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# **NSLDS CAN BE ENHANCED IF LOAN PRINCIPAL AND INTEREST BALANCES AND STATUSES ARE UPDATED WITH LENDER DATA**

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## **FINAL AUDIT REPORT**



**Audit Control Number 06-70001  
September 1998**

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U.S. Department of Education  
Office of Inspector General  
Dallas, TX

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# UNITED STATES DEPARTMENT OF EDUCATION

## OFFICE OF INSPECTOR GENERAL

1999 Bryan Street, Suite 2630

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214-880-3031



September 30, 1998

### MEMORANDUM

**TO :** David Longanecker  
Assistant Secretary  
Office of Postsecondary Education

**FROM :** Daniel J. Thaens  
Western Area Manager  
Dallas, Texas

**SUBJECT:** Final Audit Report--***NSLDS CAN BE ENHANCED IF LOAN PRINCIPAL AND INTEREST BALANCES AND STATUSES ARE UPDATED WITH LENDER DATA***  
Audit Control Number 06-70001

You have been designated primary action official for this report. Please provide the Office of the Chief Financial Officer - Audit Follow-up Branch and the Office of Inspector General - Advisory and Assistance Team, Student Financial Assistance with semiannual reports on corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (Public Law 90-23), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

We appreciate the cooperation given us during our review. If you have any questions concerning this report, please call me at 214-880-3031.

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# EXECUTIVE SUMMARY

The Department of Education has made significant progress in improving the integrity of NSLDS in the last 18 months. As data integrity improves, the Department can expand its use of NSLDS to implement design functions and other useful management functions. However, a significant number of the loan records which initially populated NSLDS have not been updated with lender provided loan status, and principal and interest balance data. About 3.7 million loan records totaling \$10.7 billion, which represents about 14 percent of all Federal Family Educational Loan (FFEL) Program loan records in repayment on NSLDS, have not been updated with lender data. We are recommending that the Department, in cooperation with the guaranty agencies, reclassify these loan records to more accurately reflect the loans' actual status and principal and interest balances increasing the usefulness of NSLDS. About 21 percent of these loan records totaling about \$1.8 billion should be reclassified to a new paid-in-full write-off (PW)<sup>1</sup> status. The remaining 79 percent of records with an outstanding principal balance of about \$8.9 billion should be reclassified to a new uninsured other (UO)<sup>1</sup> status. The Department should also establish a routine process to ensure that loan records added since November 1994 are updated with current status and balance data on a periodic basis or reclassified into the UO status.

One factor that reduces the reliability of NSLDS loan status and balance data is that guaranty agencies have not been able to update significant numbers of FFEL Program loan records on NSLDS with current lender-provided data. Factors affecting the guaranty agencies' ability to report current data include: (1) lenders are unwilling/unable to report on loans that were paid-in-full prior to NSLDS and incorrectly loaded on NSLDS as active loans in repayment, (2) lenders have not submitted loan level data to their associated guaranty agency(s), and (3) guaranty agencies are unable to identify the current holders of the loans. Lenders are required to update active FFEL Program records with their associated guaranty agency(s) at least quarterly. The Department agreed with our finding and recommendations.

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<sup>1</sup>Paid-in-full write-off and uninsured other loan statuses currently do not exist on NSLDS. These are proposed statuses that would require modifications to the NSLDS contract.

## Results of Audit

The purpose of this report is to recommend actions that can be taken to improve the usefulness of the data currently on the NSLDS. This report addresses some of the causes for loan records not being updated with principal and interest balances and loan statuses on NSLDS. There are other actions that can be taken to improve the reliability of NSLDS data. We plan to issue a report addressing other issues at a later date. (See Audit Scope and Methodology section of this report for additional information.)

### ***Reliability of Loan Balance and Status Information Can Be Improved on NSLDS***

The reliability of NSLDS can be enhanced if loan principal and interest balances and statuses are updated with lender data. When loan records currently classified as in repayment are not updated by lenders, the loans should be reclassified to a paid-in-full write-off or uninsured other status to more accurately reflect their actual status. For three guaranty agencies, we identified 722,544 loan records without updated balance and status information on NSLDS with an outstanding principal balance of approximately \$2.35 billion. Based on historical data, approximately 181,000 (6 percent) of these loans with an outstanding principal balance of approximately \$481.5 million were paid-in-full before November 1994. Our analysis of the data for all guaranty agencies disclosed that NSLDS contains nearly 3.7 million loan records that have not been updated with lender data with an estimated \$10.7 billion principal balance based on the application of criteria described later in this report.

