

AGENDA ITEM 10.

SELECTION OF STUDENT LOAN COLLECTION SPECIALISTS

Submitted for: Action

Summary: Pursuant to ISAC's policy regarding signature authority, the Commission must approve in advance all contracts in excess of 5 million dollars. On April 21, 2011, A Request for Proposals (RFP) was launched which sought responses from Collection Agencies qualified to provide collection and related services on loans defaulted under the Federal Family Education Loan Program (FFELP) and other non-FFELP student loans.

Federal Family Education Loan Program (FFELP) Guarantor

A FFELP loan is a federally guaranteed student loan originated and held by a private lender until it is paid in full. ISAC, as a FFELP guarantor, guarantees the loan on behalf of the U.S. Department of Education (ED). The guarantor functions are governed by FFELP regulations. A FFELP loan is considered as defaulted after 270 days of delinquency, at which time the lender submits a claim on the loan to the Guarantor to reimburse the lender for the loan. Using federal funds, the guarantor pays the lender between 97-100% of the value of the defaulted loan on behalf of the federal government. The guarantor takes the loan in-house and is responsible for collecting it. As money is collected, it is deposited into the Federal Fund to be remitted to the federal government. Pursuant to FFELP regulations, guarantors are allowed to retain an administrative fee of 16% of regular collections, 23% (33% gross) of a rehabilitated loan that is purchased by other lenders and 10% when a loan consolidates. This administrative fee is the retention revenue earned by the agency for its guarantor services. The Student Loan Operating Fund (SLOF) is the agency's fund and accounts for all the revenue earned by the agency from its guarantor functions and the administrative expenditures. SLOF funds over 65% of ISAC's administrative expenses, including salaries and overhead. ISAC's current FFELP defaulted loan portfolio includes approximately 61,650 borrowers totaling \$672 million. The annual collection success rate last year was 22% of the portfolio.

When a FFELP loan defaults, ISAC's in-house collection team immediately attempts to collect the loan using tools such as phone calls, letters, administrative wage garnishment, federal and state tax refund offsets, and loan rehabilitation, repurchase and consolidation. Following FFELP regulations, if, after 365 days post default, there is no payment on a loan, it is required to be sent to an outside collection agency for more aggressive collection intervention. The outside collection agencies have tools that are not available to ISAC. Last year the outside collectors were able to bring in \$20 million at a cost to ISAC of \$2 million. The proposed payment schedule below was negotiated by ISAC staff and is based solely on a percentage of money collected, capping the percentage by a percentage of ISAC's collection retention rate as detailed below:

Payment Type	ISAC Net Retention Rate	Percentage of Payment	Percentage of ISAC Retention
Regular Voluntary Payments	16%	5.00%	32
Administrative Wage Garnishments	16%	3.00%	19
Loan Rehabilitation	23%	6.9%	30
Consolidations	10%	2%	25

In addition to collecting on delinquencies of regular FFELP loans, these contracts will allow ISAC to send for outside collection the following types of loans: private loans, uninsured and non-reinsurable loans and decertified Illinois Teacher Scholarships. The negotiated rates for these loan types is 17% of money collected, well below the market rate of between 25% and 50% of money collected.

Private Loans and Other

In addition to FFELP loans, ISAC's division, the Illinois Designated Account Purchase Program (IDAPP) originated alternative student loans which were funded by bond proceeds. The alternative loan portfolio consists of approximately 10,000 loans at a dollar amount of \$286 million. This includes old uninsured and non-reinsurable FFELP loans. Approximately 2,300 borrowers are delinquent.

Decertified Illinois Teacher Scholarships

Lastly, ISAC administers several teacher scholarship programs. These are scholarships for students to complete a program in education and then teach at a school in an underrepresented area of study or geographical area. When the student does not finish the program and/or does not fulfill the teaching requirement, the scholarship becomes due and owing and must be collected as a loan. The teacher scholarship portfolio consists of 2,264 number of loans at \$17.6 million. The annual collection success rate last year was 5% of the total portfolio.

On May 17th 2011, seventeen (17) responses to the RFP were received. An evaluation team consisting of five members of ISAC's Claims and Collections department reviewed the proposals, narrowing the eligible vendors down to six (6), then to two. Pioneer Credit Recovery, Inc. received the highest score for FFELP collections. NCO Group, Inc. was a close second for FFELP and received the highest score for non-FFELP loans. All fees were negotiated to arrive at the foregoing rates. Based upon the recommendations of the evaluation team, management is now seeking the approval of the Commission to execute and deliver a contract with each of the above named Collection Specialists consistent with Exhibit A attached hereto. The term of the contract shall be for five years. The estimated dollar amount of each contract for the five year term shall not exceed the amount of \$9,500,000.00. Note that this is only an estimate of the annual payment of fees based on previous years' totals.

It is necessary to estimate the yearly payment so the state can obligate the necessary funds. Identifying this dollar amount also establishes certain thresholds that dictate the procurement approach and levels of approval. This number is not a guarantee or minimum dollar amount to be paid to collectors. The collectors will only be paid a percentage of dollars collected as aforesaid.

Action requested:

That the Commission approve the following resolution:

“BE IT RESOLVED that the Illinois Student Assistance Commission (ISAC) authorizes the Executive Director or Chairman to execute and deliver a collection specialist agreement with the above named firms on the terms and conditions that the Executive Director or Chairman deem in the best interests of ISAC.

“BE IT FURTHER RESOLVED that, subject to the limitations set forth in the paragraph above, the Chairman or Executive Director are, and each of them is, hereby authorized to do or perform all such acts and to execute all such documents and other instruments as they or any of them deem necessary, convenient or desirable to consummate the transactions contemplated by this Resolution and all of the acts and doings of the Chairman and Executive Director which are in conformity with the intent and purposes of this Resolution, whether heretofore or hereafter taken or done, shall be and are hereby approved, confirmed and ratified.”

EXHIBIT A
SUMMARY OF CONTRACTS OVER \$5,000,000
REQUIRING APPROVAL OF THE COMMISSION

NCO GROUP, INC.

Services: Collection services
Division: Business and Financial Services – Debt Management
Contractor: NCO GROUP, INC.
Amount: \$1,900,000.00 per year total for term of contract \$9,500,000.00
Term: Date of execution for five years
Termination: This Agreement may be terminated by ISAC without cause upon thirty (30) days prior written notice to the Vendor.
Procurement: Request for Proposals issued in 2011
Description: Collection services for defaulted FFELP student loans, decertified Illinois teacher scholarships and private loans. The commission rates are as follows:

Payment Type	Percentage of Payment	Percentage of ISAC Retention
Regular Voluntary Payments	5.00%	32
Administrative Wage Garnishments	3.00%	19
Loan Rehabilitation	6.9%	30
Consolidations	2%	25

Loan Type	Percentage of Payment
Decertified Illinois Teacher Scholarships	17%
Private Loans and others	17%

PIONEER CREDIT RECOVERY, INC

Services: Collection services
Division: Business and Financial Services
Contractor: Pioneer Credit Recovery, Inc.
Amount: \$1,900,000.00 per year total for term of contract \$9,500,000.00
Term: Date of execution for five years
Termination: This Agreement may be terminated by ISAC without cause upon thirty (30) days prior written notice to the Vendor.
Procurement: Request for Proposals issued in 2011
Description: Collection services for defaulted FFELP student loans. The commission rates are as follows:

Payment Type	Percentage of Payment	Percentage of ISAC Retention
Regular Voluntary Payments	5.00%	32
Administrative Wage Garnishments	3.00%	19
Loan Rehabilitation	6.9%	30
Consolidations	2%	25