

May 16, 2013

Mr. Jack Massimino
Chief Executive Officer
Everest Institute
6 Hutton Centre Drive
Santa Ana, CA 92707-5467

Sent by overnight mail
1Z A54 67Y 01 9736 8774

RE: **Final Program Review Determination**
OPE ID: 01035600
PRCN: 201220327869

Dear Mr. Massimino:

The U.S. Department of Education's (Department's) School Participation Team Philadelphia issued a program review report on August 29, 2012 covering Everest's administration of programs authorized by Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs), for the 2010-2011 and 2011-2012 award years. Everest's final response was received on September 13, 2012. A copy of the program review report (and related attachments) and Everest's response are attached. Any supporting documentation submitted with the response is being retained by the Department and is available for inspection by Everest upon request. Additionally, this Final Program Review Determination (FPRD), related attachments, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after this FPRD is issued.

Purpose:

Final determinations have been made concerning all of the outstanding findings of the program review report. The purpose of this letter is to: identify liabilities resulting from the findings of this program review report, provide instructions for payment of liabilities to the Department and notify the institution of its right to appeal,

The total liabilities due from the institution from this program review are \$ 6,012.97.

This final program review determination contains detailed information about the liability determination for all findings.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. The appendix was encrypted and sent separately to the institution via e-mail.

Appeal Procedures:

This constitutes the Department's FPRD with respect to the liabilities identified from the August 29, 2012 program review report. If Everest wishes to appeal to the Secretary for a review of monetary liabilities established by the FPRD, the institution must file a written request for an administrative hearing. The Department must receive the request no later than 45 days from the date Everest receives this FPRD. An original and four copies of the information Everest submits must be attached to the request. The request for an appeal must be sent to:

Ms. Mary E. Gust, Director
Administrative Actions and Appeals Service Group
U.S. Department of Education
Federal Student Aid/PC
830 First Street, NE - UCP3, Room 84F2
Washington, DC 20002-8019

Everest's appeal request must:

- (1) indicate the findings, issues and facts being disputed;
- (2) state the institution's position, together with pertinent facts and reasons supporting its position;
- (3) include all documentation it believes the Department should consider in support of the appeal. An institution may provide detailed liability information from a complete file review to appeal a projected liability amount. Any documents relative to the appeal that include PII data must be redacted except the student's name and last four digits of his / her social security number (please see the attached document, "Protection of Personally Identifiable Information," for instructions on how to mail "hard copy" records containing PII); and
- (4) include a copy of the FPRD. The program review control number (PRCN) must also accompany the request for review.

If the appeal request is complete and timely, the Department will schedule an administrative hearing in accordance with § 487(b)(2) of the HEA, 20 U.S.C. § 1094(b)(2). The procedures followed with respect to Everest's appeal will be those provided in 34 C.F.R. Part 668, Subpart H. **Interest on the appealed liabilities shall continue to accrue at the applicable value of**

funds rate, as established by the United States Department of Treasury, or if the liabilities are for refunds, at the interest rate set forth in the loan promissory note(s).

Record Retention:

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans, claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. §§ 668.24(e)(1), (e)(2), and (e)(3).

The Department expresses its appreciation for the courtesy and cooperation extended during the review. If the institution has any questions regarding this letter, please contact Kenneth Porter at 202-377-4060. Questions relating to any appeal of the FPRD should be directed to the address noted in the Appeal Procedures section of this letter.

Sincerely,

(b)(6)

Nancy Paula Gifford
Division Director

Enclosure:
Protection of Personally Identifiable Information

cc: Ms. Vickie Linne-Robinson, Corporate Director of Financial Aid
Georgia Non-Public Postsecondary Education Commission
Minnesota Office of Higher Education
West Virginia Council for Community and Technical College Education
Accrediting Commission of Career Schools and Colleges

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- sent via a shipping method that can be tracked with signature required upon delivery
- double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS)
- labeled with both the "To" and "From" addresses on both the inner and outer packages
- identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

