



October 30, 2018

Ms. Wendy McAlister
President and CEO
College Foundation, Inc.
2917 Highwoods Blvd.
Raleigh, NC 27604-1021

RE: **Final Program Review Determination Closeout Letter**
OPE ID: 80703700
PRCN: 20161065002

Dear Ms. McAlister:

This letter is in reference to the documentation received in response to the instructions provided in the Final Program Review Determination. All requirements have been addressed. College Foundation, Inc. may now consider the program review closed with no further action required.

The courtesy and cooperation extended during the program review process is appreciated. If you have any questions, please do not hesitate to contact me at 646-428-3771 or by email to Susan.Ferraiole@ed.gov.

Sincerely,

A handwritten signature in black ink that reads "Susan C. Ferraiole".

Susan C. Ferraiole
Acting Director, Southern Division

cc: Doug Vass, Vice President, Financial Services
Ed Sitnik, Internal Auditor

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

Financial Institution Oversight Service – Southern Division
Harwood Center – 1999 Bryan St. Suite 1610, Dallas, TX 75201-6817



November 2, 2016

Ms. Wendy McAlister
President and CEO
College Foundation, Inc.
2917 Highwoods Blvd.
Raleigh, NC 27604-1021

UPS Tracking # 1ZA879643595671493

RE: Program Review Report
LID: 807037
PRCN: 20161065002

Dear Ms. McAlister:

From December 7, 2015, through December 10, 2015, the U.S. Department of Education (the Department), Financial Institution Oversight Service – Southern Division conducted a review of College Foundation Inc.'s (CFI) participation in the Federal Family Education Loan (FFEL) Program authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §1071. This report reflects the initial findings.

The findings of noncompliance are referenced to the applicable statutes and regulations and specified the action required to comply with the statute and regulations. Please review the report and respond to the findings, indicating, as appropriate, the corrective actions taken by CFI. Your response should be sent directly to me within 30 calendar days of the date of this letter.

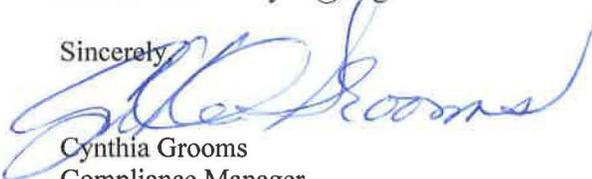
Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in this report concerning CFI's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those practices and procedures. Furthermore, it does not relieve CFI of its obligation to comply with all of the statutory and regulatory provisions governing the FFEL Program.

These findings are not final. The Department will issue its final findings in a subsequent final program review determination letter. At that time, all liabilities and interest for each finding will be assessed, as appropriate.

We would like to express our appreciation for the courtesy and cooperation extended during the review. Please refer to the above program review control number (PRCN) in all correspondence relating to this report. If you have any questions concerning this report, please contact Mark E. Taylor at 214-661-9512 or send an e-mail to Mark.E.Taylor@ed.gov.

Sincerely,



Cynthia Grooms
Compliance Manager

cc: Doug Vass, V.P – Financial Services - CFI
Ed Sitnik, Internal Audit Manager – CFI

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

Financial Institution Oversight Service – Southern Division
Harwood Center - 1999 Bryan St, Suite 1610, Dallas, TX 75201-6817

Prepared for
College Foundation, Inc.
LID: 807037
PRCN: 20161065002

Prepared by
U.S. Department of Education
Federal Student Aid
Financial Institution Oversight Service – Southern Division

PROGRAM REVIEW REPORT

November 2, 2016

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A. Institutional Information

LID Number: 807037

Program Review Control Number (PRCN): 20161065002

Name and Address:

College Foundation, Inc.
2917 Highwoods Blvd.
Raleigh, NC 27604-1021

Dates of Review: December 7, 2015 through December 10, 2015

Review Period: October 1, 2013 through September 30, 2015

Institutional Information:

Year began participation in the Federal Family Education Loan (FFEL) Program: 1966

Guarantor: North Carolina State Education Assistance Authority

Total FFEL Program portfolio as of September 30, 2015: \$1,853,093,513

Previous Financial Institution Oversight Service (FIOS) review: June 2, 2014

Background Information:

College Foundation, Inc., (CFI) is a nonprofit corporation that was chartered in 1955 by the Governor of North Carolina under Chapter 55A of the General Statutes of North Carolina for the purpose of assisting students in defraying their education expenses in attending eligible educational institutions.

B. Scope of Review

The U.S. Department of Education (the Department) conducted a review of CFI from December 7, 2015, through December 10, 2015. The period reviewed was from October 1, 2013, through September 30, 2015.

