

guaranty agency servicer's annual audit must assess the reliability of the procedures used by the guaranty agency's or the guaranty agency servicer's internal auditor in performing the quarterly audits.

(7)(i) Payments of reinsurance made on claims, under the FFEL Program, submitted by a guaranty agency or guaranty agency servicer designated for exceptional performance are not subject to repayment based on additional review of due diligence activities, including timely claim payment, or timely filing for reinsurance covering a period during which the guaranty agency or guaranty agency servicer was designated for any reason other than a determination by the Secretary that the eligible guaranty agency or guaranty agency servicer engaged in fraud or other purposeful misconduct in obtaining designation for exceptional performance.

(ii) A guaranty agency designated under this section that fails to service loans or otherwise comply with applicable program regulations is considered in violation of 31 U.S.C. 3729.

(8)(i) The Secretary may revoke the designation of a guaranty agency or guaranty agency servicer for exceptional performance if the Secretary has reason to believe the guaranty agency or guaranty agency servicer fraudulently obtained its designation for exceptional performance.

(ii) The Secretary may revoke the designation for exceptional performance upon 30 days' notice, and an opportunity for a hearing before the Secretary, if the Secretary finds that the guaranty agency or guaranty agency servicer failed to maintain an acceptable overall level of regulatory compliance.

(9) A qualified independent organization is an organization that meets the criteria in paragraph (b)(9) of this section.

(d) *Definitions.* For purposes of this section—

(1) *Due diligence requirements* means the activities required to be performed by lenders or guaranty agencies on delinquent or defaulted loans pursuant to § 682.411 (c) through (h), and (m), if applicable and §§ 682.410(b)(6)(i) through (xii) and 682.406(a)(8) and (a)(9);

(2) *Eligible loan* means a loan made, insured, or guaranteed under part B of title IV of the Act; and

(3) *Servicer* means an entity that services and collects student loans and that—

(i) Has substantial experience in servicing and collecting consumer loans or student loans;

(ii) Has an annual independent financial audit that is furnished to the Secretary and any other parties designated by the Secretary;

(iii) Has business systems capable of meeting the requirements of part B of title IV of the Act and applicable regulations;

(iv) Has adequate personnel knowledgeable about the student loan programs authorized by part B of title IV of the Act; and

(v) Does not knowingly have any owner, majority shareholder, director, or officer of the entity who has been convicted of a felony.

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**§ 682.416 Requirements for third-party servicers and lenders contracting with third-party servicers.**

(a) *Standards for administrative capability.* A third-party servicer is considered administratively responsible if it—

(1) Provides the services and administrative resources necessary to fulfill its contract with a lender or guaranty agency, and conducts all of its contractual obligations that apply to the FFEL programs in accordance with FFEL programs regulations;

(2) Has business systems including combined automated and manual systems, that are capable of meeting the requirements of part B of Title IV of the Act and with the FFEL programs regulations; and

(3) Has adequate personnel who are knowledgeable about the FFEL programs.

(b) *Standards of financial responsibility.* The Secretary applies the provisions of 34 CFR 688.15(b) (1)-(4) and (6)-(9) to determine that a third-party

servicer is financially responsible under this part. References to “the institution” in those provisions shall be understood to mean the third-party servicer, for this purpose.

(c) *Special review of third-party servicer.* (1) The Secretary may review a third-party servicer to determine that it meets the administrative capability and financial responsibility standards in this section.

(2) In response to a request from the Secretary, the servicer shall provide evidence to demonstrate that it meets the administrative capability and financial responsibility standards in this section.

(3) The servicer may also provide evidence of why administrative action is unwarranted if it is unable to demonstrate that it meets the standards of this section.

(4) Based on the review of the materials provided by the servicer, the Secretary determines if the servicer meets the standards in this part. If the servicer does not, the Secretary may initiate an administrative proceeding under subpart G.

(d) *Past performance of third-party servicer or persons affiliated with servicer.* Notwithstanding paragraphs (b) and (c) of this section, a third-party servicer is not financially responsible if—

(1)(i) The servicer; its owner, majority shareholder, or chief executive officer; any person employed by the servicer in a capacity that involves the administration of a Title IV, HEA program or the receipt of Title IV, HEA program funds; any person, entity, or officer or employee of an entity with which the servicer contracts where that person, entity, or officer or employee of the entity acts in a capacity that involves the administration of a Title IV, HEA program or the receipt of Title IV, HEA program funds has been convicted of, or has pled *nolo contendere* or guilty to, a crime involving the acquisition, use, or expenditure of Federal, State, or local government funds, or has been administratively or judicially determined to have committed fraud or any other material violation of law involving such funds, unless—

(A) The funds that were fraudulently obtained, or criminally acquired, used,

or expended have been repaid to the United States, and any related financial penalty has been paid;

