



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL AUDIT

# *Montana Guaranteed Student Loan Program*

*For the Fiscal Year Ended  
June 30, 2010*

NOVEMBER 2010

LEGISLATIVE AUDIT  
DIVISION

09-06B

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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

November 2010

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the fiscal year 2009-10 financial audit of the office of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program. This report contains no recommendations.

We thank the Office of the Commissioner of Higher Education, the Director of the Montana Guaranteed Student Loan Program, and their staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

**Office of the  
Commissioner of  
Higher Education**

Sheila M. Stearns, Ed.D., Commissioner of Higher Education

Sylvia Moore, Deputy Commissioner for Academic and Student Affairs

Mary Sheehy Moe, Deputy Commissioner of Two-Year Education

Mick Robinson, Associate Commissioner for Fiscal Affairs

Frieda Houser, Director of Accounting and Budgeting

**Montana Guaranteed  
Student Loan Program**

Bruce Marks, Director

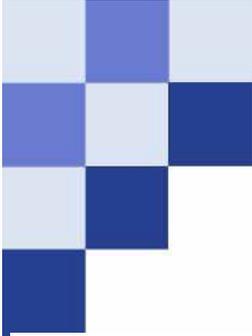
Ron Muffick, Associate Director

Robin Graham, Chief Financial Officer

For additional information concerning the Montana Guaranteed Student Loan Program, contact:

Bruce Marks  
P.O. Box 203101  
Helena, MT 59620-3101  
(406) 444-0351

e-mail: [bmarks@mgsfp.state.mt.us](mailto:bmarks@mgsfp.state.mt.us)



# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL AUDIT

# Montana Guaranteed Student Loan Program

For the Fiscal Year Ended June 30, 2010

NOVEMBER 2010

09-06B

REPORT SUMMARY

The Montana Guaranteed Student Loan Program (MGSLP) was established by the Office of the Commissioner of Higher Education in 1981 to coordinate and administer the federally insured student loans issued by various lending institutions. In 2010, Congress passed the Health Care and Education Reconciliation Act, which eliminated the Federal Family Education Loan Program. As of July 1, 2010, all new federal student loans are made through the Federal Direct Student Loan Program (FDSLP). MGSLP will no longer receive income from Loan Processing and Issuance fees, Disbursement Services, or Guarantee fees.

### Context

The Office of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program allows eligible students to receive loans from lending institutions to pay for post-secondary education. The federal government guaranteed the loans made by lending institutions and makes administrative cost reimbursements to the MGSLP for acting as a collection agent. The MGSLP performed the administrative duties associated with the loan guarantee process and contracted with an outside vendor for computer support services.

Federal law requires an annual financial audit of the MGSLP financial statements. MGSLP is also included in the biennial financial-compliance audit of the Office of the Commissioner of Higher Education.

The original principal balance of guaranteed loans outstanding held by MGSLP as of June 30, 2010, was approximately \$2,052,149,661.

### Results

This report contains no recommendations to the program. The prior audit report also contained no recommendations.

Recommendation Concurrence	
Concur	0
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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# Chapter I – Introduction

## **Introduction**

We performed a financial audit of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program (program) for the fiscal year ended June 30, 2010. The objectives of our audit were to:

1. Determine if the program's financial statements present fairly the financial position and results of operations for the fiscal year ended June 30, 2010.
2. Obtain an understanding of the program's control systems to the extent necessary to support our audit of the program's financial statements and, if appropriate, make recommendations for improvements in management and internal controls of the program.
3. Determine whether the program complied with selected state and federal laws and regulations.

## **Background**

The program is part of the Office of the Commissioner of Higher Education. Working under the guidance of the Montana Board of Regents, the program's primary goal is to improve access to postsecondary education in Montana. This goal is accomplished by working collaboratively with schools, colleges, lenders and other trading partners who believe that an investment in education is an investment in Montana.

Created in 1979 by the Montana Legislature, and guaranteeing their first loans in 1981, the program has been the designated guarantor of the Federal Family Education Loan Program in Montana. For more than 25 years, the program has been a full service guarantee agency providing schools and lenders with a central loan origination and disbursement service. The program has provided a variety of guarantee support services including streamlined application processing, single point of contact for schools, lenders and borrowers, on-site technical expertise, and in-house default prevention and collections. In 2010, the program had an outstanding loan portfolio over \$2 billion and guaranteed a record number of loans.

