



Industry Bulletin

Formerly Known as Loan Notes

- 3 [Model Financial Aid Offer Form](#)
- [Renewal Reminder Letters for the 2012-2013 Year](#)
- [2012-2013 Federal School Code List of Participating Schools Now Available](#)
- 4 [Federal Register Notice of Intent to Establish Negotiated Rulemaking Committee](#)
- [Volume 3- Calculating Awards & Packaging \(2011-2012 Federal Student Aid Handbook\)](#)
- [Written Agreements Between U.S. and Foreign Schools](#)
- [2012-2013 Summary Changes for the Application Processing System Guide](#)
- [2012-2013 SAR Comment Codes and Text Guide Now Available](#)
- 5 [Deadline for Schools to Complete Account Validation Process with FSA Systems is December 16, 2011](#)
- [Common Claim Return Reasons](#)
- 6 [U. S Department of Education Announces the Special Direct Consolidation Loan \(Short-Term Consolidation Opportunity\)](#)
- 7 [Industry Calendar](#)

U.S. Department of Education Issues an Urgent Call to Action to Address Fraud in Postsecondary Distance Education Programs

On September 26, 2011, the U.S. Department of Education's Office of Inspector General (OIG) issued a [report](#) addressing Federal student aid, specifically fraud rings that conspire to defraud Title IV programs by targeting distance education programs.

WHAT IS A FRAUD RING?

A fraud ring consists of a ringleader and straw students who willingly provide their personal information to the ringleader in exchange for financial gain. The ringleader uses the personal information collected to complete multiple financial aid applications for the straw students at schools offering distance education programs. The ringleader, acting as a straw student, participates in the required amount of on-line interaction in order to secure disbursements.

Once the ringleader has completed the required amount of on-line class interaction, the school draws down the Federal student aid funds, deducts the school's charges, and disburses the remaining funds to the straw students. The straw students give a majority of those funds to the ringleader and keep the remaining amount of money.

A GROWING PROBLEM

The U.S. Department of Education's National Center for Education statistics indicate that the number of students who took distance education courses rose from 8.2 percent in 1999-2000 to 20.4 percent in 2007-2008. During the 2006-2007 academic year, distance education programs were offered by 97 percent of public two-year schools and 89 percent of public four-year schools. These numbers represent a growing population of students who prefer the ease of access that distance education programs offer over traditional brick and mortar learning.

Unfortunately, fraud rings take advantage of the anonymity that distance education programs offer because most distance education students will never interact in-person with their school. Unlike traditional educational programs, distance education programs operate almost exclusively over the Internet, from the application process to the delivery of educational instruction; students are not required to physically present themselves to the school.

Over the past six years, the OIG has investigated an increasing number of fraud cases involving distance education programs. In 2005, the OIG opened 16 distance education fraud ring investigations. By August 2011, that number had grown to 100, comprising roughly 17 percent of all open OIG investigations. One referral alone,

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from a large non-profit school, is believed to include over 600 potential fraud rings including over 10,000 participants.

In nearly all of the cases investigated by the OIG, the fraud ring participants did not meet the basic eligibility requirements for enrollment in a program to obtain a degree, certificate, or other recognized credential. In addition, most fraud ring participants lacked a high school diploma or the equivalent and some were incarcerated inmates who are ineligible to receive Title IV funds.

CALL TO ACTION

On October 20, 2011, the U.S. Department of Education (ED) issued an urgent call to action in Dear Colleague Letter (DCL) [GEN-11-17](#), which recommends immediate steps schools can take to detect and prevent Federal student aid fraud and provides information on the actions the Federal government plans to take in order to combat fraud in distance education programs.

ED anticipates that this type of fraud will continue to grow because distance education is the fastest growing area of higher education. ED identified several key areas where schools can assist in eliminating fraud in Federal student aid programs.

DISBURSEMENT OF FUNDS

Detecting fraud before the disbursement of funds is the most effective way to combat this growing crime. Schools have the authority to modify their disbursement rules for students participating solely in distance education. Schools should explore modifying their disbursement schedules in the following ways:

- Delay the disbursement of funds until the student has participated in a longer, more substantial part of the course, such as after a paper has been submitted or after an exam has been given, completed, or graded; and
- Disburse funds throughout the period so that not all of the funds are awarded at the beginning of the payment period.