(B) The persons who were convicted of, or pled *nolo contendere* or guilty to, a crime involving the acquisition, use, or expenditure of the funds are no longer incarcerated for that crime; and

(C) At least five years have elapsed from the date of the conviction, *nolo contendere* plea, guilty plea, or administrative or judicial determination; or

(ii) The servicer, or any principal or affiliate of the servicer (as those terms are defined in 34 CFR part 85), is—

(A) Debarred or suspended under Executive Order (E.O.) 12549 (3 CFR, 1986 Comp., p. 189) or the Federal Acquisition Regulations (FAR), 48 CFR part 9, subpart 9.4; or

(B) Engaging in any activity that is a cause under 34 CFR 85.305 or 85.405 for debarment or suspension under E.O. 12549 (3 CFR, 1986 Comp., p. 189) or the FAR, 48 CFR part 9, subpart 9.4; and

(2) Upon learning of a conviction, plea, or administrative or judicial determination described in paragraph (d)(1) of this section, the servicer does not promptly remove the person, agency, or organization from any involvement in the administration of the servicer’s participation in Title IV, HEA programs, including, as applicable, the removal or elimination of any substantial control, as determined under 34 CFR 668.15, over the servicer.

(e) *Independent audits.* (1) A third-party servicer shall arrange for an independent audit of its administration of the FFELP loan portfolio unless—

(i) The servicer contracts with only one lender or guaranty agency; and

(ii) The audit of that lender’s or guaranty agency’s FFEL programs involves every aspect of the servicer’s administration of those FFEL programs.

(2) The audit must—

(i) Examine the servicer’s compliance with the Act and applicable regulations;

(ii) Examine the servicer’s financial management of its FFEL program activities;

(iii) Be conducted in accordance with the standards for audits issued by the United States General Accounting Office’s (GAO’s) *Standards for Audit of Governmental Organizations, Programs,*

*Activities, and Functions.* (This publication is available from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402.) Procedures for audits are contained in an audit guide developed by and available from the Office of Inspector General of the Department of Education; and

(iv) Except for the initial audit, be conducted at least annually and be submitted to the Secretary within six months of the end of the audit period. The initial audit must be an annual audit of the servicer's first full fiscal year beginning on or after July 1, 1994, and include any period from the beginning of the first full fiscal year. The audit report must be submitted to the Secretary within six months of the end of the audit period. Each subsequent audit must cover the servicer's activities for the one-year period beginning no later than the end of the period covered by the preceding audit.

(3) With regard to a third-party servicer that is a governmental entity, the audit required by this paragraph must be conducted in accordance with 31 U.S.C. 7502 and 34 CFR part 80, appendix G.

(4) With regard to a third-party servicer that is a nonprofit organization, the audit required by this paragraph must be conducted in accordance with Office of Management and Budget (OMB) Circular A-133, "Audit of Institutions of Higher Education and Other Nonprofit Institutions," as incorporated in 34 CFR 74.61(h)(3).

(f) *Contract responsibilities.* A lender that participates in the FFEL programs may not enter into a contract with a third-party servicer that the Secretary has determined does not meet the requirements of this section. The lender must provide the Secretary with the name and address of any third-party servicer with which the lender enters into a contract and, upon request by the Secretary, a copy of that contract. A third-party servicer that is under contract with a lender to perform any activity for which the records in § 682.414(a)(4)(ii) are relevant to perform the services for which the servicer has contracted shall maintain current, complete, and accurate records pertaining to each loan that

the servicer is under contract to administer on behalf of the lender. The records must be maintained in a system that allows ready identification of each loan's current status.

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#### § 682.417 Determination of Federal funds or assets to be returned.

(a) *General.* The procedures described in this section apply to a determination by the Secretary that—

(1) A guaranty agency must return to the Secretary a portion of its Federal Fund that the Secretary has determined is unnecessary to pay the program expenses and contingent liabilities of the agency; and

(2) A guaranty agency must require the return to the agency or the Secretary of Federal funds or assets within the meaning of section 422(g)(1) of the Act held by or under the control of any other entity that the Secretary determines are necessary to pay the program expenses and contingent liabilities of the agency or that are required for the orderly termination of the guaranty agency's operations and the liquidation of its assets.

(b) *Return of unnecessary Federal funds.* (1) The Secretary may initiate a process to recover unnecessary Federal funds under paragraph (a)(1) of this section if the Secretary determines that a guaranty agency's Federal Fund ratio under § 682.410(a)(10) for each of the two preceding Federal fiscal years exceeded 2.0 percent.

(2) If the Secretary initiates a process to recover unnecessary Federal funds, the Secretary requires the return of a portion of the Federal funds that the Secretary determines will permit the agency to—

(i) Have a Federal Fund ratio of at least 2.0 percent under § 682.410(a)(10) at the time of the determination; and

(ii) Meet the minimum Federal Fund requirements under § 682.410(a)(10) and retain sufficient additional Federal funds to perform its responsibilities as