Through efficient management of the Federal Family Education Loan Program, the Montana Guaranteed Student Loan Program has been able to administer a variety of state and federal grant and scholarship programs. The program manages the Montana University System Honor Scholarship, a renewable merit scholarship that covers the cost of tuition at qualifying Montana colleges. In 2005, the program began administering the Montana Family Education Savings Program and the Governor's Postsecondary Scholarship Program.

From early awareness programs like Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) to financial management courses taught by staff, the program delivers the information students and families need to succeed after high school.

As of June 30, 2010, the original principal balance of guaranteed loans outstanding was \$2,052,149,661, with a default rate of 1.8 percent for federal fiscal year 2009-10. Given the current default rate, the federal government will reimburse the program for defaulted loans at the following rates: 98 to 100 percent for loans issued prior to October 1, 1998, and 95 percent for loans issued on or after October 1, 1998.

# Independent Auditor's Report and Program Financial Statements



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Monica Huyg, Legal Counsel



Deputy Legislative Auditors  
James Gillett  
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of the of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program – Federal Special Revenue Fund as of June 30, 2010, and the related Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual for the fiscal year then ended. The information contained in these financial statements is the responsibility of the program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commissioner of Higher Education's Montana Guaranteed Student Loan Program – Federal Special Revenue Fund as of June 30, 2010, and its changes in Fund Balance for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

October 18, 2010



**Commissioner of Higher Education  
Montana Guaranteed Student Loan Program  
Federal Special Revenue Fund  
Balance Sheet  
As of June 30, 2010**

	Agency Operating Fund	Federal Student Loan Reserve Fund	Essay Scholarship Fund	Total
<b>Assets</b>				
Cash in Treasury	\$ 403,166	\$ 68,754		\$ 471,920
Short Term Investments (Note 2)	7,776,374	6,729,068	174,147	14,679,589
Long Term Investments	498,986	431,784	11,174	941,944
Cash Collateral - SI	318,900	275,951	7,142	601,993
Accounts Receivable	23,014	2,205	53	25,272
Due From Federal Government (Note 3)	441,568	2,582,073		3,023,641
Prepaid Expense	325			325
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Assets</b>	<b><u>\$ 9,462,333</u></b>	<b><u>\$ 10,089,836</u></b>	<b><u>\$ 192,516</u></b>	<b><u>\$ 19,744,685</u></b>
 <b>Liabilities and Fund Balance</b>				
<b>Liabilities</b>				
Accounts Payable	\$ 280,532	\$ 603,348		\$ 883,880
Deferred Revenue	2,679			2,679
Liab. Under Securities Lend	318,900	275,951	7,142	601,993
Property Held in Trust (Note 4)	222,183			222,183
Due to Federal Government (Note 5)		377,448		377,448
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b><u>\$ 824,294</u></b>	<b><u>\$ 1,256,747</u></b>	<b><u>\$ 7,142</u></b>	<b><u>\$ 2,088,182</u></b>
<b>Total Fund Balance</b>	<b><u>8,638,039</u></b>	<b><u>8,833,089</u></b>	<b><u>185,374</u></b>	<b><u>17,656,502</u></b>
<b>Total Liabilities and Fund Balance</b>	<b><u>\$ 9,462,333</u></b>	<b><u>\$ 10,089,836</u></b>	<b><u>\$ 192,516</u></b>	<b><u>\$ 19,744,685</u></b>

The accompanying notes are an integral part of this financial statement.

**Commissioner of Higher Education  
Montana Guaranteed Student Loan Program  
Federal Special Revenue Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual  
For the Fiscal Year Ended June 30, 2010**

