

FLORIDA DEPARTMENT OF EDUCATION

**BUREAU OF CONTRACTS, GRANTS AND PROCUREMENT
MANAGEMENT SERVICES**

**325 West Gaines Street
332 Turlington Building
Tallahassee, Florida 32399-0400**

Addendum #1

BID NO.: ITN 2015-26

**PORTFOLIO MANAGEMENT SERVICES FOR DEFAULTED STUDENT
LOANS**

SEPTEMBER 05, 2014

This addendum is being issued to provide the Answers to Questions submitted timely by vendors during the Question and Answers period.

Please be advised all questions are keyed as submitted.

F.H. Cann & Associates, Inc.

1. I would like FLDOE to specify if this is a procurement for your private collection agency (PCA) vendors?

ANSWER: This procurement is not for FLDOE's current private collection agency activities or portfolio.

2. Or is this to hire a Portfolio Management Company whose job will be to oversee your PCA network?

ANSWER: ITN 2015-26 is not to hire a Portfolio Management Company to oversee the FLDOE's current PCA network.

3. Are you accept bids from a PCA who would be looking to collect on the defaulted portfolio themselves, at this time?

ANSWER: Yes, the FLDOE will accept bids from a PCA who wishes to collect on the defaulted portfolio if and only if the bid from a PCA meets all qualifications and requirements specified in the ITN 2015-26.

Enterprise Recovery Systems, Inc. (ERS)

4. Who are the current vendors?

ANSWER: The current vendors are NCO Financial Systems, Inc., Allied Interstate (IQOR), and Performant Recovery, Inc.

5. What was the placement volume (# and \$) to these vendors in 2013?

ANSWER:

2013 Placement Volume in Value and Number

		VALUE	# OF ACCTS
QUARTERLY	JAN-MARCH	\$ 1,143,210,360	202,797
	APRIL-JUNE	\$ 1,147,593,508	201,530
	JULY-SEPT	\$ 1,141,079,305	199,237
	OCT-DEC	\$ 1,100,507,617	193,889
	ANNUAL AVERAGE	\$ 1,133,097,698	199,363

6. What is the fee structure for the current vendors?

ANSWER: The fee structure for the current vendors is as follows:

Activity	Range
Borrower Payment, AWG, Rehab, Consolidating Qualifying Payments	9%-9.5%
Rehabilitation Loan Program Top Performer	9%-11%
FFELP Consolidation Loan Program	0%
William D. Ford Consolidation Loan Program Special Subrogation Project	\$25-\$100

7. Attachment 10 provides overall guaranty agency rankings/percentages as of September 30, 2013, generated by the U.S. Department of Education. What was the actual recovery rate for the current Florida ED vendors in 2013 broken down by service performed?

ANSWER:	OSFA	Collection Agencies	Collected
Borrower Payments	42%	58%	\$21,749,885
Administrative Wage Garnishment	55%	45%	\$18,923,503
Rehabilitation	4%	96%	\$75,961,883
William D. Ford Direct Consolidations	18%	82%	\$23,082,179

8. Will the initial placement be \$900m in one large batch? Or does the Department plan to place in pieces?

ANSWER: No, placement will not be in one large batch. Initial placement will consist of newly defaulted loans after the contract begins and those returned from contractors.

9. Do you have an estimate of weekly forward flow placement volume past the initial placement?

ANSWER: Approximately \$5m to \$7m will be placed weekly, which includes new defaults as well as recycled accounts. However, this is only an estimate and actual flow placement volume may vary significantly under the contract.

10. If a respondent does not have specific Portfolio Management Services Experience - but experience to show they are qualified to bid, IE a 10 year performance track record exemplifying their ability to improve Florida's debt recovery ranking- please advise how this offer would be evaluated against an offer with specific Portfolio Management Experience?

ANSWER: We cannot state how individual evaluators will rate one vendor against another. However, the ITN encourages competition by allowing vendors to satisfy the performance experience with corporate experience or the experience of key management personnel.

11. Will AWG payers be returned after 12 months?

ANSWER: Yes, the AWG payers will be returned after 12 months.

12. At the end of 12 months if there are unfunded eligible Rehab accounts still in repayment, will these remain with the previous agency until funded?

ANSWER: No. If rehab occurs after the 12 month period, the loans will be returned to the Department for processing.

13. Is it mandatory to sub contract with multiple collection agencies? If so does Florida require a certain number of sub contractors.

