the loans, we did not follow up with the guaranty agency to determine why it assigned a different UID number to the loan.

Incomplete Lender Histories Recorded in NSLDS

We tested a random sample of 30 (of 37,228) LPP Program loans, including 15 Northstar loans and 15 Edamerica loans. Twelve of the 30 loans did not have complete lender histories recorded in NSLDS. The lender histories did not document the full chronological history of the lenders (e.g., Sponsor, Custodian) associated with a loan. Two of the 15 Northstar loans had no history of being part of the LPP Program. The history for the two loans showed the Sponsor's Lender Identification (LID) number but not the Custodian's LID number. Without the Custodian's LID number, there is no indication that a participation interest in the loan was sold to the Department under the LPP Program. For one loan, we determined that the NSLDS history was never updated because the loan was disbursed and canceled prior to an NSLDS update occurring. For the other loan, we determined that NSLDS was updated but the loan was subsequently canceled. According to Great Lakes' Cash Audit Supervisor, when a loan is canceled, the history of the sale of the participation interest (i.e., transfer to the Custodian) is removed from NSLDS.

Ten of the 15 Edamerica loans were sold to the Department under the Loan Purchase Commitment Program. All 10 of these loans were coded in NSLDS under the Custodian's LID number from the origination date of the loan. The history for these 10 loans did not include the Sponsor's LID number. Our research disclosed that the history for these 10 loans did include the Sponsor's LID number at one time, but the history was revised to include only the Custodian's LID number after the loans were sold to the Department. When the loans were sold to the

Department, the Sponsor's LID number was removed from the lender history, resulting in the NSLDS history including only the Custodian's LID number.¹⁰

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to determine whether Great Lakes, as a Servicer under the ECASLA LPP Program, complied with the program requirements for (1) having an ESA with the Custodian; (2) preparing and submitting Weekly Loan Schedules, Month-End Loan Schedules, Exception Reports, and Lender's Interest and Special Allowance Request and Reports; (3) coding loans as owned by the Custodian; and (4) remitting collections on LPP Program loans to the Custodian. Our audit covered Great Lakes' servicing of LPP Program loans for academic year 2008-2009 during the period from August 29, 2008, through June 30, 2009.

To achieve our objectives, we performed the following procedures.

1. Reviewed relevant law, regulations, guidance, and agreements, including (a) ECASLA; (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 FAQ*; (e) the MPA, dated July 25, 2008; and (f) ESAs.
2. Reviewed a Federal Student Aid program review report on GLHEC for Federal fiscal year ended September 30, 2005; GLHEC's and Affiliates Consolidated Financial Statements and Federal Single Audit Reports for the years ended December 31, 2006 and 2007; and various internal and external audit reports relevant to our audit period.
3. Interviewed Great Lakes' staff, including the Chief Servicing Officer, Director of Internal Audit, Lender Reporting Supervisor, and Cash Audit Supervisor.
4. Obtained an understanding and assessed the adequacy of Great Lakes' system of internal control over its administration of LPP Program loans through interviews and a review of audit reports.
5. Compared all eight of Great Lakes' ESAs with the requirements of Sections 12(c) and 18 of the MPA.
6. Verified that Great Lakes performed the duties required by the ESAs by obtaining and reviewing reports generated by Great Lakes.

¹⁰ The Custodian LID number is tied to the corresponding Sponsor LID number. Therefore, with knowledge of the LID numbers, the Sponsor can be determined.