MONITORING STUDENT INFORMATION

Schools can implement automated protocols to monitor student information within their systems to identify repeated use of the same Internet Protocol (IP) address or e-mail address to:

- Submit admissions applications; and
- Participate in on-line academic programs.

In addition, schools should monitor their information data systems to identify students who appear to reside outside the general geographic area of the majority of students enrolled in the program.

ED is also helping to identify potential fraud through the collection of high school completion information on the Free Application for Federal Student Aid (FAFSA). ED may also require some or all of a school's distance education students to provide certain information, including, but not limited to, high school diploma information and information to authenticate the applicant's identity through the verification process. Distance education students may be selected for this type of verification based on common addresses or other patterns and discrepancies as identified in the OIG's recent report on fraud rings.

YOUR HELP IS NEEDED

These are just a few areas where your school can act as the first line of defense in combating fraud. ED has established an anti-fraud ring task force, chaired by Jeff Baker, Director, Policy Liaison and Implementation in Federal Student Aid, to address the issues raised by the OIG's report and to address any future threats. If you have comments, suggestions or concerns that you believe will assist ED in combating fraud, you may contact the task force at FraudTaskForce@ed.gov or call 202.377.4340.

ED is also interested in hearing suggestions from the higher education community on additional statutory and regulatory changes that can help schools combat fraud and protect students and taxpayers from fraudulent activity.

ADDITIONAL INFORMATION ABOUT FRAUD

An additional session, titled "Protect Your School from Fraud in Distance Education Programs", has been added to the schedule for the upcoming FSA Conference in Las Vegas. The session will provide valuable information on how schools can protect themselves from becoming victims of fraud rings. Panel discussion participants include the Office of Postsecondary Education, the Office of the Inspector General, and various schools that offer distance education programs who will discuss the various ways that schools can detect and prevent fraudulent activities and applicable statutory and regulatory requirements. The Office of the Inspector General will also discuss its experience and perspective on Federal student aid fraud.

Model Financial Aid Offer Form

On October 26, 2011, the U.S. Department of Education announced that the [Office of Postsecondary Education and Consumer Financial Protection Bureau's \(CFPB\)](#) collaboration on the "Know Before You Owe" project includes the development of a model financial aid offer form, intended for use by colleges and universities as a way to help students and parents:

- Better understand the types and amount of aid they qualify for;
- Easily compare aid packages offered from different schools; and
- Understand the total costs and risks of student loans before enrollment.

The CFPB is asking for feedback from current students and their parents on how to improve the form. Comments on the Financial Aid Shopping Sheet can be made by visiting the [CFPB's Web site](#).

2012-2013 Federal School Code List of Participating Schools Now Available

On November 1, 2011, the U.S. Department of Education (ED) announced the availability of the initial list of [2012-2013 Federal School Code \(FSC\) List of Participating Schools](#). The list contains the unique codes assigned to schools by ED. The list is available electronically as a PDF or in a Microsoft Excel (XLS) file.

UPDATING YOUR SCHOOL'S FSC INFORMATION

Updates to your school's FSC information can be made directly on the [Electronic Application for Approval to Participate in the Federal Student Financial Aid Programs \(E-App\) Web site](#). Select "Update your Federal School Code Addresses which are used by the FAFSA" under Other Features to get started.

Only one city and state may be listed for each FSC. In addition, schools are reminded that changes made to a school's name or address on the E-App Web site do not update any other ED database. Changes to your school's official name or address must be submitted as an "Update" through the E-App Web site.

Renewal Reminder Letters for the 2012-2013 Year

On October 31, 2011, the U.S. Department of Education (ED) published an [Electronic Announcement](#) to remind schools to submit corrections to the 2011-2012 SAR and ISIR data no later than January 6, 2012, in preparation for the 2012-2013 Renewal Reminder distribution.

Applicants who meet the eligibility requirements by January 6, 2012, will receive a Renewal Reminder letter advising that they may use FAFSA on the Web to reapply for aid. ED encourages schools to work with their students to ensure that the most up-to-date e-mail and mailing address information is included on 2011-2012 transactions.