	Agency Operating Fund			Federal Student Loan Reserve Fund			Essay Scholarship Fund		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
<b>Revenue</b>									
Guarantee Fee Income (Note 7)	\$ -	\$ -	\$ -	\$ 1,683,000	\$ 2,182,381	\$ 499,381	\$ -	\$ -	\$ -
Loan Processing and Issuance Fee (Note 8)	730,173	887,831	157,658	-	-	-	-	-	-
Account Maintenance Fees (Note 9)	1,310,884	1,308,127	(2,757)	-	-	-	-	-	-
Default Aversion Fees (Note 10)	850,000	799,242	(50,758)	150,000	159,053	9,053	-	-	-
Collection Recoveries (Note 11)	2,663,000	2,087,798	(575,202)	-	-	-	-	-	-
Loan Rehabilitations (Note 11)	3,500,000	3,766,654	266,654	-	-	-	-	-	-
FDSLPL Consolidation Collection Fees (Note 11)	800,000	737,169	(62,831)	-	-	-	-	-	-
Reinsurance from Department of Education (Note 12)	-	-	-	20,000,000	20,601,676	601,676	-	-	-
Non-Reinsured Loan Recoveries (Note 15)	-	-	-	600,000	193,914	(406,086)	-	-	-
Disbursement Service Fees (Note 4)	165,000	188,866	23,866	-	-	-	-	-	-
Investment Earnings (Note 2)	130,000	24,071	(105,929)	100,000	21,254	(78,746)	-	559	559
STIP Security Lending Gross Earnings	6,000	3,627	-	12,000	3,308	(8,692)	-	86	86
Miscellaneous	7,000	5,299	(1,701)	-	58	58	-	-	-
<b>Total Revenue</b>	<u>10,162,057</u>	<u>9,808,685</u>	<u>(353,372)</u>	<u>22,545,000</u>	<u>23,161,644</u>	<u>616,644</u>	<u>-</u>	<u>644</u>	<u>644</u>
<b>Expenditures</b>									
Administrative Costs	\$ 5,348,216	\$ 4,713,740	634,476	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cost of Loan Collections (Note 11)	8,302,010	4,637,687	3,664,323	-	-	-	-	-	-
Claims Paid to Lenders (Note 12)	-	-	-	23,771,179	21,216,383	2,554,796	-	-	-
Default Aversion Fees (Note 10)	150,000	159,053	(9,053)	850,000	799,242	50,758	-	-	-
STIP Security Lending Expense	-	1,226	-	-	1,118	-	-	29	29
Scholarships	-	-	-	-	-	-	-	7,593	7,593
<b>Total Expenditures</b>	<u>13,800,226</u>	<u>9,511,706</u>	<u>4,288,520</u>	<u>24,621,179</u>	<u>22,016,743</u>	<u>2,604,437</u>	<u>0</u>	<u>7,622</u>	<u>(7,622)</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(3,638,169)	296,979	3,935,148	(2,076,179)	1,144,902	3,221,081	-	(6,978)	(6,978)
<b>Fund Balance 06/30/09</b>	-	8,341,060	8,341,060	-	7,688,186	7,688,186	-	192,352	192,352
<b>Fund Balance 06/30/10</b>	<u>\$ (3,638,169)</u>	<u>\$ 8,638,039</u>	<u>\$ 12,276,208</u>	<u>\$ (2,076,179)</u>	<u>\$ 8,833,088</u>	<u>\$ 10,909,267</u>	<u>\$ -</u>	<u>\$ 185,374</u>	<u>\$ 185,374</u>

The accompanying notes are an integral part of this financial statement.

**Commissioner of Higher Education  
Montana Guaranteed Student Loan Program  
Federal Special Revenue Fund  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Program

The State of Montana's Guaranteed Student Loan Program (MGSLP) is located in the Office of the Commissioner of Higher Education. MGSLP was established by the Office of the Commissioner of Higher Education in fiscal year 1981 to coordinate and administer the federally insured student loans issued by various lending institutions. Montana's Federal Family Education Loan Program (FFELP) operates in compliance with and pursuant to agreements between the Montana Board of Regents and the U.S. Department of Education (DE), pursuant to Section 428 of the Higher Education Act of 1965, as amended. On February 8, 2006, President Bush signed the Higher Education Reconciliation Act of 2005 (the "HERA"), PUB. L. 109-171, which made changes to the Higher Education Act of 1965, as amended. These changes became effective during the fiscal year ended June 30, 2008.

B. Basis of Accounting

The financial statements were prepared using the modified accrual basis of accounting, and are presented in a budget to actual format, which does not significantly differ from a GAAP presentation. Under the modified accrual basis of accounting, revenues are recognized when they are realizable, measurable, earned and available. They are considered realizable and measurable if the transaction has been completed or there is enough information to reasonably estimate the revenue to be received. The revenue is considered earned when the services have taken place. Available means that the revenue is collectable within the current accounting period or will be received within sixty days after the end of the fiscal year. The expenditures are recorded when the department incurs the related liability and it is measurable. The budget information presented in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual is as approved by the Montana Board of Regents for fiscal year 2010.