The focus of the review was to evaluate the CFI's compliance with the statutes and federal regulations as they pertain to the agency's participation in the FFEL Program. The review included the following areas:

Compliance with Federal Regulations regarding:

- Conversion to Repayment
- Deferment
- Forbearance
- Income Based Repayment
- Servicemembers Civil Relief Act
- NSLDS Reporting

C. Findings

During the review, two areas of noncompliance were noted. Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by CFI to comply with applicable statutes and regulations.

Finding 1: Incorrect Granting of Military Deferments

Citation:

A military service deferment is available to a borrower while the borrower is serving on active duty during a war or other military operation, or a national emergency, or while the borrower is performing qualifying National Guard duty during a war or other military operation, or a national emergency. [§682.210(t)(1); HEA §428(b)(1)(M)(iii); DCL GEN-06- 02; DCL FP-08-01]

Without supporting documentation, a lender may grant a military service deferment to an otherwise eligible borrower for a period not to exceed the initial 12 months from the date the qualifying eligible service began based on a request from the borrower or the borrower's representative. [§682.210(t)(9)]

For a borrower whose qualifying service includes October 1, 2007, or begins on or after that date, the deferment is extended for an additional 180 days after the date the borrower is demobilized from that qualifying service. The additional 180-day deferment is available to a borrower each time a borrower is demobilized from qualifying active duty service. The additional 180-day deferment period may not be granted unless the lender receives documentation of the date the borrower was demobilized from qualifying service. [§682.210(t)(2); DCL FP-08-01]

Active duty does not include active duty for training or attendance at a service school. [§682.210(t)(6)(i)]

Noncompliance:

FIOS reviewed a sample of 27 borrowers that were granted military deferments. Military deferments were incorrectly granted to eleven borrowers:

- a. Three borrowers were granted military deferments when their orders showed that they were on active duty for training. The borrowers also had military deferment forms which were incomplete and did not show having an eligible assignment for the granting of a

military deferment in Section 4 of the military deferment form. In addition, one borrower was ineligible since his active duty military service was being completed under Title 32.

- b. One borrower received an appointment to the United States Public Health Service (PHS) and had orders calling him to active duty in Atlanta, GA. However, there was no documentation showing that the borrower had been called up in connection with a war, other military operation, or national emergency declared by the President and supported by Federal funds.
- c. One borrower was granted a military deferment for a period exceeding one year without military orders or a military deferment request form.
- d. One borrower was granted a military deferment for the borrower's full four years of enlistment based on an incomplete military deferment form.
- e. Military deferments that exceeded two years were granted to five borrowers. These deferments were granted the entire period of the borrowers' active duty military service, not just for the period that would qualify for a military deferment.

Required Action:

- CFI must perform a file review of borrowers granted military deferments since October 1, 2007.
- CFI must return interest benefits improperly charged to LaRS for borrowers that did not meet the requirement for receiving a military deferment. A copy of these adjustments must be submitted to this office as a part of the response to this report.
- CFI must update their policy and procedures and submit a copy to this office in response to this report.

Finding 2: Inaccurate NSLDS Reporting

Citation:

The National Student Loan Data System (NSLDS) is a national database of information on Title IV student aid, including FFEL Program loans. NSLDS was developed to provide current loan-level information on Title IV aid, and to provide an integrated view of Title IV programs in terms of aid approval, disbursements, repayments, delinquencies, and school closings. The overall goals of NSLDS are to improve the efficiency of the Title IV delivery system and to support research on improving program administration.

Lenders and servicers are required to report specific FFEL Program loan data elements to guaranty agencies on a monthly basis for inclusion in the guarantor's monthly reporting to NSLDS. A lender reports loan data to the guarantor using the NSLDS Lender Manifest, a common report format.

The Basic Program Agreement, 34 CFR 682.401(b)(22), requires lenders to submit information required in guaranty agency reporting: Submission of information for reports. The guaranty agency shall require lenders to submit to the agency the information necessary for the agency to

complete the reports required by §682.414(b). Further guidance on reporting requirements is found in DCL 97L-194 dated May 1997 and DCL 95L-177 dated March 1995.