### ***Substantial Progress Made in Data Reliability***

The 1986 Higher Education Act (HEA) Amendments require that the NSLDS be structured to facilitate the collection of accurate information on student loan indebtedness and institutional lending practices and to improve compliance with repayment and loan limitation provisions. The Department responded to the mandates by designing and implementing NSLDS to receive and store student financial aid data from Title IV programs in one central database. In the past 18 months, the Department has made substantial progress in improving the quality of FFEL Program data in the system. Our recommendations build on the Department's efforts to continuously improve the quality of data provided by guaranty agencies.

The Department has and continues to work closely with the National Council of Higher Education Loan Programs (NCHELP) and the lender community to improve the accuracy and timeliness of data stored in NSLDS. The Department focused its initial efforts on improving the quality of NSLDS' FFEL Program data. One effort involved a one-time reconciliation of NSLDS with guaranty agency database information. In reconciling data with NSLDS, guaranty agencies have identified duplicate records on NSLDS, loans not in guaranty agencies' databases, and conversely loans in guaranty agency databases not in NSLDS. As a part of the reconciliation process, guaranty agencies identified loan records in their databases that have not been updated with lender data. The Department directed the guaranty agencies to report the outstanding principal balance of the loans that have not been updated as the amount of guarantee less cancellations less reported refunds. Reconciliation activities include continued efforts to obtain current information for the loans that have not been updated.

***NSLDS' Potential Can  
Be Expanded To  
Support Additional  
Functions***

Because loan status, principal and interest balance data is not current on some loans, NSLDS does not fully facilitate some of the system's intended design<sup>2</sup> functions or potential additional functions that would increase FFEL Program managers' capabilities. For example, the Department cannot rely on NSLDS to monitor the reasonableness of FFEL Program outlays to lenders, calculate trigger figures<sup>3</sup> which effect reinsurance rates for guaranty agencies, and monitor loan reserve ratios<sup>4</sup>.

<sup>2</sup>Refer to the Background section of this report for details regarding NSLDS design functions.

<sup>3</sup>Trigger figures are essentially default rates for guaranty agencies used by the Department to determine ~~the percentage of reimbursement~~ when a guarantee is paid for a defaulted loan. For example, a guaranty agency with a trigger figure below 5% is reimbursed loan guaranty claims at the rate of 98% of the claim amount. A guaranty agency with a trigger figure between 5% and 9% is reimbursed at the rate of 88% , and above 9% claims are reimbursed at 78%.

<sup>4</sup>Loan guaranty reserve levels represent the minimum amount of the Department's cash reserves that a guaranty agency must maintain for payment of loan claims. The loan reserve level is calculated as a percentage of a guaranty agency's loan principal balance outstanding at the end of the Federal fiscal year.

Until NSLDS has current balances and statuses on FFEL Program loans, the Department will need to continue to use alternative methods to test the reliability of the data in ED Forms 1130 and 1189. These guaranty agency reports are used by the Department to calculate trigger figures and loan reserve fund limits. NSLDS' potential can be enhanced if the system contains current lender supplied data on all FFEL Program loans.

***Why Some Loans Are Not Updated With Current Status or Balance Information***

Loan records that have not been updated with loan status or balance information exist on NSLDS because:

- C Old loans that were paid-off or otherwise written-off before November 1994 were loaded onto NSLDS as active loans from data submitted by guaranty agencies. Guaranty agencies have not been able to get lenders to update these records.
- C Lenders have been unwilling or unable to submit loan level data to their associated guaranty agency(s).
- C Guaranty agencies are unable to identify the current holder of a loan. For example, changes in the loan holder that occurred from loan sales, and financial institution mergers, acquisitions, etc. were not tracked by guaranty agencies prior to NSLDS. In addition, the ownership of loans taken into receivership by FDIC and RTC cannot be determined.

***Unreliable FFEL Program Loan Status and Balance Information on NSLDS***

***Remain a Significant Issue***

In an attempt to locate and update loan statuses and principal and interest balances, guaranty agencies have been providing lenders with listings of loans which have not been updated by the lenders and/or their servicers. We analyzed FFEL Program records on NSLDS associated with the loans guaranteed by three guaranty agencies including the Colorado Student Loan Program (CSLP), the Texas Guaranteed Student Loan Corporation (TGSLC), and the Illinois Student Aid Commission (ISAC). Our analysis demonstrated that although reconciliation resulted in updating a large number of loan records in repayment with lender data, a significant number of records that have not been updated remain on NSLDS. For example, the Colorado Student Loan Program has concluded reconciliation and approximately 39,000 loan records remain on NSLDS with a total outstanding principal balance of approximately \$104.4 million that have not been updated by lenders.