C. Descriptions of Federal Special Revenue Funds

As a Federal Special Revenue Fund, MGSLP accounts for the proceeds of revenue sources that are legally restricted to expenditures for specified purposes. Pursuant to the Higher Education Act of 1965, as amended, MGSLP accounts for its operations in two separate funds: the Federal Student Loan Reserve Fund (FSLRF) and the Agency Operating Fund (AOF). Use of the FSLRF is limited to payment of lender claims and payment of default aversion fees or other DE fee payments as directed. MGSLP is required to deposit claim reimbursements from DE into the FSLRF, as well as the following: DE's equitable share of defaulted loan recoveries, the portion of default recoveries that equals the complement of the reinsurance rate which is not reimbursed to MGSLP by DE, and student loan insurance premiums (guarantee fees). The AOF is the property of MGSLP and is used for a variety of FFELP activities and for other student aid related activities as selected by the agency. Payments received by MGSLP for loan processing and issuance, account maintenance, default aversion activities, and MGSLP's share of defaulted loan collections is all deposited into the AOF. MGSLP also maintains a fund to account for funds held in trust for recipients of MGSLP's essay scholarship contest. Funds are invested in the Montana Short Term Investment Pool (STIP).

## 2. INVESTMENTS

Short and Long Term investments are units purchased in the State of Montana's Short Term Investment Pool (STIP) and are recorded at a unit cost of \$1. All securities in STIP are held in the name of the Montana Board of Investments or were registered in the nominee name for the Montana Board of Investments and held by the Board's custodial bank. STIP credit quality is not rated. The Board of investments employs the "Prudent Expert Rule" in managing the State's investment portfolio. At June 30, 2010, MGSLP owned 15,621,533 units valued at \$15,621,533. MGSLP does not have a formal policy for credit risk. As directed by the Department of Administration, MGSLP classified \$ 941,944 of STIP as Long Term Investments to reflect MGSLP pro rata share of STIP Investments that were non-liquid at June 30, 2010.

## 3. DUE FROM FEDERAL GOVERNMENT

MGSLP pays individual lending institutions for any loans that have defaulted or are unpaid due to the death, permanent disability, or bankruptcy of the borrower. The agency then seeks reimbursement from the DE in accordance with reinsurance agreements between the agency and DE. Claim payments and subsequent reinsurance payments are paid from and deposited into the Federal Student Loan Reserve Fund. MGSLP's claims for reinsurance payments not received as of June 30, 2010, are included here. In addition, the receivable Due From Federal Government includes amounts MGSLP had not yet received for Loan Processing and Issuance Fees (Note 8) and for Account Maintenance Fee (Note 9) for the last quarter of fiscal year 2010. The extent of the outstanding reinsurance activity and other pending reimbursements from DE as of June 30, 2010, is shown below.

Reinsurance Claims	\$2,582,073	Federal Student Loan Reserve Fund
Teacher Loan Forgiveness	\$106,775	Agency Operating Fund
Loan Processing and Issuance Fee	\$24,240	Agency Operating Fund
Account Maintenance Fee	\$310,554	Agency Operating Fund
Total Due From Federal Government	<u>\$3,023,641</u>	

## 4. PROPERTY HELD IN TRUST

MGSLP operates an escrow disbursement service for approximately fifty lenders. Participating lenders are assessed a fee for this service. In accordance with contracts MGSLP has with the disbursement service lenders, MGSLP automatically debits the lenders' accounts to collect loan proceeds. MGSLP then disburses funds to the schools for delivery to the students by Inter Unit Journal for University system schools and by individual State of Montana warrants or electronic transfers (ACH) for all other schools. The MGSLP disbursement service records all adjustments to individual student loan accounts and ensures that school refunds of loan proceeds are promptly returned to the lenders. As of June 30, 2010, MGSLP's disbursement service held \$222,183 in student loan funds that are to be refunded to lenders after June 30, 2010. Disbursement service revenues earned during fiscal year 2010 were \$188,886.

## 5. DUE TO FEDERAL GOVERNMENT

After assignment to the guaranty agency, MGSLP seeks collection of student loans that have defaulted. A portion of the recoveries of loans reinsured by the Department of Education (DE) is owed back to DE (Note 12). At June 30, 2010, the amount owed to DE was \$377,448.

