



February 11, 2019

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

UPS Tracking #1ZA879643596533792

RE: Final Program Review Determination
OPE ID: 80703700
PRCN: 20182065002

Dear Ms. McAlister:

The U.S. Department of Education (Department), Financial Institution Oversight Service – Southern Division, issued a program review report (PRR) on July 27, 2018. The review covered College Foundation Inc.'s (CFI) participation in programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, for the period of October 1, 2015, through September 30, 2017. The Department's authority to conduct a program review is 34 CFR §682.414(c). CFI's response was received on August 24, 2018.

The Department has reviewed CFI's response to the PRR which is incorporated by reference, in its entirety, into and made part of this final program review determination. CFI's response has resolved all findings. In addition, CFI has provided assurances that the appropriate corrective actions have been taken to resolve and prevent future occurrences of all findings. Therefore, CFI may consider the program review closed with no further action required.

Protection of Personally Identifiable Information (PII)

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the finding(s) in the attached report do not contain any borrower PII.

Record Retention

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims, or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 CFR §682.414.

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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 A. Michael Wade at 214-661-9485 or send me an email to Michael.Wade@ed.gov.

Sincerely,



Susan C. Ferraiolo
Acting Director, Southern Division

cc: Doug Vass, Vice President, Financial Services
Ed Sitnik, Internal Audit Manager
North Carolina State Education Assistance Authority

Enclosure: *Appendix A- CFI's Response*

Prepared for
College Foundation, Inc.
OPE ID: 80703700
PRCN: 20182065002

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

FINAL PROGRAM REVIEW DETERMINATION

February 11, 2019

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College Foundation, Inc.
OPE ID: 80703700
PRCN: 20182065002

A. Institutional Information

OPE ID Number: 80703700

Program Review Control Number (PRCN): 20182065002

Name and Address:

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

Dates of Review: March 19, 2018 through March 23, 2018

Review Period: October 1, 2015 through September 30, 2017

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, 2017: \$1,409,382,821

Previous FIOS review: December 7, 2017

Previous GA review: December 1, 2003

Background Information:

College Foundation, Inc. (CFI) is a nonprofit corporation that was chartered in 1955 by the Governor of the state 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. CFI has served as an eligible lender pursuant to Section 435(d)(1)(D) of the Higher Education Act of 1965, as amended (HEA), since enactment.

CFI, as an agent and independent contractor for the North Carolina Student Education Assistance Authority (NCSEAA), serves as servicer for the North Carolina Federal Family Education Loan Program (NCFFELP). Pursuant to an agreement with NCSEAA, CFI acts for NCSEAA in administering certain aspects of the NCFFELP. As provided by the Amended and Restated Contract, CFI (i) makes, collects and otherwise services insured student or parent loans on behalf of NCSEAA and (ii) maintains records, accounts and documentation supporting such loans. NCSEAA reimburses CFI for a pro rata share of its operating and reasonable capital costs incurred in the administration of loans funded by NCSEAA under the NCFFELP and for any special services performed on behalf of the NCFFELP.

B. Scope of Review

The U.S. Department of Education (Department) conducted an on-site program review at CFI from March 19, 2018 through March 23, 2018. The period reviewed was from October 1, 2015, through September 30, 2017.

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 Programs.

This report reflects final findings and details the Department's final determination based upon the response and corrective actions completed by CFI. Any additional requirements are noted in the final determination.

C. Findings and Final Determinations

Finding 1: Incorrect Granting of Military Deferments

Noncompliance:

The Department reviewed 29 samples and determined that 10 borrowers were granted post active duty deferment periods of six months rather than the 180-day maximum time period. For any borrower whose qualifying active duty service includes October 1, 2007, or begins on or after that date, the borrower may be granted an additional 180 days following the date the borrower is demobilized from that active duty service. See the College Cost Reduction and Access Act (CCRAA) and 34 CFR §682.210(t)(2).

Required Action:

CFI must:

- Make the necessary interest and special allowance adjustments for the ten borrowers in the sample that had incorrect number of post active duty days added to their military deferments. A copy of these adjustments must be submitted to this office in response to this report at the borrower level.
- Perform a file review of all borrowers granted post active duty military deferments since October 1, 2015, and make the necessary interest and special allowance adjustments. A copy of these LaRS adjustments, at borrower level, must be submitted to this office in response to this report.