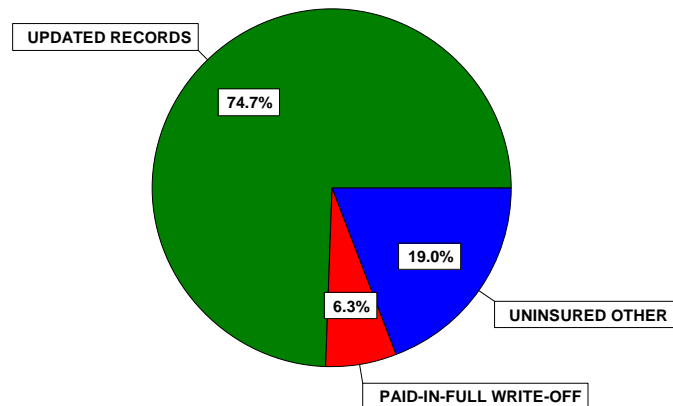
About 11 percent of CSLP's records, about 14 percent of TGSLC's records and about 40 percent of ISAC's records in repayment had not been updated with lender data.<sup>6</sup> We determined the status of the loan records that have not been updated using the criteria described below in the section captioned *Loans Not Updated With Status and Balance Information Should Be Reclassified*.

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<sup>6</sup>Additional details concerning the results of our analysis of the guaranty agencies' loan records on NSLDS in repayment status are presented in the Appendix to this report.



As illustrated in the chart, about 6.3 percent of the three agencies' loans in repayment would be categorized as PW and 19 percent of the records as UO. In total, about 25.3 percent of these agencies' loan records in repayment with an outstanding principal balance of \$2.4 billion had not been updated with lender data.



***Loans Not Updated  
With Status and Balance  
Information Should Be  
Reclassified***

Reclassifying loan records that have not been updated with status or balance information will improve the loan data necessary to manage the FFEL Program's financial and compliance responsibilities. The new statuses will also allow later retrieval and analysis of the records if determined necessary. Reclassifying the status of a loan on NSLDS into one of the proposed loan statuses is dependent upon the date the loan entered repayment.

***Paid-in-full Write-off***- Loan records in repayment status with a date entered repayment more than 12 years ago and balance information that has not been updated.

Based on our analysis of historical data, a review of relevant regulations, and communications with the Department's Office of Postsecondary Education staff, we

concluded that the criteria for identifying loan records that should be reclassified to a PW status are loans:

- currently in a repayment status,
- that have not been updated with lender-supplied data since the inception of the NSLDS reporting requirement, and,
- with a date entered repayment of more than twelve years.

The proposed PW loan status should be used to reclassify loans that the **Department can logically assume to be paid-in-full**. We developed criteria that identified the loan records that should be reclassified as PW by analyzing the historical loan portfolio data files of the three guaranty agencies for loans in a paid-in-full status in NSLDS. Our analysis of the data disclosed that 99 percent of the loans are paid-in-full within twelve years of entering repayment. A review of historical data (paid-in-full loans) provided by guaranty agencies corroborates the conclusion that loans in repayment more than twelve years are paid-in-full.

**Uninsured, Other** Open loan records in repayment status with a date entered repayment of 12 years or less and balance information that has not been updated.

Based on our analysis of the reporting requirements and communications with NSLDS staff, we concluded the criteria for identifying loan records that should be changed to a UO loan status are loans :

- currently in a repayment status,
- that have not been updated with lender-supplied data since the inception of the NSLDS reporting requirement, and,
- with a date entered repayment of twelve years or less.

The proposed UO loan status should be used to reclassify loans in repayment status that have not been updated with current principal and interest information. These records represent loans that have been in repayment status for 12 years or less. Based on our analysis, the Department **cannot assume these loans are paid-in-full**. However, the current values for these loan records are incorrect. Lenders are required to report on active loans at least quarterly. Therefore, the Department could resolve the status of these loans by requiring the guaranty agencies to reclassify them as UO unless the lender updates the current values in a reasonable time period.