ANSWER: The Department does not require a minimum of contractors; the number is at the Contractor's discretion. However, this contract or any portion thereof shall not be sub-contracted without prior written approval of the Department. Please see Section 5.5 of the ITN.

14. How many 6 month placement cycles does Florida anticipate making to the management agencies before a final recall occurs to return the account to Florida.

ANSWER: Placement cycles would occur every six months continuously until repayment terms were successfully met, or until the account met subrogation. If the repayment terms were unsuccessful, the account would be assigned to another agency.

15. Does Florida require all types of collection activities to be sub contracted? IE skip tracing and making direct telephone attempts to borrowers or is this at the discretion of the bidder.

ANSWER: Collection activities are the responsibility of the contractor. However, subcontracting is permitted if prior written approval is received from the Department. Please see Section 5.5 of the ITN.

16. Please confirm the due date for the response- is it October 13, 2014 or October 14, 2014?

ANSWER: Replies are due by 2:15 p.m. ET on October 14, 2014.

17. Can acceptable insurance coverage listing Florida as a joint loss payee be obtained in substitution for the performance bond as long as the amount meets the requirements stated in the RFP?

ANSWER: No. There will be separate insurance requirements in the contract.

18. Please advise if the complaints referenced in 6.3 F are related to borrower complaints, or complaints from regulatory agencies or both? Does this reference also include complaints from Florida staff on the items listed 1-10.

ANSWER: Complaints referenced in Section 6.3F of the ITN are complaints from borrowers and regulatory agencies.

19. Section 6.11 B- please confirm the remittance schedule excludes bank holidays

ANSWER: Yes

20. Does the department intend to fund rehabilitations with the lender of their choice on a monthly basis?

ANSWER: Rehabilitation funding will occur at the discretion of the Department and the lender.

21. Will all loans eligible for rehabilitation funding be funded through the lender immediately or as soon as reasonable possible after the 9th qualifying payment has been made?

ANSWER: See the response to the question #20.

National Education Servicing

22. What is the anticipated # of loans and \$\$'s the contracted vendor(s) will service (in default status)? Page 8 of the ITN references ~ 158,000 loans for ~ \$918MM: is this the current estimated portfolio size... or the size that was awarded in 2010... and is all of this in default status?

ANSWER: The number of loans and dollar amount cited in Section 3.2 of this ITN is the current portfolio size consisting of defaulted loans as of 9/30/13.

Performant Recovery

23. ITN Section 4.9. POOR PERFORMANCE NOTICE. Will FDOE please clarify what is considered a "complaint"?

ANSWER: A complaint is considered any protest, objection, or grievance or statement that discloses a performance situation that is unsatisfactory or unacceptable. Please note that "complaints" are only one of the items that must be disclosed.

24. ITN Section 5.5 SUBCONTRACTING. Will FDOE please clarify whether the requirement for prior approval of all subcontractors applies to subcontractors providing ancillary services not involving direct contact with borrowers (e.g. skip tracing, mail services)?

ANSWER: The requirement for prior approval of all subcontractors also applies to subcontractors providing ancillary services that are dependent upon borrower collection activities.

25. ITN Section 5.5: Subcontracting/Attachment 5: this form is required with submission of all invoices. Is it a requirement of proposal submission? If so, does FDOE have a desired percentage/goal for subcontracting to small, minority-, women-, and service-disabled veteran business enterprise subcontractors?

ANSWER: The Minority Utilization Form should be submitted with invoices, but not the Reply. However, the Respondent should include a list of subcontractors it intends to use in its Reply.

26. ITN Section 6.20. RECORD MAINTENANCE. Will FDOE please consider adding the following to the last paragraph regarding destruction:

"Notwithstanding the foregoing, if the Contractor reasonably and in good faith determines that the return or destruction of any such information is not feasible: (1) because it is stored on Contractor's backup storage devices in the normal course of business, Contractor shall extend the confidentiality protections of this Agreement to such information until such time as the information is destroyed in accordance with Contractor's data retention policies, or (2) due to the provisions of applicable law (including the imposition of "litigation holds," e.g.), Contractor shall promptly identify in writing to the Department the information that must be retained, during which time the confidentiality protections of this Agreement shall be extended to such

information until it can be returned or destroyed in accordance with the intent of this section."

ANSWER: No

27. ITN Section 6.35 A.: Will FDOE consider giving the Contractor the same payfile retention right at "expiration" in the event of a termination for convenience?

ANSWER: No

28. ITN Section 3.4: Under the Critical Event Dates, the ITN due date reflects 10/13/14 which is contrary to the due date on the ITN cover page which reflects 10/14/14. Which is the correct due date?