The NSLDS Lender Manifest process requires lenders and servicers to report specific data to the guarantor for each loan until the loan is closed (cancelled, paid in full, paid in full by consolidation, paid in full by refinancing or uninsured) using a common format through File Transfer Protocol (FTP) or via paper (if reporting fewer than 100 loans). If a loan record is rejected during the lender manifest process, the lender or servicer must correct the error and resubmit the loan record in the next scheduled monthly NSLDS lender manifest submission. Since July 1, 1995, lenders, or their designated servicers, are responsible for collecting and reporting loan data to their respective guarantor(s). NSLDS reporting applies to all holders of FFEL Program loans. The Department outlined lender reporting responsibilities in Dear Colleague letter 95 L-177. DCL 97-L-194 (dated May 1997) NSLDS Reporting Requirements

Noncompliance:

FIOS reviewed a sample of 19 loans for 12 borrowers, whose loans were in an IA status and the anticipated completion date (ACD) had already passed. According to CFI, all of the loans had been properly converted and information had been provided to its servicer. However, the information for these loans has not been updated in NSLDS.

Required Action:

- CFI must work with its Guarantor to see that these loans are properly updated.

D. Observation:

CFI applied the Defense Manpower Data Center (DMDC) match beginning December 2014. The match was applied for 367 days prior to December 2014, but not applied to periods prior to December 2013.

Recommendation:

CFI should immediately retroactively apply SCRA benefits back to August 14, 2008. Effective July 1, 2016, lenders were required to implement new paragraph § 682.208(j) which defines the requirements for FFEL Program loan holders to use the official electronic database maintained by the Department of Defense to identify all borrowers who are active duty servicemembers and who are eligible for the SCRA interest limit, confirm the dates of the borrower's active duty status, and begin, extend, or end, as applicable, the use of the SCRA interest rate limit of six percent. These requirements would include—

- Applying the SCRA interest rate limit of six percent for the longest eligible period verified with the official electronic database or alternative evidence of active duty service received by the loan holder, using the combination of evidence that provides the borrower with the earliest active duty start date and the latest active duty end date;
- In the case of a reservist, using the reservist's notification date as the start date of the military service period;

- For PLUS loans with an endorser, applying the SCRA interest limit on the loan based on the borrower's or endorser's active duty status, regardless of whether the loan holder is currently pursuing the endorser for repayment of the loan;
- In cases where both the borrower and the endorser are eligible for the SCRA interest rate limit of six percent on a loan, specifying that the loan holder must use the earliest active duty start date of either party and the latest active duty end date of either party to begin, extend, or end, as applicable, the SCRA interest rate limit;
- For joint consolidation loans, applying the SCRA interest rate limit on the loan if either of the borrowers is eligible for the limit;
- If both borrowers on a joint consolidation loan are eligible for the SCRA interest rate limit, specifying that the loan holder must use the earliest active duty start date of either party and the latest active duty end date of either party to begin, extend, or end, as applicable, the SCRA interest rate limit;
- If the application of the SCRA interest rate limit of six percent results in an overpayment on a loan that is subsequently paid in full through consolidation, specifying that the underlying loan holder must return the overpayment to the holder of the consolidation loan; and
- For any other circumstances where application of the SCRA interest rate limit of six percent results in an overpayment of the remaining balance on the loan (i.e., where the SCRA benefit is granted just before a loan is paid in full), specifying that the loan holder must refund the amount of that overpayment to the borrower.

E. Conclusion:

At the end of the review, an exit interview was held with CFI staff. The findings and expectations were discussed and CFI was advised that a program review report would be issued.

Appendix A

Finding # 1

- a. (Samples #2, 4, 22*)
- b. (Sample #26)
- c. (Sample #14)
- d. (Sample #19)
- e. (Sample #2, 4, 6, 19 and 24)



December 2, 2016

Ms. Cynthia Grooms, Compliance Manager
Financial Institution Oversight Service – Southern Division
Harwood Center – 1999 Bryan St., Suite 1610
Dallas, TX 75201-6817

RE: Program Review Report
LID: 807037
PRCN: 20161065002

Dear Ms. Grooms:

Enclosed please find responses from College Foundation, Inc. (CFI) to the preliminary findings, required actions, observation and recommendation found in the November 2, 2016 Program Review Report for the review conducted during December 2015.

In regards to Finding 1, 'Incorrect Granting of Military Deferments,' CFI respectfully submits that for all but one of the borrowers cited, the periods of military deferment were accurately and appropriately processed in accordance with applicable statutes and regulations. Supporting documentation and justification for our position are included for each sample in the finding.

CFI is committed to ensuring that military service members and their families have access to the entitlements available to them. We are sensitive to the unique needs of this population in North Carolina and endeavor to use any and all information available to us to avoid excessive documentation requirements that might create an unnecessary burden on a service member and his or her family while at the same time assuring that our processes are compliant with statutory and regulatory guidelines.