We applied the above criteria to all FFEL Program loan records on NSLDS. Our analysis disclosed that about 3.7 million loan records totaling about \$10.7 billion which represents about 14 percent of the FFEL Program loan records in repayment, are currently on NSLDS without updated loan status and balance information. Application of our criteria to these loan records resulted in reclassifying about 760,000 records totaling about \$1.8 billion in the proposed PW loan status (21 percent of the loan records that have not been updated with lender data since they were loaded in NSLDS) and about 2.9 million records totaling about \$8.9 billion in the proposed UO loan status (79 percent of the loan records).

## RECOMMENDATIONS

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The Department should in cooperation with the guaranty agencies, identify and reclassify loans on NSLDS whose balances have not been updated by lenders as either paid-in-full write-off or uninsured other. Loans in the uninsured other status should be reviewed by guaranty agencies and lenders and updated if possible to the appropriate loan status. Finally, the Department should establish a routine process to ensure that loan records added since November 1994, whose balances or statuses that are not updated within a specific period, be reclassified into the new UO status.

## DEPARTMENT COMMENTS

The Department agreed with our finding and recommendations. A copy of the Department's comments are attached to this report.

## BACKGROUND

NSLDS contains data on the FFEL Program, Direct Student Loan Program (FDLP); Perkins Loans; Federal Pell Grant Program; and overpayments from the Federal Supplemental Educational Opportunity Grant Program (FSEOG). This data is provided by guaranty agencies (FFEL Program), schools (Perkins Loans and FSEOG), the FDLP servicer, and the Department's Title IV systems. Dear Colleague Letter (95-L-177) requires lenders participating in the FFEL Program to submit specific data to their associated guaranty agencies for inclusion in the agency's submissions to NSLDS. Thirty-six guaranty agencies provide FFEL Program data to NSLDS. NSLDS contains detailed data on approximately 34 million students, 20,000 schools, 31,000 lenders/servicers, and 90 million loans, 85 percent of which are FFEL Program loans.

The HEA Amendments required the Secretary of Education to develop a national student loan data system to ensure (1) the collection of accurate information on student loan indebtedness and institutional lending practices and (2) improve compliance with repayment and loan limitation provisions. The 1992 HEA Amendments expanded the scope of NSLDS by requiring the Department to integrate NSLDS with the Pell grant applicant and recipient databases by January 1, 1994, and with any other databases containing information on student financial aid program participation. In response to these legislative mandates, the Department awarded a contract for the development and operation of NSLDS in January 1993. The NSLDS was initially populated with the FFEL Program tape dump data in October 1994. In the following month, guaranty agencies reported data on all open loans on their databases and loans closed on/after October 1, 1989. Guaranty agencies are responsible for submitting all FFEL Program data to NSLDS monthly, including data that they must obtain from lenders. Dear Colleague Letter (95-L-177) required lenders to report certain data to guaranty agencies at least once a quarter effective July 1, 1995 for the quarter ending September 30, 1995.

The Department relies in part on data in the NSLDS to administer the student financial aid programs. Students have access to approximately \$20 billion in FFEL Program loans annually for postsecondary education. NSLDS was designed to provide the following functions -

- # Prescreening for Title IV Aid Eligibility. Prescreen applications for Title IV aid against data in NSLDS to identify individuals who are in default on an existing Title IV loan or who are otherwise ineligible to receive additional Title IV aid, and to assess applicant's eligibility in relation to loan limits.
- # Default Rate Calculation. Using the established formula, calculate the FFEL Program cohort default rate for schools, lenders, and guaranty agencies, and provide backup data for each rate calculated.
- # Operations Support. Emcompass various uses of data in NSLDS for research, budget analysis and development, audit and program review planning, policy development,

- monitoring lender and guaranty agency billings for reasonability, and loan program management.
- # Standardized Student Status Confirmation Reporting (SSCR). Up to six times per year, generate SSCR requests to schools in a standard format, receive school responses, update the NSLDS database and provide data to relevant guaranty agencies and FDLP servicers.
  - # Borrower Tracking. Support individuals who are trying to locate borrowers whose loans are in collection or who are assisting borrowers in identifying the guaranty agency, lender, servicer, and/or school associated with their loans.
  - # Pre-Claims Assistance (PCA)/Supplemental PCA. Based upon flags and dates received from guaranty agencies in their regular submissions, generate weekly lists of borrowers on whom PCA or Supplemental PCA has been requested and transmit these to schools.
  - # Credit Reform Act Support. Track FFEL Program loans by loan program, cohort year, and risk category, in compliance with the Credit Reform Act, which requires agencies to track all Federally guaranteed loans.
  - # Preparation of financial aid transcript (FAT) Information. Replace the current, manual generation of FATs by schools with an automatec process that will generate FAT information on individual students or on rosters of students.