**Prepared for
Everest Institute**

PROUD SPONSOR of
the AMERICAN MIND

**OPE ID: 01035600
PRCN: 201220327869**

**Prepared by
U.S. Department of Education
Federal Student Aid
School Participation Division - Philadelphia**

Final Program Review Determination May 16, 2013

Table of Contents

	Page
A. Institutional Information.....	2
B. Scope of Review.....	3
C. Findings and Final Determinations.....	3
<u>Resolved Findings</u>	
Finding #1 Return of Title IV Made Late	
Finding #2 Delayed Payment of Credit of Title IV Funds	3
<u>Findings with Final Determinations</u>	
Finding #3 Failure to Resolved C Code (Defaulted Perkins Loan).....	4
D. Summary of Liabilities.....	6
E. Payment Instruction.....	7
<u>Appendices</u>	
Appendix A: Student Level Detail.....	11
Appendix B: Program Review Report.....	12
Appendix C: Institution's Written Response.....	13
Appendix D: Estimated Loss Formula.....	14
Appendix E: Estimated Actual Loss Formula Description.....	15
Appendix F: Cost of Funds.....	17

A. Institutional Information

Everest Institute
5514 Big Tyler Road
Cross Lanes, WV 25313-1304

Type: Propriety

Highest Level of Offering: Associate's Degree

Accrediting Agency: Accrediting Commission of Career Schools and Colleges

Current Student Enrollment: 355

% of Students Receiving Title IV, HEA funds: (2011-2012) 87%

Title IV Participation (2010-2011,)

Federal Pell Grant (Pell)	\$9,777,747.00
Federal Family Education Loan Program (FFELP)	\$2,089,057.00
Federal Supplemental Education Opportunity Grant (FSEOG)	\$220,955.00
Federal Perkins Loans	\$65,029.00
Federal Work Study (FWS)	\$58,727.00
Federal Direct Loan Program (FDLP)	<u>\$16,691,556.00</u>
Total:	\$28,903,071.00

Default Rate		Default Rate		
FFEL/DL	2009 24.1%	Perkins Loans	June 30, 2010	8.89%
	2008 20.2%		June 30, 2009	40%
	2007 14.8%		June 30, 2008	18.4%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Everest Institute from April 16, 2012 to April 20, 2012. The review was conducted by Kenneth Porter and Laurie Carmean.

The focus of the review was to determine Everest Institute's (Everest's) compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. The review consisted of, but was not limited to, an examination of Everest's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 33 files was identified for review from the 2010-2011 and 2011-2012 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and social security numbers of the students whose files were examined during the program review.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning Everest's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve Everest of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

C. Findings and Final Determinations

Resolved Findings

Findings #1 and 2

Everest Institute has taken the corrective actions necessary to resolve findings # 1 and # 2 of the program review report. Therefore, these findings may be considered closed. The institution's responses concerning these findings are included in Appendix C.

Findings with Final Determinations

The program review report findings requiring further action are summarized below. At the conclusion of each finding is a summary of Everest's response to the finding, and the Department's final determination for that finding. A copy of the program review report issued on August 29, 2012 is attached as Appendix B.

Note: Any additional costs to the Department, including interest, special allowances, cost of funds, unearned administrative cost allowance, etc. are included in the summary of liabilities table in Section D of the report.

Finding # 3 - Failure to Properly Resolve a Comment Code

Citation Summary:

An institution may only disburse Title IV, HEA program funds to a student who is eligible to receive those funds. 34 C.F.R. § 668.164(b)(3).

Before an institution may disburse Title IV, HEA program funds to a student who previously attended another eligible institution, the institution must use the information it obtains from the Secretary, through the National Student Loan Data System (NSLDS), to determine whether the student is in default on any Title IV, HEA program loan. 34 C.F.R. § 668.19(a)(1). A student is eligible to receive Title IV, HEA program assistance if the student is not in default, and certifies that he or she is not in default, on a loan made under any title IV, HEA loan program. 34 C.F.R. § 668.32(g)(1).

A student who is in default on a loan made under a Title IV, HEA loan program may nevertheless be eligible to receive Title IV, HEA program assistance if the student repays the loan in full, or makes arrangements, that are satisfactory to the holder of the loan and in accordance with the individual Title IV, HEA loan program regulations, to repay the loan balance; and makes at least six consecutive monthly payments under those arrangements. 34 C.F.R. § 668.35(a)

Noncompliance Summary:

Everest failed to correctly resolve and document resolution of a Comment Code (C Code) listed on the Institutional Student Information Record (ISIR) for student # 14. Student #14's ISIR indicates the student had a defaulted Perkins loan. According to the National Student Loan Data System (NSLDS) the student has a defaulted Perkins loan, that has been in default since June 16, 2000.