## 6. DESIGNATED FUND BALANCE

During fiscal year 2003, the Department of Education (DE) allowed guaranty agencies to transfer any unspent recall interest earned during prior fiscal years from the Federal Student Loan Reserve Fund to the Agency Operating Fund. The total amount of funds transferred at that time was \$820,346. The agency is authorized to use these earnings from the Agency Operating Fund to perform certain default reduction activities, as outlined in the Balanced Budget Act of 1997. As of June 30, 2010, the unspent portion of these restricted earnings was \$816,047.

#### 7. GUARANTEE FEE INCOME

As of July 1, 1994, the guaranty agencies may collect 1% of the loan amount from borrowers. The Higher Education Reconciliation ACT of 2005 (HERA) eliminates the guarantee fee and establishes a 1% Federal "default fee" effective for loans guaranteed on or after July 1, 2006. The default fee is to be paid by the borrowers or by any other non-federal source. The fees are deposited into the Federal Student Loan Reserve Fund (FSLRF), and recognized as revenue upon receipt. Guarantee fee revenue for fiscal year 2010 was \$2,182,381.

#### 8. LOAN PROCESSING AND ISSUANCE FEE

The Higher Education Amendments of 1998 authorized payment of a Loan Processing and Issuance Fee beginning October 1, 1998. Under this Act, each guaranty agency is paid a loan processing and issuance fee, to be deposited into the Agency Operating Fund, equal to .65% of the total principal amount of loans originated during federal fiscal years 1999-2003 on which the agency issued insurance. Beginning in federal fiscal year 2004, for loans guaranteed on or after October 1, 2003, the fee dropped to .40%. During fiscal year 2010, Loan Processing and Issuance Fee revenue totaled \$887,831 which includes \$24,240 accrued for reimbursements that were not received until after June 30, 2010.

#### 9. ACCOUNT MAINTENANCE FEE

The Higher Education Amendments of 1998 authorized the payment of an Account Maintenance Fee beginning October 1, 1998. Under this Act, each guaranty agency is paid an account maintenance fee, to be deposited into the Agency Operating Fund. For federal fiscal years beginning 2007, the fee is .06% of the original principal balance of guaranteed loans outstanding during the year. During fiscal year 2010, Account Maintenance Fee revenue totaled \$1,308,127 which includes \$310,554 accrued for reimbursements that were not received until after June 30, 2010.

#### 10. DEFAULT AVERSION FEE

The Higher Education Amendments of 1998 authorized the payment of a Default Aversion Fee beginning October 1, 1998. Upon receipt of a completed lender request for assistance (LRA) not earlier than the 60<sup>th</sup> day of delinquency, a guaranty agency must engage in default aversion activities designed to prevent a default by the borrower. Department of Education regulations provide for payment of a fee equal to 1% of the loan balance at the time an LRA is submitted, regardless of whether or not the loan is brought current. The default aversion fees are to be transferred from the Federal Student Loan Reserve Fund (FSLRF) to the Agency Operating Fund (AOF) no more frequently than monthly. If the agency receives a default aversion fee and the account later defaults, the agency must rebate 1% of the claim amount to the FSLRF. The fee may be paid only once on any loan. During fiscal year 2010,

the Default Aversion Fee paid to the Operating Fund was \$799,242 and \$159,053 was reimbursed back to the Federal Reserve Fund.

#### 11. COLLECTION COSTS RETAINED

MGSLP pursues collection, from the borrower or other responsible party, of defaulted loans held by the agency. The U.S. Secretary of Education is entitled to an equitable share of any recoveries, as determined by the rate of reinsurance on the defaulted loans less an allowance for collection cost reimbursement. Beginning October 1, 2003, the Higher Education Amendments (HEA) of 1998 authorize guaranty agencies to deposit an amount equal to 23% of the payments made by or on behalf of a defaulted borrower into its Agency Operating Fund. Beginning October 2007, this changed to 16%. The HEA also stipulates that the agency shall remit 81.5% of the total outstanding principal collected on rehabilitated loans to the Secretary and the agency shall deposit 18.5% of the principal, 100 % accrued interest and 18.5 % of the outstanding balance. In addition, the Secretary provides the agency with collection costs amounting to 18.5% of the outstanding balance of any defaulted loan held by the agency which is consolidated by the borrower into a Federal Consolidation Loan through either Federal Family Education Loan Program (FFELP) consolidation or Federal Direct Student Loan Program (FDSLSP) consolidation. HERA requires that on or after October 1, 2006, the guaranty agency shall remit directly to the Secretary that portion of the collection charge equal to 8.5 % of the outstanding balance of the defaulted loan. During fiscal year 2010, MGSLP retained \$1,953,935 in net collection costs from loan recoveries and consolidations, as follows.