The Department recognizes accuracy of data in the NSLDS is critical to the management of Federal financial aid programs. The Department initiated a reconciliation project in December 1996 to improve FFEL Program data quality. Guaranty agencies are reconciling their records with NSLDS. The Department has also been working on other initiatives to improve the quality of data in NSLDS, which have included performing on-site support visits to guaranty agencies and other data providers; working with NCHELP to conduct training workshops for guaranty agencies, lenders and servicers; and by reviewing data quality issues with data providers and making systematic improvements in the data provider process. All of these actions have resulted in improved NSLDS data quality.

## AUDIT SCOPE AND METHODOLOGY

The objective of our audit was to assess the administrative impact of FFEL Program loan records that have not been updated with Lender data on NSLDS. To achieve our audit objective we (1) assessed the magnitude of active loan records on NSLDS which have not been updated by lenders since the inception of NSLDS, and (2) identified the effect of keeping loan records that do not contain current status and balance information in an active status on NSLDS. We performed fieldwork from February 1997 through August 1998 as described below.

We conducted interviews of contractor and Department staff including individuals assigned to Guarantor and Lender Oversight Service (GLOS), NSLDS, Accounting and Financial Management Services, and Raytheon/E-Systems. The interviews were performed to gain a better understanding of the environment in which NSLDS operates. We also examined NSLDS reporting directives, Federal laws and regulations, the Department's financial statements and related audit reports, NSLDS operational reports, and data verification studies .

We participated in a GLOS review at CSLP, Denver, Colorado in February 1997 to obtain information on the NSLDS reporting process as well as the results of the guaranty agency's reconciliation with NSLDS. We participated in two NSLDS - NCHelp training workshops. One workshop was for guaranty agencies held in Denver, Colorado in March 1997. The other workshop was held for lenders in Dallas, Texas in July 1997.

To obtain information on the guaranty agency-lender/lender servicer NSLDS data exchange process, we made site visits to two additional guaranty agencies. We participated in a GLOS review at ISAC, Deerfield, Illinois in June 1997 and completed our field work at this agency in July 1997. We made site visits to the TGSLC, Austin, Texas in May and August 1997. We selected and visited five lenders associated with TGSLC and five lenders associated with ISAC to complete our evaluation of the data exchange process in June and July 1997. Additional follow-up information was obtained from the guaranty agencies, lenders and NSLDS after leaving the audit sites through August 1998.

Three independent sources of evidence were used to identify the magnitude of FFEL Program loan records that have not been updated with Lender data. resident on NSLDS. For one source of evidence, we requested NSLDS to prepare a series of data files containing selected elements of data for the entire portfolio of loan records for three guaranty agencies. We evaluated both current and historical NSLDS data to develop criteria to reclassify these records. For the second source of evidence, we reviewed several analytical programs (queries) developed by GLOS to identify loan records with balance and status data that has not been updated on NSLDS. The third and final source of evidence was internal management reports prepared by NSLDS and guaranty agencies, which identify the loan records that have not been updated on their databases.

In the conduct of this audit, we relied on loan data extracted from NSLDS. Our testing was limited to verifying the output of the computer processing steps used to extract and sort the NSLDS loan records. We also compared data in guaranty agency and NSLDS benchmark reports to the results of our analysis. Based on the results of the tests described, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with the objectives described above.

Our audit was conducted in accordance with generally accepted government auditing standards appropriate to the limited scope of the audit described above, and in the Statement on Management Controls Section below.

## **STATEMENT ON MANAGEMENT CONTROLS**

As a part of our audit, we assessed the management controls applicable to detecting and correcting erroneous FFEL Program data loaded onto NSLDS at start-up. Our review disclosed that the Department has established procedures to detect and correct these errors. However, additional procedures are needed to correct all significant categories of erroneous data. Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weakness which could adversely affect FFEL Program data in NSLDS. However, this report describes additional procedures necessary to increase the effectiveness of management controls.