In regards to Finding 2, 'Inaccurate NSLDS Reporting,' it is important to note that the information on these loans in the servicing system has always been accurate. However, due to unique circumstances the information for these loans was not properly reported to NSLDS. CFI has worked with NSLDS and the guarantor to make the corrections necessary and all affected loans are now corrected in NSLDS.

In regards to the 'Observation' and 'Recommendation' related to the retroactive application of SCRA benefits, we are pleased to report that we have successfully completed the matches of our data to the Department of Defense database and have retroactively applied the interest rate cap to all of our eligible active borrowers' accounts.

We appreciate the opportunity to respond to the preliminary findings in the November 2, 2016 Program Review Report and the Department's reconsideration of the findings and required actions. Please feel free to reach out to Doug Vass, Vice President for Financial Services, via email at dvass@cfi.org or by phone at 919-835-2360 if you would like additional information or clarification.

Sincerely,

A handwritten signature in blue ink that reads "Wendy H. McAlister". The signature is written in a cursive style with a large initial "W" and "M".

Wendy McAlister

President and CEO

Finding #1 (a) through (e)
Incorrect Granting of Military Deferments

Finding #1 (a), Sample #2

Issues cited in preliminary report:

CFI granted the borrower a military deferment when the orders showed that they were on active duty for training. The borrower also had military deferment forms which were incomplete and did not show having an eligible assignment for the granting of a military deferment in Section 4 of the military deferment form.

CFI Response:

On 05/27/2015, CFI received military orders dated 07/31/2014 and a properly completed military deferment form certified on 05/21/2015. CFI relied on the certified deferment form, as it was the more recent data, to approve a period of military deferment for the period indicated by the authorizing official from 03/26/2014 to 03/26/2019. The authorizing official certified in Section 4 of the deferment form that the borrower had an eligible assignment for granting of a military deferment.

In addition to the fact that the certified deferment form was more current than the military orders, the deferment form states that as an alternative to completing Section 4, the borrower or representative may submit a written statement from the borrower's commanding or personnel officer or a copy of the borrower's military orders. As a copy of the borrower's military orders is an *alternative* (emphasis added) to completing Section 4, CFI relied upon the complete and certified Section 4 of the more recent military deferment form in granting the deferment.

Additionally, 682.210(a)(4) states:

682.210(a)(4) As a condition for receiving a deferment, except for purposes of paragraphs (c)(1)(ii), (iii), and (iv) of this section, the borrower, or the borrower's representative for purposes of paragraphs (i) and (t) of this section, must request the deferment, and provide the lender with all information and documents required to establish eligibility for a specific type of deferment.

This does not specifically state the method required to provide the information to establish eligibility. However, the Department's approved deferment form does provide guidance as shown in the prior paragraph.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

Finding #1 (a), Sample #4

Issues cited in preliminary report:

CFI granted the borrower a military deferment when the orders showed that they were on active duty for training. The borrower also had military deferment forms which were incomplete and did not show having an eligible assignment for the granting of a military deferment in Section 4 of the military deferment form.

CFI Response:

CFI originally denied the borrower's request for deferment. Subsequently, on 03/27/2014 the borrower contacted CFI to question the denial because he had been provided with a military deferment by other lenders. CFI accessed NSLDS and confirmed that this borrower had been granted a military deferment by Great Lakes from 02/21/2014 to 01/25/2017. CFI granted a military deferment to this borrower from 02/21/2014 to 01/25/2017 based upon the following regulation:

682.210(t)7: To receive a military service deferment, the borrower, or the borrower's representative, must request and provide the lender with all information and documents requires to establish eligibility for the deferment, except that a lender may grant a borrower a military service deferment under the procedures specified in paragraphs (s)(1)(iii) through (s)(1)(v) of this section.

CFI granted the deferment based on the regulation above and the procedures from 682.210(s)(1)(iii) that provide lenders may grant other types of deferments based on information from another FFEL loan holder.

682.210(s)(1)(iii) Deferments for new borrowers on or after July 1, 1993 –

(iii) After receiving a borrower's written or verbal request, a lender may grant a deferment under paragraphs (s)(3) through (s)(6) of this section if the lender is able to confirm that the borrower has received a deferment on another FFEL loan or on a Direct Loan for the same reason and the same time period. The lender may grant the deferment based on information from the other FFEL loan holder or the Secretary or from an authoritative electronic database maintained or authorized by the Secretary that supports eligibility for the deferment for the same reason and the same time period.

CFI respectfully maintains there were no errors in processing this period of military deferment.