	Revenues	Expenses	Net
Collection Recoveries	\$2,087,798	\$1,753,832	\$333,966
Rehabilitations			
FDSLSP Consolidations	\$3,766,654	\$2,544,071	\$1,222,583
	<u>\$737,169</u>	<u>\$339,783</u>	<u>\$397,386</u>
Total	<u>\$6,591,621</u>	<u>\$4,637,686</u>	<u>\$1,953,935</u>

#### 12. CLAIMS PAID TO LENDERS AND REINSURANCE FROM DEPARTMENT OF EDUCATION

MGSLP records amounts paid to lenders for claims and subsequent amounts received from the Department of Education (DE) as expenses and revenues respectively. For fiscal year 2010, MGSLP paid claims totaling \$21,216,383 and received reinsurance from DE totaling \$20,601,676.

#### 13. ESSAY SCHOLARSHIP FUNDS

MGSLP sponsored an essay competition from 1999 to 2008 which was open to students in GEAR UP schools. The recipients were awarded scholarships worth \$150 - \$250. MGSLP will hold the scholarship in the recipient's name until he or she enters an eligible postsecondary education institution or until the eligibility to use the scholarship run out. If the student doesn't enroll in the time frame allotted, the funds will revert back to MGSLP.

#### 14. CONTINGENCIES

The original principal balance of guaranteed loans outstanding held by MGSLP as of June 30, 2010 was approximately \$2,052,149,661. This amount excludes bad debt, death, disability, and bankruptcy claims which have been previously purchased by the agency. MGSLP has entered into agreements with the Department of Education (DE), dated June 13, 1980, for reinsurance and supplemental reinsurance of loans, in accordance with the Higher Education Act of 1965, as amended. These agreements allow for 100% reimbursement by DE for claims due to the death, disability, or bankruptcy of the borrower. Claims paid due to defaulted loans may be reimbursed by DE for up to 100%. The percent of reimbursement on defaulted loans payable to the agency is dependent upon MGSLP's annual default rate and date of the loan's first disbursement. Annual default rates are calculated as the ratio of year-to-date default purchases divided by the original guaranteed amount of loans in repayment status at the beginning of the federal fiscal year.

The following schedule reflects the federal reinsurance rates on defaulted student loans. In the event of extreme future adverse loss experience, MGSLP could be liable for up to 25% of the outstanding loan volume. Since its inception, MGSLP has paid \$5,795,866 in claims, or portions of claim eligible loans, which were not reinsured by DE. During fiscal year 2010, MGSLP recovered \$193,914 of the total outstanding balance of non-reinsured claims held by the agency.

<b>RATE OF ANNUAL DEFAULTS</b>	<b>FEDERAL REINSURANCE On loans made prior to 10/01/93</b>	<b>FEDERAL REINSURANCE On loans made on or after 10/01/93 and prior to 10/01/98</b>	<b>FEDERAL REINSURANCE On loans made after 10/01/98</b>
<b>Less than 5%</b>	100%	98%	95%
<b>5% or greater but less than 9%</b>	90% of claims 5% or greater but less than 9%	88% of claims 5% or greater but less than 9%	85% of claims 5% or greater but less than 9%
<b>9% or greater</b>	80% of claims 9% or greater	78% of claims 9% or greater	75% of claims 9% or greater

#### 15. COMMITMENTS

MGSLP is bound by Guarantee Reserve Agreements with the lending institutions participating in the Federal Family Education Loan Program in Montana. These agreements require MGSLP to maintain an amount in the guarantee reserve fund equal to at least 0.25% of the unpaid principal balance of all outstanding loans guaranteed by the agency.

The Guarantee Reserve Agreement ensures that MGSLP will have sufficient cash available to carry out its reasonably expected obligations on guaranteed claim eligible student loans. As of June 30, 2010, MGSLP was in compliance with all Guarantee Reserve Agreements.

#### 16. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, which governs MGSLP, guarantees loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC). The Board of

Regents and MHESAC have four common board members. Approximately 73.51% of MGSLP's outstanding loan volume is held by MHESAC.