WHO QUALIFIES FOR THE RENEWAL REMINDER?

To qualify as "renewal eligible", the student's social security number, name, and date of birth must match the Social Security Administration's data and receive a match flag of "4". A successful match indicates that the student previously received a Federal Student Aid PIN, which is required to access the renewal data.

TYPES OF RENEWAL REMINDERS

Renewal-eligible students who provide a valid e-mail address on their 2011-2012 records will receive the renewal reminder via e-mail. Renewal-eligible students who do not provide an e-mail address on the 2011-2012 records or whose Renewal Reminder is returned as undeliverable through e-mail will receive the reminder by mail if a deliverable mailing address is provided.

The screenshot shows the top of a web page titled "START HERE GO FURTHER FEDERAL STUDENT AID" with the IFAP logo. The page content includes:

- Posted Date: October 31, 2011
- Author: William Leith, Service Director, Program Management, Federal Student Aid
- Subject: Reminder: Submit 2011-2012 SAR and ISIR Corrections by January 6, 2012 in Preparation for 2012-2013 Renewal Reminder Distribution
- Introductory paragraph: "In preparation for the 2012-2013 Renewal Reminder distribution, we are reminding all schools to update 2011-2012 Student Aid Report (SAR) and Institutional Student Information Record (ISIR) transactions for their students with current e-mail and mailing addresses by January 6, 2012."
- Paragraph: "Applicants who meet the eligibility requirements for a 2012-2013 renewal Free Application for Federal Student Aid (FAFSA) by January 6, 2012, will be sent a Renewal Reminder e-mail or a Renewal Reminder letter between January 13 and February 10, 2012."
- Section: **What is the Renewal Reminder?**
Text: "The Renewal Reminder is an important alert for renewal-eligible students, reminding them that they can use FAFSA on the Web to reapply for aid. We encourage schools to work with students to ensure the most current e-mail and mailing address information is present on 2011-2012 transactions and to submit any other pending corrections that may be preventing the student from being renewal-eligible for 2012-2013, such as resolving rejected transactions."
- Section: **Who is Eligible for a Renewal Reminder?**
Text: "Renewal-eligible students must have a 'good' match with the Social Security Administration (SSA) to qualify for a Renewal Reminder. A 'good' match occurs when the student's Social Security Number (SSN), name, and date of birth all match SSA's records and the student received a match flag of '4.' A successful match result indicates that the student has previously been sent a Federal Student Aid PIN, which is required to access renewal data on FAFSA on the Web, and the student should therefore be sent a Renewal Reminder."
- Section: **What Type of Renewal Reminder Will a Student Receive?**
Text: "Renewal-eligible students who provide valid e-mail addresses on their 2011-2012 records will be sent 2012-2013 Renewal Reminder e-mails."
Text: "Renewal-eligible students whose 2011-2012 records do not have e-mail addresses, or whose Renewal Reminder e-mails have been returned as undeliverable, will be mailed 2012-2013 Renewal Reminder letters, provided there is a deliverable mailing address."

Students who completed a 2011-2012 Spanish application will receive the 2012-2013 Renewal Reminder letter in Spanish as well.

Federal Register Notices of Intent to Establish Negotiated Rulemaking Committees

The Federal Register [76 FR 66248] published on [October 26, 2011](#), included an announcement of the Secretary's intent to establish a negotiated rulemaking committee to prepare proposed regulations under Title II and Title IV of the Higher Education Act of 1965, as amended (HEA). The Secretary is requesting nominations no later than November 25, 2011, for individual negotiators who represent groups affected by the topic.

The Federal Register [76 FR 66880] published on [November 7, 2011](#), announced the U.S. Department of Education's (ED) intent to establish a negotiated rulemaking committee to prepare proposed regulations governing student loans programs authorized under Title IV of the Higher Education Act of 1965, as amended (HEA). ED is requesting nominations for individual negotiators to serve on the committee. Nominations must be received no later than November 28, 2011.

Volume 3- Calculating Awards & Packaging (2011-2012 Federal Student Aid Handbook)

On November 3, 2011, Federal Student Aid (FSA) announced that it made a [revision to Volume 3 \(Calculating Awards and Packaging\) of the 2011-2012 FSA Handbook](#). The below amendment was made to the "Retaking Coursework in Term Programs" section.