Finding #1 (a), Sample #22

Issues cited in preliminary report:

CFI granted the borrower a military deferment when the orders showed that they were on active duty for training. The borrower also had military deferment forms which were incomplete and did not show having an eligible assignment for the granting of a military deferment in Section 4 of the military deferment form. In addition, one borrower was ineligible since his active duty military service was being completed under Title 32.

CFI Response:

The borrower is a member of the National Guard **but does not serve full time**. CFI received a request for military deferment on 10/24/15 accompanied by military orders. The orders indicate the borrower was ordered to **full time** active duty for training for the period 08/06/15 to 10/06/16. CFI granted the period of deferment based on the following regulation:

682.210(t)(4) Qualifying National Guard duty during a war or other operation or national emergency means service as a member of the National Guard on full-time National Guard duty, as defined in 10 U.S.C. 101(d)(5), under a call to active service authorized by the President or the Secretary of Defense for a period of more than 30 consecutive days under 32 U.S.C. 502(f) in connection with a war, other military operation, or national emergency declared by the President and supported by Federal funds.

We provide 10 U.S.C. 101(d)(5) for your convenience:

10 U.S.C. 101(d)(5) The term "full-time National Guard duty" means training or other duty, other than inactive duty, performed by a member of the Army National Guard of the United States or the Air National Guard of the United States in the member's status as a member of the National Guard of a State or territory, the Commonwealth of Puerto Rico, or the District of Columbia under section 316, 502, 503, 504, or 505 of title 32 for which the member is entitled to pay from the United States or for which the member has waived pay from the United States.

We also provide 32 U.S.C. 502(f) for your convenience:

32 U.S.C. 502(f)

(1) Under regulations to be prescribed by the Secretary of the Army or Secretary of the Air Force, as the case may be, a member of the National Guard may—

- (A) without his consent, but with the pay and allowances provided by law; or*
- (B) with his consent, either with or without pay and allowances;*

be ordered to perform training or other duty in addition to that prescribed under subsection (a).

(2) The training or duty ordered to be performed under paragraph (1) may include the following:

- (A) Support of operations or missions undertaken by the member's unit at the request of the President or Secretary of Defense.*

(B) Support of training operations and training missions assigned in whole or in part to the National Guard by the Secretary concerned, but only to the extent that such training missions and training operations—

(i) are performed in the United States or the Commonwealth of Puerto Rico or possessions of the United States; and

(ii) are only to instruct active duty military, foreign military (under the same authorities and restrictions applicable to active duty troops), Department of Defense contractor personnel, or Department of Defense civilian employees.

(3) Duty without pay shall be considered for all purposes as if it were duty with pay.

The noncompliance issue cited in the preliminary report indicates that there was an additional error because Section 4 of the military deferment form was not complete. CFI maintains that there was not an additional error. The Department's approved deferment form does not require a borrower to complete *both* Section 4 of the request form *and* provide copies of his or her orders (emphasis added). Both Sections 4 and 7 of the military deferment form provide that *either* the completion of Section 4 or a copy of the borrower's military orders or a written statement from the borrower's commanding or personnel officer are acceptable methods for the borrower to provide certification that he or she qualifies for the deferment (emphasis added).

Additionally, 682.210(a)(4) states:

682.210(a)(4) As a condition for receiving a deferment, except for purposes of paragraphs (c)(1)(ii), (iii), and (iv) of this section, the borrower, or the borrower's representative for purposes of paragraphs (i) and (t) of this section, must request the deferment, and provide the lender with all information and documents required to establish eligibility for a specific type of deferment.

This does not specifically state the method required to provide the information to establish eligibility. However, the Department's approved deferment form does provide guidance as shown in the prior paragraph.

CFI granted the military deferment because the borrower provided orders, in lieu of filling out Section 4 of the military deferment form, indicating that she was called to full time active duty by the National Guard for a period greater than 30 consecutive days.

CFI respectfully maintains there were no errors in processing this period of military deferment.

Finding #1 (b), Sample #26

Issues cited in preliminary report:

One borrower received an appointment to the United States Public Health Service (PHS) and had orders calling him to active duty in Atlanta, GA. However, there was no documentation showing the borrower had been called up in connection with a war, other military operation or national emergency declared by the President and supported by Federal funds.

CFI Response:

CFI received a request for a military deferment for this borrower on 09/16/2014. The borrower provided orders indicating a 1012 – Appointment and Call to Active Duty as a Lt. Commander US Navy by the U.S. Department of Health and Human Services effective on 07/1/2014. The borrower was ordered to relocate from his home duty station in Ft. Lauderdale, FL to a duty station in Atlanta, GA.