CFI's Response:

In regards to Finding 1, "Incorrect Granting of Military Deferments," CFI has made the required interest and special allowance billing adjustments for the 10 borrowers identified in the sample that had an incorrect number of post active duty days added to their military deferments. The adjustments attached were reported on the March 31, 2018 LaRS. CFI also reviewed all borrowers granted post active duty military deferments since October 1, 2015, and made any necessary interest and special allowance billing adjustments. The adjustments attached were reported on the March 31, 2018 and June 30, 2018 LaRS.

FINAL DETERMINATION

The Department reviewed the interest and special allowance billing adjustments submitted by CFI, and the March 31, 2018 and June 30, 2018 LaRS reports reflecting the adjustments. The Department verified that the interest and special allowance adjustments were made for the ten borrowers in the sample and the additional borrowers from the file review. This finding is considered closed.

Finding 2: Inaccurate Information Provided to Delinquent Borrowers

Noncompliance:

The Department reviewed a sample of 29 telephonic interactions between a borrower and CFI to determine whether required due diligence activities were completed as required. The following discrepancies were noted:

- a.) For fourteen borrowers, discussions regarding the borrower's delinquency did not include information required by federal regulation. 34 CFR §682.205(a)(4) (*Required disclosures for borrowers having difficulty making payments*) requires that lenders provide a borrower who has notified the lender that he or she is having difficulty making payments with a description of repayment plans and how the borrower may request a change in repayment plan.
- b.) For four borrowers, the Department observed inaccurate information provided. For one borrower, the CFI representative informed the borrower that she could not be assisted until the borrower adds an additional reference to the account. For two other borrowers, the CFI representative told the borrowers that they reach their maximum allowed forbearance period. For another borrower, the CFI representative provided the borrower with inaccurate information regarding default and garnishment.

Required Action:

CFI must

- Develop procedures to ensure that CFI properly provide borrowers options to relieve delinquency which include income driven repayment, deferment, forbearance or other options.
- Provide a copy of its updated procedures that meet the regulatory requirement.

CFI's Response:

CFI disagreed with the regulation cited and its application to outbound diligence calls. CFI interpreted this regulation to mean that a disclosure must be provided to a borrower who contacts CFI indicating that he or she is having difficulty making payments and that the disclosure can be through written or electronic means. CFI stated that their processes and procedures around such a disclosure were developed in accordance with requirements of the Higher Education Opportunity Act, the Final Rules published in the Federal Register, dated October 29, 2009, and after having given consideration to the discussion in the preamble. However, CFI has revised their procedures to clearly outline options that should be discussed with borrowers having difficulty making payments. CFI's full response is provided under *Appendix A- CFI's Response.*

FINAL DETERMINATION

The Department has reviewed CFI's response and has determined that this finding should not be removed from the program review report based upon the comments and discussion in the preamble.

Federal Register Volume 74, Number 208 (Thursday, October 29, 2009) stated:

"The Department does not agree that the disclosure required under Section 682.205(c)(4) when a borrower contacts the lender indicating he or she is having difficulty making payments is comparable to the disclosure of information in the 60-day delinquency situation. The 60-day delinquency disclosure is automatically triggered by the borrower's delinquency status and is in addition to other lender due diligence contacts with the borrower required under Section 682.411 of the FFEL Program regulations. In the case of a borrower having difficulty making payments, the borrower triggers the disclosure by contacting the lender and requesting assistance. Under these circumstances, the Department believes a lender has a responsibility and an obligation to assist the borrower by providing information as frequently as necessary to assist that borrower."

Therefore, regardless of whether the call is an inbound or outbound call, once the borrower has notified the lender that he or she is having difficulty making payments, the lender must provide the borrow with:

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- A description of the repayment plans available to the borrower, and how the borrower may request a change in repayment plan.
- A description of the requirements for obtaining forbearance on the loan and any costs associated with forbearance; and
- A description of the options available to the borrower to avoid default and any fees or costs associated with those options.