- The sentence beginning with "You may also count towards enrollment status and award aid for any class..." is incorrect and was removed.

2012-2013 SAR Comment Codes and Text Guide Now Available

On November, 2, 2011, the U.S. Department of Education announced that the 2012-2013 SAR Comment Codes and Text Guide has been posted to the Information for Financial Aid Professionals (IFAP) Web site. The guide is available in [PDF format](#). Or, it can be [downloaded](#) from the Federal Student Aid (FSA) Download Web site.

Written Agreements Between U.S. and Foreign Schools

On October 25, 2011, the U.S. Department of Education (ED) published Dear Colleague Letter (DCL): GEN- 11-18 to remind schools about important changes to regulations for programs authorized by the Higher Education Act of 1965, as amended (HEA), including provisions that address written agreements between two or more schools, or organizations acting on behalf of a foreign school, that each provide part of an educational program.

In addition, the DCL provides schools with additional guidance on the impact these changes make to educational programs offered through written agreements by foreign and U.S. schools. Schools that participate in such agreements are encouraged to review the preambles to the notices of proposed rulemaking (NPRMs) and the Final Regulations to ensure compliance.

2012-2013 Summary Changes for the Application Processing System Guide

On November 4, 2011, the U.S. Department of Education (ED) announced the availability of the [2012-2013 summary changes for the Application Processing System guide](#) on the Information for Financial Aid Professionals (IFAP) Web site.

Changes and enhancements were made to the following topics for the 2012-2013 application processing year:

- Application processing schedule
- Application processing system
- FAFSA on the Web
- FAFSA, including information about ordering and distribution of FAFSA on the Web worksheets
- FAA access to CPS Online, including Return of Title IV Funds and the ISIR Analysis Tool
- Central Processing System (CPS), including

Deadline for Schools to Complete Account Validation Process with FSA Systems is December 16, 2011

The U.S. Department of Education (ED) released an [Electronic Announcement](#) on November 2, 2011, to remind Student Aid Internet Gateway (SAIG) enrolled schools that December 16, 2011, is the deadline to complete the account validation process to maintain access to Federal Student Aid data systems. Schools that have users with TG numbers to access any of the below systems must complete the account validation process:

- NSLDS Professional Access Web site;
- eCampus-Based (eCB) Web site;
- All FAA Access to CPS Online;
- SAIG Batch services for NSLDS;
- Central Processing System (CPS);
- Common Origination and Disbursement (COD) System;
- Direct Loan Servicing System; and
- Financial Management System (FMS).

COMPLETING THE ACCOUNT VALIDATION PROCESS

The school's Primary Destination Point Administrator (DPA) should follow the instructions outlined in the Electronic Announcement to complete the validation process for both the SAIG mailbox and FAA Access accounts. DPAs must also provide confirmation that enrolled staff still require access or that users may be deleted.

Failure to complete the validation process by December 16, 2011, will result in the loss of access to the Federal Student Aid data systems.



Common Claim Return Reasons

As a reminder, when submitting the Claim Form through either an electronic process or using the paper Claim Form, the lender certifies the information in the claim as true and accurate. The lender must also ensure that all required documentation (specified in Common Manual Subsection 13.1.D) is included with each claim file submitted to AES/PHEAA. Lenders should review the claim before submitting it to AES/PHEAA to ensure that all required fields on the Claim Form are completed with true and accurate information.

Following are some of the common reasons a claim is returned to the lender.

- Collection History (Section IX) appears to contain inaccurate codes or missing activity.
Examples:
 - » Skip tracing activity codes were provided when the address and telephone number were valid.
 - » Attempted telephone contact with the borrower (TA) code recorded after the lender became aware that all known phone numbers for the borrower were invalid (IT) code, and the date that the lender became aware of the valid phone number for the borrower (VT) code is not listed.
 - » Collection activity for co-borrower was not listed in Section IX of the Claim Form.
- The "Total Amount Disbursed/Repurchased" (field 44) does not equal the total amount of the original principal value of loans disbursed to the borrower or the amount restored to servicing for the repurchased loans (including rehabilitated loans).