682.210(t)(3)(i) provides that :

682.210(t)(3) Serving on active duty during a war or other military operation or national emergency means service by an individual who is –
(i) A Reserve of an Armed Force ordered to active duty under 10 U.S.C. 12301(a), 12301(g), 12302, 12304 or 12306;

Title 10 U.S.C 12301(a) as referenced in 682.210(t)(3)(i) above provides that:

Title 10 U.S.C. 12301(a) In time of war or of national emergency declared by Congress, or when otherwise authorized by law, an authority designated by the Secretary concerned may, without the consent of the persons affected, order any unit, and any member not assigned to a unit organized to serve as a unit, of a reserve component under the jurisdiction of that Secretary to active duty for the duration of the war or emergency and for six months thereafter. However a member on an inactive status list or in a retired status may not be ordered to active duty under this subsection unless the Secretary concerned, with the approval of the Secretary of Defense in the case of the Secretary of a military department, determines that there are not enough qualified Reserves in an active status or in the inactive National Guard in the required category who are readily available.

Although the orders do not specify a specific war or national emergency, this is the only way this borrower could be called to active duty based upon Title 10 U.S.C 12301(a) referenced above.

We would also note for clarification purposes that the call to active duty was for greater than 30 days. Remarks on the orders indicated that the borrower was authorized for special pay “Variable Special Pay In Accordance With 37 U.S., Section 302 (A) [(2) or (3)] is Authorized”. U.S. Code Title 37 Chapter 5 Subchapter I § 302 specifically identifies special pay for officers who are in the Medical Corps of the Army, Navy or Air Force who are ordered to active duty for a period of *not less than one year* (emphasis added), and their entitlement to special pay in accordance with this regulation.

CFI believes the borrower provided sufficient documentation to indicate eligibility for the military deferment. The deferment was granted based on the fact that the borrower was called to active duty at a temporary duty station other than his home station as a reserve officer of the armed forces in connection with a war, other military operation or national emergency for a period not less than one year.

CFI respectfully maintains there were no errors in processing this period of military deferment.

Finding #1 (c), Sample #14

Issues cited in preliminary report:

One borrower was granted a military deferment for a period exceeding one year without military orders or a certified military deferment request form.

CFI Response:

The borrower's mother called CFI on 07/01/2014 and explained that the borrower (son) had been deployed on 06/08/2014. On 07/11/14, CFI appropriately granted a military deferment from 06/08/2014 to 06/07/2015 in accordance with 682.210(t)(7) and 682.210.(t)(9) which state:

682.210(t)(7) To receive a military service deferment, the borrower, or the borrower's representative, must request the deferment and provide the lender with all information and documents required to establish eligibility for the deferment, except that a lender may grant a borrower a military service deferment under the procedures specified in paragraphs (s)(1)(iii) through (s)(1)(v) of this section.

692.210(t)(9) Without supporting documentation, a military service deferment may be granted to an otherwise eligible borrower for a period not to exceed the initial 12 months from the date the qualifying eligible service began based on a request from the borrower or the borrower's representative.

At the same time, CFI erroneously processed an additional 180 days of military deferment based upon 682.210(t)(2) which states:

682.210(t)(2) For a borrower whose active duty service includes October 1, 2007, or begins on or after that date, the deferment period ends 180 days after the demobilization date for each period of service described in paragraph (t)(1)(i) and (t)(1)(ii) of this section.

This was a manual processing error.

CFI has made the appropriate adjustments. The 180 day extension has been cancelled and LaRS billing adjustments have been made. Documentation of the cancellation and LaRS billing adjustments are included with this response.

Finding #1 (d), Sample #19

Issues cited in preliminary report:

One borrower was granted a military deferment for the borrower's full four years of enlistment based on an incomplete military deferment request form.

CFI Response:

CFI received a request for military deferment on 06/26/2013 for the period 06/11/2013 to 07/01/2017. CFI denied the request because Section 4 of the military deferment form was not complete. CFI received a properly completed military deferment form and orders on 07/16/2013 and approved the deferment for the period indicated by the authorizing official from 06/10/2013 to 06/30/2020. The authorizing official certified in Section 4 of the deferment form that the borrower had an eligible assignment for granting of a military deferment.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

Finding #1 (e), Sample #2

Issues cited in preliminary report:

Military deferments exceeding two years were granted to five borrowers. These deferments were granted the entire period of the borrowers' active duty military service, not just for the period that would qualify for a military deferment.