ANSWER: Replies are due by 2:15 p.m. ET on October 14, 2014.

29. ITN section 7.2.3, (A-G): Price Reply (Part II): If selected to negotiate during the ITN process, can rates be negotiated higher than what is noted as the limit/cap for the various payment categories?

ANSWER: Negotiation for rates higher than what is noted will be determined during negotiation.

30. ITN Section 7.2.4: Will FDOE allow tables and graphics with 10 point font?

ANSWER: No, the Department will not allow tables and graphics with 10 point font. Section 7.2.4 of the ITN clearly states that type size should not be less than 12 point font.

Navient Solutions, Inc.

31. Please confirm or amend the list of contractors currently performing default collections for FLDOE:

- a. NCO
- b. Performant
- c. iQor/Allied Interstate
- d. ~~Windham Professionals~~

32. Provide the rates paid to the above contractors, post 7/1/14 for all collection types:

- a. Borrower payments
- b. AWG
- c. Rehabilitation
- d. FORD Consolidation

ANSWER:

Activity	Range
Borrower Payment, AWG, Rehab, Consolidating Qualifying Payments	9%-9.5%
Rehabilitation Loan Program Top	9%-11%

Performer	
FFELP Consolidation Loan Program	0%
William D. Ford Consolidation Loan Program Special Subrogation Project	\$25-\$100

33. Provide the total dollars and number of accounts collected by collection type (borrower payments, AWG, Rehab and FORD) for each and every collections contractor used by FLDOE. Also include collections for the AWG/Hardship/Hearing Unit, Internal Collections Unit and Special Recovery Unit for the past 12 months.

ANSWER:	OSFA	Collection Agencies	Collected
Borrower Payments	42%	58%	\$21,749,885
Administrative Wage Garnishment	55%	45%	\$18,923,503
Rehabilitation	4%	96%	\$75,961,883
William D. Ford Direct Consolidations	18%	82%	\$23,082,179

34. The Annual Report to the Commissioner for 2012-13 states FLDOE (OSFA) has an AWG/Hardship/Hearing Unit, Internal Collections Unit and Special Recovery Unit.

a. Is it OSFA's intent to continue these respective functions under a portfolio management relationship?

ANSWER: These functions will continue to be performed independent of the portfolio management services contract.

b. Section 3.2 of the ITN states a total of \$918,102,054 in loans are assigned to collection agencies. What is the value of accounts held in these Units at the same point in time?

ANSWER: As of June 30, 2014, approximately \$700 million is assigned to vendors, and OSFA performs internal collections on approximately \$218 million.

c. Provide OSFA's total internal costs (salary, benefits and overhead) needed to operate the three Units as referenced in the Annual Report to the Commissioner.

ANSWER: OSFA does not track its costs in this manner.

35. Section 5.5 Sub-Contracting. As this section states that sub-contractors may not be used in providing the services, further references acknowledge the use of external collection agencies. Please confirm the prohibition of using subcontractors does not include the use of external collection agencies and skip tracing vendors.

ANSWER: The ITN does not prohibit the use of subcontractors. However, subcontractors cannot be used without prior written approval of the Department.

36. Section 5.6 Conflict of Interest. We are aware of the regulation stating: If a guaranty agency contracts with an outside entity to perform any default aversion activities, that outside entity may not a) hold or service loans, or b) perform collection activities on the loan, meaning, performing both default aversion activities and collection

activities for loans guaranteed by OSFA. We understand that FLDOE does not use a third-party vendor for default aversion services and instead performs this function internally. Therefore, the conflict of interest issue described in 34 CFR 682.404(j) (4) (i&ii) does not apply since OSFA does not use any outside entity for the performance of default aversion services. If this is not the case, please describe in detail how FLDOE believes a conflict of interest exists.

ANSWER: Per 34 CFR 682.404(j)(4)(i&ii), just as a guaranty agency contracts with an outside entity to perform any default aversion activities, the outside entity may not:

1. Hold or service the loan; or
2. Perform Collection Activities on the loan in the event of default within 3 years of the claim payment date.

A Respondent who is significantly controlled by, for example, a loan holder, may not collect on a loan if a controlling/related party is now a Contractor on that same loan for default collections.

37. Section 6.0. Please describe why using an affiliated collection agency (greater than 35% ownership) presents a conflict of interest, assuming the performance of any affiliated collection agency is comparable to the performance of non-affiliated collection agencies?