Everest incorrectly assumed that a letter from the Department curing a William D. Ford Direct Loan default, made the student eligible for federal funds. However, the Department's letter clearly indicates that it only applies to loans held by the William D. Ford Direct Loan Program. It did not resolve the C Code for the defaulted Perkins loan on the ISIR.

The student received a total of \$14,904 in Title IV funds as follows:

2009-2010

Federal Pell Grant \$2,675

Federal Direct Subsidized Loan \$1,742
Federal Direct Unsubsidized Loan \$2,985

2010-2011
Federal Pell Grant \$2,775
Federal Direct Subsidized Loan \$1,742
Federal Direct Unsubsidized Loan \$2,985

Required Action Summary:

Everest was required to review its policies and procedures for resolving C codes for Defaulted Student Loans to ensure they are sufficient to prevent a recurrence of this finding. Everest Institute was required to include a copy of any revisions to its policies and procedures with its response to the program review report.

Everest's Response Summary:

In its written response, dated September 13, 2012, Everest disagreed in part with the finding. Everest does not believe the letter submitted by the student from the Department "clearly indicates that it only applies to loans held by the William D. Ford Direct Loan Program." Nonetheless, Everest revised its policy and procedures for resolving default codes for loans.

Final Determination:

The Department determined that, at the time Everest disbursed Title IV funds to student #14, the student was in default on a Federal Perkins Loan and had not made arrangements to repay that loan. Therefore, student # 14 was not eligible to receive additional Title IV funds.

Everest is liable for the Title IV funds disbursed to this student while she was in default status on her Federal Perkins Loan. The total liability for Finding # 3 is \$6,012.97. Section E of this letter provides payment instructions.

D. Summary of Liabilities

The total amount calculated as liabilities from the findings in the program review determination is as follows. This information is provided so that the institution understands the liabilities associated with the finding.

Liabilities	Pell (Closed Award Year)	EALF DL	
Finding #3	\$5,450		
Subtotal 1	\$5,450	\$448.62	
Interest/SA	\$114.35		
Excess Cash			
ACA			
Subtotal 2	\$114.35		
TOTAL	\$5,564.35	\$448.62	
Payable To:			Totals
Department	\$5,564.35	\$448.62	\$6,012.97
Students			\$
Lenders			\$
Inst Accounts			\$

Estimated Actual Loss (EAL):

In lieu of requiring the institution to assume the risk of default by purchasing the ineligible loan from the holder, the Department has asserted a liability not for the loan amount, but rather for the estimated actual or potential loss that the government may incur with respect to the ineligible loan or loan amount. The estimated actual loss to the Department that has resulted or will result from those ineligible loans is based on Everest's most recent cohort default rate available.

The total amount of Direct Loans that Everest improperly disbursed during the 2009-2010 and 2010-2011 award years for finding #3 is \$9,454. The total estimated actual loss that Everest must pay to the Department for the ineligible loans is \$448.62. Copies of the results of those calculations are included in Appendix D.

Payment Instructions

1. Liabilities Owed to the Department

Everest Institute owes to the Department \$6,012.97. Payment must be made by forwarding a check made payable to the "U.S. Department of Education" to the following address within 45 days of the date of this letter:

U.S. Department of Education
P.O. Box 979026
St. Louis, MO 63197-9000

Remit checks only. Do not send correspondence to this address.

Payment must be made via check and sent to the above Post Office Box. Payment and/or adjustments made via G5 will not be accepted as payment of this liability. Instead, the school must first make any required adjustments in COD as required by the applicable finding(s) and Section II – Instructions by Title IV, HEA Program (below), remit payment, and upon receipt of payment the Department will apply the funds to the appropriate G5 award (if necessary).