CFI Response:

CFI is not aware of any regulations, either implied or direct, that limit the length of deferment eligibility for qualifying periods of active duty service during a war or other military operation or national emergency; or performing qualifying National Guard duty during a war or other military operation or national emergency.

Regulation 682.210(t) states:

682.210(t) Military service deferment.

(1) A borrower who receives a FFEL Program loan may receive a military service deferment for such loan for any period during which the borrower is –

(i) Serving on active duty during a war or other military operation or national emergency; or

(ii) Performing qualifying National Guard duty during a war or other military operation or national emergency.

(2) For a borrower whose active duty service includes October 1, 2007, or begins on or after that date, the deferment period ends 180 days after the demobilization date for each period of service described in paragraph (t)(1)(i) and (t)(1)(ii) of this section.

Regulations that limited deferment length to a period not to exceed 3 years were eliminated October 1, 2007 by the College Cost Reduction and Access Act (CCRAA). Not processing the full period certified by the authorizing official in this situation would have resulted in inappropriate denial to the borrower of the full deferment period to which he was entitled by regulations.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

Finding #1 (e), Sample #4

Issues cited in preliminary report:

Military deferments exceeding two years were granted to five borrowers. These deferments were granted the entire period of the borrowers' active duty military service, not just for the period that would qualify for a military deferment.

CFI Response:

CFI is not aware of any regulations, either implied or direct, that limit the length of deferment eligibility for qualifying periods of active duty service during a war or other military operation or national emergency; or performing qualifying National Guard duty during a war or other military operation or national emergency.

Regulation 682.210(t) states:

682.210(t) Military service deferment.

(1) A borrower who receives a FFEL Program loan may receive a military service deferment for such loan for any period during which the borrower is –

(i) Serving on active duty during a war or other military operation or national emergency; or

(ii) Performing qualifying National Guard duty during a war or other military operation or national emergency.

(2) For a borrower whose active duty service includes October 1, 2007, or begins on or after that date, the deferment period ends 180 days after the demobilization date for each period of service described in paragraph (t)(1)(i) and (t)(1)(ii) of this section.

Regulations that limited deferment length to a period not to exceed 3 years were eliminated October 1, 2007 by the College Cost Reduction and Access Act (CCRAA). Not processing the full period indicated on NSLDS by another lender would have resulted in inappropriate denial to the borrower of the full deferment period to which he was entitled by regulations.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

Finding #1 (e), Sample #6

Issues cited in preliminary report:

Military deferments exceeding two years were granted to five borrowers. These deferments were granted the entire period of the borrowers' active duty military service, not just for the period that would qualify for a military deferment.

CFI Response:

CFI is not aware of any regulations, either implied or direct, that limit the length of deferment eligibility for qualifying periods of active duty service during a war or other military operation or national emergency; or performing qualifying National Guard duty during a war or other military operation or national emergency.

Regulation 682.210(t) states:

682.210(t) Military service deferment.

(1) A borrower who receives a FFEL Program loan may receive a military service deferment for such loan for any period during which the borrower is –

(i) Serving on active duty during a war or other military operation or national emergency; or

(ii) Performing qualifying National Guard duty during a war or other military operation or national emergency.

(2) For a borrower whose active duty service includes October 1, 2007, or begins on or after that date, the deferment period ends 180 days after the demobilization date for each period of service described in paragraph (t)(1)(i) and (t)(1)(ii) of this section.

Regulations that limited deferment length to a period not to exceed 3 years were eliminated October 1, 2007 by the College Cost Reduction and Access Act (CCRAA). Not processing the full period certified by the authorizing official in this situation would have resulted in inappropriate denial to the borrower of the full deferment period to which he was entitled by regulations.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

Finding #1 (e), Sample #19

Issues cited in preliminary report:

Military deferments exceeding two years were granted to five borrowers. These deferments were granted the entire period of the borrowers' active duty military service, not just for the period that would qualify for a military deferment.

CFI Response:

CFI is not aware of any regulations, either implied or direct, that limit the length of deferment eligibility for qualifying periods of active duty service during a war or other military operation or national emergency; or performing qualifying National Guard duty during a war or other military operation or national emergency.

Regulation 682.210(t) states:

682.210(t) Military service deferment.

(1) A borrower who receives a FFEL Program loan may receive a military service deferment for such loan for any period during which the borrower is –

(i) Serving on active duty during a war or other military operation or national emergency; or

(ii) Performing qualifying National Guard duty during a war or other military operation or national emergency.

