

## FFELP, Private Student Loan Lender

### *Higher Education Reauthorization Act (HERA) Driven CL4 Processing Enhancements for Lender*

#### **Edgewater Technology's approach provided:**

- Detailed understanding of HERA modifications as they apply to guarantors and lenders;
- Ability to translate guarantor modifications into required updates for the lender's lending systems;
- Development expertise to implement necessary revisions to the lender's Federal Family Education Loan Program (FFELP) loan processing capabilities to allow for receipt and processing of data files that adhere to HERA requirements; and
- Ongoing capability for the lender to continue offering new and existing FFELP products to its customer base.

#### **Regulatory Drivers:**

The Department of Education issued several revisions to the student lending environment through the HERA, and required industry players to comply by the middle of 2006. One of the most significant modifications were changes to assessing and recording loan processing fees, which revived the previously null Federal Guarantee fee and restructured how the fee and possible lender subsidies are recorded. In addition, the regulation required the industry to support a new loan type – PLUS loans for Graduate students – driven by the Deficit Reduction Act of 2005. Industry players responded by making enhancements to their existing FFELP loan processing capabilities to ensure these requirements were appropriately followed.

#### **The Business Environment:**

With the creation of the Graduate PLUS loan, developed to provide additional lower cost funding alternatives, came the emergence of a new market within the FFELP lending program. Many lenders within the FFELP space opted to outsource the application origination, guarantee and disbursement capabilities involved in the highly complex environment to guarantors. An industry standard file format (CommonLine) is used to communicate loan status information such as origination, processing and disbursement information from the guarantors to institutions who submit the applications, and lenders who fund the loans.

#### **The Solution:**

This lender currently participates in FFELP in cooperation with a leading guarantor, who provides approval and guarantee processing, as well as credit checks and disbursement services to complete the lender's full service capabilities. In order to comply with the recent regulatory modifications, the guarantor implemented changes to the CommonLine files generated as part of their loan approval, guarantee and processing functions.

The regulatory driven modifications made by the guarantor drove comparable updates to the lender's database structure to ensure the files were accurately stored upon receipt. Edgewater Technology acted as an agent between the lender and its guarantor to identify and interpret the modifications and resulting database updates. As part of these database modifications, Edgewater worked to deploy the new fee assessment structure by parsing the various loan processing fee fields used for reporting purposes. In addition, Edgewater ensured there was a correlation to the existing fee data in order to provide historical trend information for the lender to continue business level analysis and reporting.

To complete the loan lifecycle, the lender currently outsources the loan servicing component of the FFELP process. Once disbursement information is received from its guarantor, the lender augments the information with funding details and forwards the information to its loan servicer. In addition to performing the system updates driven by the HERA, Edgewater assisted the lender in testing the transmission, receipt and processing of the augmented loan disbursement files that are transmitted to the loan servicer.

By performing these updates, the lender achieved compliance within the required timeframe and gained the processing functionality driven by these regulatory enhancements.