ANSWER: If the Respondent has controlling interest over a subcontractor, or if a Respondent is significantly controlled by another party, a pricing model may create a loss leader environment that the State does not want to occur.

38. Section 6.1.B. Account Placement:

- a. This section states accounts are placed with the Contractor after 90 days delinquency. Did FLDOE intend to use the words "90 days post-default" rather than "90 days delinquency"?

ANSWER: The term delinquency in the ITN refers to post-default since we are requesting portfolio management services for our defaulted portfolio.

- b. It appears if FLDOE intends to continue to perform default collections (first 90 days post-default and non-paying accounts after 6 months). If so, what average percentage of FLDOE's total portfolio will be assigned to the Contractor over a 12 months period?

ANSWER: Based upon the response in 34.b., the approximate average amount of assignments will be 75%.

39. Our experience is collection vendor fees are deducted from borrower remittances before sending to the guarantor. Per Section 6.11.B., FLDOE expects the Contractor to send gross borrower remittances. Since all cash is deposited and held by the State, is FLDOE paying the collection fees to external collection vendors?

ANSWER: Yes. In accordance with 34 CFR 682.419(b)(6), a guaranty agency is required to deposit into its Federal Fund all funds received on loans which a claim has been paid, including default collections, within 48 hours of receipt of those funds, minus any portion that the agency is authorized to deposit into the Operating Fund. (Forty-eight hours means two (2) business days. Receipt of Funds means actual receipt of funds by the guaranty agency or its agent, whichever is earlier).

40. We understand the goal of the ITN is to increase default collections and revenues. Therefore:

- a. Explain the strategy for de-emphasizing AWG by way of paying only a 7% Loan Collection Fee compared to borrower payments, which is paid at a higher rate at 11%?

ANSWER: OSFA is not deemphasizing AWG payment as much as it is emphasizing borrower payment, by encouraging voluntary borrower actions.

- b. Loan Rehabilitation is widely regarded as a preferred recovery type providing the most benefit to a defaulted borrower (cures negative credit history, reinstates Title IV borrowing eligibility). Therefore, why is OSFA creating a disincentive to the contractor in using this recovery strategy by paying only a 5% Loan Collection fee compared to other recovery types? How does the 5% rate compare to the rates paid to FLDOE collection vendors as requested in question number 2?

ANSWER: Your question #2 is now #32 in this document. The Guaranty Agency is required to perform additional responsibilities for rehab loans effective 07/01/2014, thus the rate was reduced. Also, rates paid to a guaranty agency by the USDE were reduced effective 07/01/2014.

- c. What is the strategy behind minimizing the use of FORD consolidations, requiring recovery outcomes less than 15%, well below the mandatory cap of 45% of total default collections?

ANSWER: Consolidation as a collection strategy may be better for a collector, especially when a conflict of interest exists between industry participants, but not necessarily best for the borrower. If a borrower initiates consolidation, our staff and vendors assist the borrower in this process.

- d. How does FLDOE reconcile its 28th place ranking in total recoveries (out of 31 guarantors as reported by U.S. Department of Education, year-ended 9/30/13) with Attachment 10 which reports a top ranking of all guarantors, using the criteria provided by FLDOE? If the goal is to maximize revenues, does FLDOE agree that achieving the highest possible total recovery ranking as reported monthly by USDOE is the best way to provide incremental value to the State of Florida?

ANSWER: The ranking by the U. S. Department of Education is based on total collections divided by beginning inventory. It includes all collection types whether it provides revenue to Florida or not. OSFA calculates its ranking by borrower,

administrative wage garnishment payments and rehabilitations and divides it by the total dollars collected because these are the collection types that provide the majority of revenue to the Student Loan Operating Trust Fund. Our goal is to maximize revenues to Florida and to maintain the FFELP portfolio, and provide a collections strategy that benefits Florida's borrowers.

Potential proposers have 72 hours from posting of addenda to protest the requirements of each addendum. Failure to file a protest within the time prescribed in Section 120.57(3), or failure to post the bond or other security required by law within the time allowed for filing a bond shall constitute a waiver of proceedings under Chapter 120, Florida Statutes.

YOUR REPLY WILL NOT BE COMPLETE WITHOUT THIS PAGE SIGNED AND INCLUDED!

Vendor Name – *written*: _____

Authorized Signature: _____

Authorized Name – *written*: _____

Mailing Address: _____

City, State & Zip Code: _____

Telephone: _____ Facsimile: _____ E-Mail Address: _____