(2) For a borrower whose active duty service includes October 1, 2007, or begins on or after that date, the deferment period ends 180 days after the demobilization date for each period of service described in paragraph (t)(1)(i) and (t)(1)(ii) of this section.

Regulations that limited deferment length to a period not to exceed 3 years were eliminated October 1, 2007 by the College Cost Reduction and Access Act (CCRAA). Not processing the full period certified by the authorizing official in this situation would have resulted in inappropriate denial to the borrower of the full deferment period to which he was entitled by regulations.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

Finding #1 (e) Sample #24

Issues cited in preliminary report:

Military deferments exceeding two years were granted to five borrowers. These deferments were granted the entire period of the borrowers' active duty military service, not just for the period that would qualify for a military deferment.

CFI Response:

CFI is not aware of any regulations, either implied or direct, that limit the length of deferment eligibility for qualifying periods of active duty service during a war or other military operation or national emergency; or performing qualifying National Guard duty during a war or other military operation or national emergency.

Regulation 682.210(t) states:

682.210(t) Military service deferment.

(1) A borrower who receives a FFEL Program loan may receive a military service deferment for such loan for any period during which the borrower is –

(i) Serving on active duty during a war or other military operation or national emergency; or

(ii) Performing qualifying National Guard duty during a war or other military operation or national emergency.

(2) For a borrower whose active duty service includes October 1, 2007, or begins on or after that date, the deferment period ends 180 days after the demobilization date for each period of service described in paragraph (t)(1)(i) and (t)(1)(ii) of this section.

Regulations that limited deferment length to a period not to exceed 3 years were eliminated October 1, 2007 by the College Cost Reduction and Access Act (CCRAA). Not processing the full period certified by the authorizing official in this situation would have resulted in inappropriate denial to the borrower of the full deferment period to which he was entitled by regulations.

CFI respectfully maintains that there were no errors in processing this period of military deferment.

RESPONSE TO REQUIRED ACTION

Page 5 of the preliminary Program Review Report dated November 2, 2016 provides three required actions in relation to Finding 1. The first of those required actions states:

- CFI must perform a file review of borrowers granted military deferments since October 1, 2007.

CFI respectfully asks that this required action be eliminated from the final report as the error in processing the military deferment at Finding 1(c), Sample 14 was of a manual nature and was not caused by any systemic issue.

The second of the required actions states:

- CFI must return interest benefits improperly charged to LaRS for borrowers that did not meet the requirement for receiving a military deferment. A copy of these adjustments must be submitted to this office as part of the response to this report.

CFI has made the appropriate adjustments and provides documentation of those adjustments at Finding #1 (c), Sample #14.

The third of the required actions states:

- CFI must update their policy and procedures and submit a copy to this office in response to this report.

CFI respectfully asks that this required action be eliminated from the final report as CFI believes its current policies and procedures accurately reflect the letter and intent of the regulations. The error recognized by CFI's in the response to Finding #1(c), Sample 14 was due to a manual error and not due to any ongoing procedural issue.

Finding #2

Inaccurate NSLDS Reporting

Noncompliance issues cited in preliminary report:

FIOS reviewed a sample of 19 loans for 12 borrowers, whose loans were in an IA status and the anticipated completion date (ACD) had already passed. According to CFI, all of the loans had been properly converted and information had been provided to its servicer. However, the information for these loans has not been updated in NSLDS.

CFI Response:

The nineteen (19) loans in the Conversion to Repayment sample had an "IA" status in NSLDS (IA is defined as "Loan Originated"), but due to unique circumstances were in another status on CFI's servicing system. CFI has worked to assure that all loans identified in Finding 2 are properly updated in NSLDS and has provided documentation of the updates.

RESPONSE TO REQUIRED ACTION

Page 6 of the preliminary Program Review Report dated November 2, 2016 provides a required action in relation to Finding 2. The required action states:

- CFI must work with its Guarantor to see that these loans are properly updated.

CFI has worked to assure that all loans identified in Finding 2 are properly updated in NSLDS and has provided documentation of the updates.

RESPONSE TO OBSERVATION AND RECOMMENDATION

Page 6 of the preliminary Program Review Report dated November 2, 2016 provides the observation that “CFI applied the Defense Manpower Data Center (DMDC) match beginning December 2014. The match was applied for 367 days prior to December 2014, but not applied to periods prior to December 2013.” Furthermore, the preliminary Program Review Report recommends that “CFI should immediately retroactively apply SCRA benefits back to August 14, 2008.” We are pleased to report that we have successfully completed the matches of our data to the Department of Defense database and have retroactively applied the interest rate cap to all of our eligible active borrowers’ accounts.