7. Reviewed the Lender's Interest and Special Allowance Request and Reports for the three quarters ending September 30, 2008, December 31, 2008, and March 31, 2009, that Great Lakes prepared for all eight Sponsors.
8. Obtained all Weekly and Month-End Loan Schedules submitted by Great Lakes since inception of the LPP Program through June 30, 2009, for two judgmentally selected lenders (Northstar and Edamerica).¹¹ These Loan Schedules included 37,228 loans (19,784 Northstar loans and 17,444 Edamerica loans).¹²
9. Queried the Northstar and Edamerica Weekly and Month-End Loan Schedule data to identify anomalies and researched these anomalies to determine whether there was a reasonable explanation for the anomaly. Most of the anomalies that we identified had a reasonable explanation.¹³
10. Randomly selected 30 loans (15 Northstar loans and 15 Edamerica loans) from the universe of 37,228 loans on the Northstar and Edamerica Weekly and Month-End Loan Schedules and queried Great Lakes' loan servicing system and NSLDS to determine whether these systems had the correct LID numbers.¹⁴
11. Judgmentally selected two accounting periods to determine whether Great Lakes remitted all collections on LPP Program loans to the Custodians within 2 days of receipt.¹⁵ We selected one accounting period (May 1-10, 2009) for Edamerica and one accounting period (April 20-30, 2009) for Northstar. These accounting periods were selected because they had a large amount of Stafford loan collections. For Stafford loans, we traced collections data (amount, date, payment number, and batch number) shown on the accounting reports to the individual borrower's account information as shown in Great Lakes' servicing system. We also traced collection totals shown on the accounting reports to the corresponding Automated Clearing House reports. The Automated Clearing House reports indicate that the collection funds were transferred from Great Lakes to the applicable Custodians. In addition, from the accounting reports we judgmentally selected transactions from the categories of Stafford cancellations and refunds and SLS/PLUS borrower payments, cancellations and refunds, and overpayments. For these categories, we traced the payment amount, payment date, payment number, and batch number shown on the accounting reports to the individual borrower's account information recorded in Great Lakes' servicing system.

We relied, in part, on computer-processed loan schedule data from Great Lakes' loan servicing system. We verified the completeness and accuracy of the loan schedule data by reviewing the data for missing data or fields, improper data relationships, and data outside of valid ranges. The

¹¹ The judgmental selection was based on loan volume, Custodian, and length of time participating in the LPP Program.

¹² The loan schedule file creation dates ranged from August 29, 2008, through June 30, 2009.

¹³ Our research indicated that only one of the anomalies that we identified was an inaccuracy. In this case, UID numbers on loan schedules were changed. (See **Other Matters**)

¹⁴ All 30 sampled loans had correct LID numbers in the loan servicing system. We are 90 percent confident that the percentage of loans from the universe of 37,228 loans that have incorrect LID numbers is no more than 7.4 percent. We identified 12 (of 30) loans that had incorrect LID number histories in NSLDS. (See **Other Matters**)

¹⁵ An accounting period consists of approximately 10 days worth of collections.

loan schedule data had minor anomalies. However, within the context of our audit objectives, those anomalies were minor and did not affect the reliability of the data. Therefore, we concluded that the computer-processed data were sufficiently reliable for the purposes of our audit.

We conducted our audit from June through October 2009 at Great Lakes' office in Madison, Wisconsin, and at our offices. We discussed the results of our audit with Great Lakes on October 19, 2009.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

ADMINISTRATIVE MATTERS

The conclusions in this report represent the opinions of the Office of Inspector General. Determinations of any corrective action to be taken will be made by the appropriate Department of Education officials.

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.

We appreciate the cooperation and assistance extended by your staff during the audit. Because our audit did not disclose any material instances of noncompliance with the ECASLA LPP Program requirements and our report does not contain any recommended corrective actions, no action on your part is necessary. If you have any questions, please contact Gary Whitman at (312) 730-1620.

Sincerely,

/s/

Gary D. Whitman
Regional Inspector General for Audit

Acronyms and Abbreviations Used in this Report

Custodian	A national or State chartered bank that is also an eligible lender under the HEA 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
ESA	Eligible Servicing Agreement
Department	U.S. Department of Education
FAQ	Frequently Asked Questions
FFEL	Federal Family Education Loan
GLHEC	Great Lakes Higher Education Corporation
Great Lakes	Great Lakes Educational Loan Services, Inc.
HEA	Higher Education Act of 1965, as amended
LID	Lender Identification
LPP Program	Loan Participation Purchase Program
MPA	Master Participation Agreement
NSLDS	National Student Loan Database System
Servicer	An organization (which may be the Sponsor) that services loans pursuant to an ESA
Sponsor	Eligible lender or beneficial holder of loans in which the Department purchases a participation interest
UID	Common-line Unique Identification