Appendix

**GUARANTY AGENCIES' LOAN RECORDS ON NSLDS THAT HAVE NOT BEEN UPDATED WITH LENDER-PROVIDED DATA: RECLASSIFIED INTO ONE OF TWO PROPOSED LOAN STATUSES**

COLORADO STUDENT LOAN PROGRAM				
RECORDS NOT UPDATED			UPDATED RECORDS	TOTAL RECORDS IN REPAYMENT
	PW	UO		
Number of Loan Records	7,001	32,426	309,321	348,748
OPB <sup>1</sup>	\$15,904,758	\$88,455,097	\$1,007,391,606	\$1,111,751,461
Percent of Total Records in RP <sup>2</sup>	2.01%	9.30%	88.69%	100%

Colorado Student Loan Program has concluded reconciliation with NSLDS. Our analysis of loan records in repayment on NSLDS disclosed that 39,427 of the records with an outstanding principal balance of \$104,359,855 have not been updated with lender-provided data. The table at left demonstrates the effect of reclassifying these records into one of the two proposed loan statuses on NSLDS.

TEXAS GUARANTEED STUDENT LOAN CORPORATION				
RECORDS NOT UPDATED			UPDATED RECORDS	TOTAL RECORDS IN REPAYMENT
	PW	UO		
Number of Loan Records	24,254	154,725	1,086,226	1,265,205
OPB <sup>1</sup>	\$57,134,240	\$387,823,941	\$4,021,510,565	\$4,466,468,746
Percent Of Total Records in RP <sup>2</sup>	1.92%	12.23%	85.85	100%

Texas Guaranteed Student Loan Corporation has not completed the reconciliation process. Since beginning reconciliation, TGS LC reports a significant decline in the number of records in its database that have not been updated with lender data. Our analysis of loan records in repayment on NSLDS disclosed that 178,979 of the records with an outstanding principal balance of \$444,958,181 have not been updated with lender-provided data. The table at left demonstrates the effect of reclassifying these records into one of the two proposed loan statuses on NSLDS.

ILLINOIS STUDENT AID COMMISSION				
RECORDS NOT UPDATED			UPDATED RECORDS	TOTAL RECORDS IN REPAYMENT
	PW	UO		
Number of Loan Records	149,739	354,399	732,902	1,237,040
OPB <sup>1</sup>	\$408,473,844	\$1,393,182,374	\$1,967,063,282	\$3,768,719,500
Percent of Total Records in RP <sup>2</sup>	12.10%	28.65%	59.25%	100%

Illinois Student Aid Commission reported in June 1997 initiating a process to identify loan records on its database that had not been updated with lender-provided data. For the quarter ending September 1997, NSLDS benchmark data disclosed that approximately 50 percent of this agency's loan records in repayment status on NSLDS had not been updated with lender-provided data. Our analysis of loan records in repayment on NSLDS disclosed that 504,138 of the records with an outstanding principal balance of \$1,801,656,218 have not been updated with lender-provided data. The table at left demonstrates the effect of reclassifying these records into one of the two proposed loan statuses on NSLDS.

Legend:

1. Outstanding Principal Balance
2. Repayment



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## UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

SEP 30 1998

Daniel J. Thacns  
Western Area Manager  
Office of Inspector General  
1999 Bryan Street, Suite 2630  
Dallas, Texas 75201-6817

Dear Mr. Thacns,

Thank you for the opportunity to review and comment on your draft audit report entitled, NSLDS Can Be Enhanced if Loan Interest, Fee Balances and Statuses Are Updated with Lender Data, dated August 21, 1998.

We appreciate that your review acknowledges the substantial progress we made over the last 18 months in improving the timeliness and accuracy of Federal Family Education Loan (FFEL) program principal, interest, and fee balances. Our work on these important items of information continues unabated. However, we too believe that the utility of the National Student Loan Data System (NSLDS) can be enhanced by lenders providing the Department with more complete and timely FFEL loan balance information.

This year improving the principal balance information has been a top priority, with buy-in from the Deputy Secretary. We have made measurable progress. In the last year, timely updates of loans in principal balance repayment status have increased from 68.3% to 80.1%, and we plan to meet a December 31, 1998 goal of 90%. In addition, we have identified many of the issues associated with older loans not being updated, and your recommendations to reclassify some of these loans already in the database are very useful. We will be adopting them generally, with perhaps some detailed refinements.

Again, thank you for the opportunity to review and comment on this report, and especially for giving our comments the full consideration that you clearly gave them. If you have any questions, please contact Lynn Alexander or Linda Paulsen, of my staff, at (202) 205-7130 and (202) 708-4664, respectively.

Sincerely,

A handwritten signature in black ink, appearing to read "David Longanecker", written over a large, sweeping flourish that extends to the left.

David A. Longanecker