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Common Claim Return Reasons

- The “Principal Used for Int Claimed” (Field 47) does not equal the total amount of the “Current Principal Balance” (Field 20a) due on the date claimed.
- The collection history does not contain the date on which one monthly installment was satisfied by a payment or prepayment (PR collection code) and it appears that a rolling delinquency occurred when the delinquent status of the loan was reduced.
- The “Payment Due Date” (Field 43) and “Date Condition Occurred” (Field 2) reflect a date that falls within a forbearance or deferment period recorded in the Collection History (Section IX).
- The documentation supporting the lender’s out-of-school date (OSD) is not included as part of the claim documentation when the lender’s OSD is different from the OSD on the guarantor’s file.
- Complete cure documentation was not included as part of the claim documentation.

Examples:

- » A legible copy of the curing instrument was not provided with claim documentation.
- » The completed “Reinstatement of Guarantee Form” was not provided with the claim documentation.
- » One full payment was received (cash) to cure the account. However, a senior officer did not sign the certification section of the “Reinstatement of Guarantee Form” certifying that a full payment was not made by or on behalf of the lender or servicing agent.
- The original or true and exact copy of the promissory note was not supplied with the claim documentation.
- A properly executed Indemnification Agreement was not supplied with the claim documentation.

If you have questions regarding the claim file documentation or claim return reasons, please contact the Loan Assets Management Department - Claims & Reinsurance Unit at **800.892.7576**.

U. S Department of Education Announces the Special Direct Consolidation Loan (Short-Term Consolidation Opportunity)

On October 26, 2011, the U.S. Department of Education released an Electronic Announcement regarding the Special Direct Consolidation Loan (Short-Term Consolidation Opportunity). This announcement is the first in a series that will discuss the availability of the Special Direct Consolidation Loans. Please read the [Electronic Announcement](#) in its entirety for additional information.

Industry Calendar

NOVEMBER

14	Deadline to submit comments to the NPRM: Application and Approval Process for New Schools
15	Deadline for schools to report gainful employment program information for students enrolled in the 2010-2011 award year.
15	Online training offered on the Direct Loan Program and its systems
25	Deadline for nominations to serve on the Negotiated Rulemaking Committee announced in the Federal Register [76 FR 66248]
28	Deadline for nominations to serve on the Negotiated Rulemaking Committee announced in the Federal Register [76 FR 66880]
29	Dec 2 - 2011 FSA Conference held at the MGM Grand in Las Vegas, Nevada.

DECEMBER

15	Deadline for schools to submit corrections for the Fiscal Operations Report for 2010-2011 and the Application to Participate for 2012-2013(FISAP) to the U.S. Department of Education
15	Deadline for schools to report their Perkins Loan Program cash on hand as of October 31, 2011
16	Last day to verify your school's TG number to maintain access to the Federal Student Aid data systems

JANUARY

6	Deadline to submit 2011-2012 SAR and ISIR corrections in preparation for the 2012-2013 Renewal Reminder distribution
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Created in 1963 by the Pennsylvania General Assembly, the Pennsylvania Higher Education Assistance Agency (PHEAA) has evolved into one of the nation's leading student aid organizations. Today, PHEAA is a national provider of student financial aid services, serving millions of students and thousands of schools through its loan guaranty, loan servicing, financial aid processing, outreach and other student aid programs.

PHEAA's earnings are used to support its public service mission and to pay its operating costs, including administration of the Pennsylvania State Grant and other state-funded student aid programs. PHEAA continues to devote its energy, resources and imagination to developing innovative ways to ease the financial burden of higher education for students, families, schools and taxpayers.

PHEAA conducts its student loan servicing activities nationally as American Education Services (AES) and FedLoan Servicing.

CONTACT

BUSINESS DEVELOPMENT
& OPERATION/LOAN GUARANTY
Mon - Fri, 7:30 am to 9:00 pm ET

STUDENT/PARENT
GRANT & LOAN INQUIRIES
800.692.7392
granthelp@aesSuccess.org
studentloans@aesSuccess.org

SCHOOL/LENDER INQUIRIES
800.443.0646
loanhelp@aesSuccess.org

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