The following identification data must be provided with the payment:

Amount: \$6,012.97
DUNS: 022170682
TIN: 954520525
PRCN: 201220327869

Terms of Payment

As a result of this final determination, the Department has created a receivable for this liability and payment must be received by the Department within **45 days of the date of this letter**. If payment is not received within the 45-day period, interest will accrue in monthly increments from the date of this determination, on the amounts owed to the Department, at the current value of funds rate in effect as established by the Treasury Department, until the date of receipt of the payment. Everest is also responsible for repaying any interest that accrues. If you have any questions regarding interest accruals or payment credits, contact the Department's Accounts Receivable Group at (202) 245-8080 and asks to speak to Everest's account representative.

If full payment cannot be made within **45 days** of the date of this letter, contact the Department's Accounts Receivable Group to apply for a payment plan. Interest charges and other conditions apply. Written request may be sent to:

U.S. Department of Education
OCFO Financial Management Operations
Accounts Receivable Group
550 12th Street, S.W., Room 6111
Washington, DC 20202-4461

If within 45 days of the date of this letter, Everest has neither made payment in accordance with these instructions nor entered into an arrangement to repay the liability under terms satisfactory to the Department, the Department intends to collect the amount due and payable by administrative offset against payments due Everest from the Federal Government. Everest **may object to the collection by offset only by challenging the existence or amount of the debt**. To challenge the debt, Everest must **timely appeal** this determination under the procedures described in the "Appeal Procedures" section of the cover letter. The Department will use those procedures to consider any objection to offset. **No separate appeal opportunity will be provided**. If a timely appeal is filed, the Department will defer offset until completion of the appeal, unless the Department determines that offset is necessary as provided at 34 C.F.R. § 30.28. This debt may also be referred to the Department of the Treasury for further action as authorized by the Debt Collection Improvement Act of 1996.

Direct Loan Estimated Actual Loss

Finding #3
 Appendix: Appendix D

DL Estimated Actual Loss	
Amount	Award Year
\$163.51	2009-2010
\$285.11	2010-2011
Total	
\$448.62	

Everest must pay the amount reflected above in Direct Loan estimated loss liabilities for the award year(s) reflected above. The liabilities will be applied to the general Direct Loan fund. This amount is also reflected in the total amount owed to the Department in Section 1 above.

Pell Grant– Closed Award Year

Finding #3
 Appendix F
 Everest must repay:

Pell Grant Closed Award Year			
Amount (Principal)	Amount (Interest)	Title IV Grant	Award Year
\$2,675	\$61.05	Pell Grant	2009-2010
\$2,775	\$53.30	Pell Grant	2010-2011
Total Principal	Total Interest		
\$5,450	\$114.35		

The disbursement record for the student identified in the appendix to the applicable findings must be adjusted in the Common Origination and Disbursement (COD) system based on the recalculated amount identified in the appendix.

Adjustments in COD must be completed prior to remitting payment to the Department. Payment cannot be accepted via G5. Once the Department receives payment via check, the Department will apply the principal payment to the applicable G5 award. The interest will be applied to the general program account.

A copy of the adjustment to the student’s COD record must be sent to Kenneth Porter **within 45 days of the date of this letter.**

Request Extended Processing

COD adjustments are necessary for the closed award year(s) listed above. Before any student level adjustments can be processed, Everest must immediately request extended processing through the COD Website (<http://cod.ed.gov>).

- Click on the Request Post Deadline/Extended Processing link under the School menu.
- On the request screen, the institution should indicate in their explanation that the request is based on a program review, and provide the program review control number.
- The institution will be notified of the status of the request at the time of submission, and will also be notified by email to the FAA and President when extended processing has been authorized. At that time, the school must transmit student/borrower level adjustments to COD for the closed award year(s).

Appendix A: Student Sample.

The student sample contains personally identifiable information and will be emailed to Everest as an encrypted WinZip file using Advanced Encryption Standard, 256-bit. The password needed to open the encrypted WinZip file(s) will be sent in a separate email.