MGSLP also has an agreement with Student Assistance Foundation of Montana (SAF) to share certain costs for the lease of computer equipment; computer and software maintenance costs; and personnel costs for employees of SAF who perform services that are of direct benefit to MGSLP. Certain SAF personnel are authorized to purchase computer equipment for use by both MGSLP and SAF. Costs for these purchases are covered under an agreement for services between the two entities. During fiscal year 2010, MGSLP's portion of shared costs reimbursed to SAF was \$548,350. The Board of Regents and SAF have four common board members.

#### 17. PROGRAM CHANGE - FEDERAL LEGISLATION

As of July 1, 2010 all new Federal student loans are made through the Federal Direct Student Loan Program (FDSLPL). MGSLP will no longer receive income from LPIF, Disbursement Service, or Guarantee Fees.

#### 18. EMPLOYEES' RETIREMENT SYSTEM

MGSLP classified employees participate in the Montana Public Employees' Retirement System (PERS). Professional employees under contract with the Board of Regents are covered by the Optional Retirement Program (ORP), which is available through the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

##### **Defined Benefit Plans**

Established in 1945 and governed by Title 19, chapter 3, MCA, PERS participants are eligible to retire at age 60 with at least five years of service; at age 65 regardless of length of service; or at 30 years of service regardless of age. A reduced retirement benefit may be taken with 25 years of service or at age 50 with a minimum of five years of service. Effective January 1, 1989, monthly retirement benefits are calculated by taking 1/56 times the years of service times the final average salary. For a member with at least 25 years of membership service, the monthly amount of service retirement benefit must be equal to one-fiftieth of the member's highest average compensation multiplied by the number of years of the member's total service credit instead of the amount calculated by 1/56 times the years of service. Vesting occurs once membership service totals five years.

##### **Defined Contribution Plan**

ORP was established in 1988 and is underwritten by the Teacher's Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF). The ORP is a defined-contribution plan. Until July 1, 2003, only faculty and staff with contracts under the authority of the Board of Regents were eligible to participate. The plan was changed, effective July 1, 2003, to allow all staff to participate in the ORP. Contribution rates for the plan are required and determined by State law. MGSLP's contributions were equal to the required contribution. The benefits at retirement depend upon the amount of contributions, amounts of investment gains and losses, and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. MGSLP records employee/employer contributions and remits monies to TIAA-CREF. Individuals vest

immediately in the employer portion of retirement contributions. Annual reports that include financial statements and required supplemental information on the plan are available directly from TIAA-CREF.

According to state law, MGSLP also remits additional employer contributions to the PERS and TRS to amortize past service unfunded liability.

Retirement plan information for MGSLP as of June 30, 2010, is as follows.

	PERS	ORP	ORP
		Professional	Staff
Covered Payroll	\$1,371,599	\$93,312	\$97,948
Employer Contributions	\$ 98,344	\$5,473	\$ 4,453
Percent of Covered Payroll	7.170%	5.956%	4.490%
Employee Contribution	\$ 94,640	\$6,573	\$6,758
Percent of Covered Payroll	6.900%	7.040%	6.900%



MONTANA  
GUARANTEED STUDENT  
LOAN PROGRAM

OFFICE RESPONSE





## Montana Guaranteed Student Loan Program

2500 Broadway P.O. Box 203101

Helena, MT 59620-3101

CUSTOMER SERVICE: (800) 537-7508

Phone: (406) 444-6594 Fax: (406) 444-1869

[custserv@mgslp.state.mt.us](mailto:custserv@mgslp.state.mt.us) [www.mgslp.org](http://www.mgslp.org)

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October 25, 2010

Tori Hunthausen, CPA  
Legislative Auditor  
Legislative Audit Division  
P.O. Box 20175  
Helena, MT 59620-1705

Dear Ms. Hunthausen:

This letter confirms that we are in receipt of the results of the audit for the fiscal year ending June 30, 2010 and consider the audit complete. We understand the report contains an unqualified opinion of our program's financial statements and that there are no findings or recommendations.

Although there will be no new Federal Family Education Loan Program loans, our commitment to administering our remaining portfolio and serving Montana students remains as high as ever.

It is a pleasure working with Chris Darragh as he always demonstrates the highest level of professionalism and is courteous and efficient while conducting the audit.

Sincerely,

Bruce Marks

Director, Montana Guaranteed Student Loan Program