The Department acknowledges that CFI has revised their procedures to outline options that should be discussed with borrowers having difficulty making payments. CFI must continue to follow these revised procedures to assist borrowers with all available options. This finding is considered closed.

D. Review Status

This program review is considered closed.



College Foundation, Inc.

Serving North Carolina Since 1955

August 24, 2018

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

RE: Program Review Report
OPE ID: 80703700
PRCN: 20182065002

Dear Ms. Grooms:

Enclosed please find responses from College Foundation, Inc. (CFI) to the preliminary findings and required actions found in the July 27, 2018 Program Review Report for the review conducted March 19 -23, 2018.

In regards to Finding 1, "Incorrect Granting of Military Deferments," CFI has made the required interest and special allowance billing adjustments for the 10 borrowers identified in the sample that had an incorrect number of post active duty days added to their military deferments. The adjustments attached were reported on the March 31, 2018 LaRS. CFI also reviewed all borrowers granted post active duty military deferments since October 1, 2015, and made any necessary interest and special allowance billing adjustments. The adjustments attached were reported on the March 31, 2018 and June 30, 2018 LaRS.

In regards to Finding 2, "Inaccurate Information Provided to Delinquent Borrowers," CFI respectfully disagrees that 34 CFR 682.205(a)(4) applies to outbound diligence calls. CFI has interpreted 34 CFR 682.205(a)(4) to mean that a disclosure must be provided to a borrower who contacts CFI indicating that he or she is having difficulty making payments and that the disclosure can be through written or electronic means as described in 34 CFR 682.205(d). Our processes and procedures around such a disclosure were developed in accordance with the requirements of the Higher Education Opportunity Act, the Final Rules published in the Federal Register dated October 29, 2009 and after having given consideration to the discussion in the preamble which indicated that, "In the case of a borrower having difficulty making payments, the borrower triggers the disclosure by contacting the lender and requesting assistance."

With respect to the sampled outbound calls, we submit that we followed the requirements outlined in 34 CFR 682.411 as they relate to lender due diligence in collecting guaranty agency loans.

34 CFR 682.205(a)(4) states:

"(4) Required disclosures for borrowers having difficulty making payments.

- (i) Except as provided in paragraph (a)(4)(ii) of this section, the lender must provide a borrower who has notified the lender that he or she is having difficulty making payments with –
 - (A) A description of the repayment plans available to the borrower, and how the borrower may request a change in repayment plan.
 - (B) A description of the requirements for obtaining forbearance on the loan and any costs associated with forbearance; and
 - (C) A description of the options available to the borrower to avoid default and any fees or costs associated with those options.
- (ii) A disclosure under paragraph (a)(4) of this section is not required if the borrower's difficulty has been resolved through contact with the borrower resulting from an earlier disclosure or other communication between the lender and the borrower."

34 CFR 682.205(d) states:

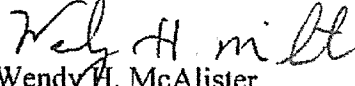
"Any disclosure of information by a lender under this section may be through written or electronic means."

We appreciate your observations regarding information provided to borrowers during the sampled outbound due diligence calls and agree that staff can benefit from additional training and education. To this end, we have created a new position that focuses solely on training and we require our "leads" to review calls and provide feedback to staff on a weekly basis. Supervisors and the area manager also periodically review calls in order to provide ongoing feedback. In addition, we have revised our procedures to clearly outline options that should be discussed with borrowers having difficulty making payments (see attached). With increased training, education and supervision, CFI believes that staff will provide even better service to borrowers in this situation.

With all of this in mind, we respectfully request that you reconsider the determination outlined in Finding 2 which indicates that we did not comply with 34 CFR 682.205(a)(4) while speaking to 17 borrowers during outbound diligence calls.

We appreciate the opportunity to respond to the preliminary findings in the July 27, 2018 Program Review Report and the Department's reconsideration of the findings and required actions for Finding #2. Please feel free to reach out to Doug Vass, Vice President for Financial Services, via email at doug.vass@cfi.org or by phone at 919-835-2360 if you would like additional information or clarification.

Sincerely,


Wendy H. McAlister
President and CEO