Appendix B: Program Review Report



August 29, 2012

Mr. Jack Massimino
Chief Executive Officer
Everest Institute
6 Hutton Centre Drive
Santa Ana, CA 92707-5467

*UPS Overnight Mail, Tracking #
1Z A54 67H 01 9412 2543*

RE: Program Review Report
OPEID: 01035600
PRCN: 201220327869

Dear Mr. Massimino:

From April 15, 2012 through April 20, 2012, Mr. Kenneth Porter and Ms. Laurie Carmean conducted a review of Everest's administration of the programs authorized pursuant to Title IV of the Higher Education Act of 1965, as amended, 20 U.S.C. §§ 1070 et seq. (Title IV, HEA programs). The findings of that review are presented in the enclosed report.

Findings of noncompliance are referenced to the applicable statutes and regulations and specify the action required to comply with the statute and regulations. Please review the report and respond to each finding, indicating the corrective actions taken by Everest. The response should include a brief, written narrative for each finding that clearly states Everest's position regarding the finding and the corrective action taken to resolve the finding. Separate from the written narrative, Everest must provide supporting documentation as required in each finding.

Please note that pursuant to HEA section 498A (b), the Department is required to:

- (1) provide to the institution an adequate opportunity to review and respond to any preliminary program review report¹ and relevant materials related to the report before any final program review report is issued;
- (2) review and take into consideration an institution's response in any final program review report or audit determination, and include in the report or determination –
 - a. A written statement addressing the institution's response;
 - b. A written statement of the basis for such report or determination; and
 - c. A copy of the institution's response.

¹ A "preliminary" program review report is the program review report. The Department's final program review report is the Final Program Review Determination (FPRD).

U.S. Department of Education
Student Services
Washington, DC 20202-4200
www.ed.gov/students/edipg

GENERAL MAILING ADDRESS: STATE STREET, COLUMBIA, MO

The Department considers the institution's response to be the written narrative (to include e-mail communication). Any supporting documentation submitted with the institution's written response will not be attached to the FPRD. However, it will be retained and available for inspection by Evercst upon request. Copies of the program review report, the institution's response, and any supporting documentation may be subject to release under the Freedom of Information Act (FOIA) and can be provided to other oversight entities after the FPRD is issued.

The institution's response should be sent directly to Mr. Kenneth Porter of this office within 60 calendar days of receipt of this letter.

Protection of Personally Identifiable Information (PII):

PII is any information about an individual that can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth). The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information. To protect PII, the findings in the attached report do not contain any student PII. Instead, each finding references students only by a student number created by Federal Student Aid. The student numbers were assigned in Appendix A, Student Sample. Please see the enclosure Protection of Personally Identifiable Information for instructions regarding submission to the Department of required data / documents containing PII.

Record Retention:

Program records relating to the period covered by the program review must be retained until the later of: resolution of the loans claims or expenditures questioned in the program review; or the end of the retention period otherwise applicable to the record under 34 C.F.R. § 668.24(e).

We would like to express our appreciation for the courtesy and cooperation extended during the review. Please refer to the above Program Review Control Number (PRCN) in all correspondence relating to this report. If you have any questions concerning this report, please contact Mr. Kenneth Porter at 202-377-0460 or kenneth.porter@ed.gov.

Sincerely,

(b)(6)

Compliance Manager

cc: Ms. Vickie Linne-Robinson, Corporate Director of Financial Aid

Enclosures: *Protection of Personally Identifiable Information*
Program Review Report

PROTECTION OF PERSONALLY IDENTIFIABLE INFORMATION

Personally Identifiable Information (PII) being submitted to the Department must be protected. PII is any information about an individual which can be used to distinguish or trace an individual's identity (some examples are name, social security number, date and place of birth).

PII being submitted electronically or on media (e.g., CD-ROM, floppy disk, DVD) must be encrypted. The data must be submitted in a .zip file encrypted with Advanced Encryption Standard (AES) encryption (256-bit is preferred). The Department uses WinZip. However, files created with other encryption software are also acceptable, provided that they are compatible with WinZip (Version 9.0) and are encrypted with AES encryption. Zipped files using WinZip must be saved as Legacy compression (Zip 2.0 compatible).

The Department must receive an access password to view the encrypted information. The password must be e-mailed separately from the encrypted data. The password must be 12 characters in length and use three of the following: upper case letter, lower case letter, number, special character. A manifest must be included with the e-mail that lists the types of files being sent (a copy of the manifest must be retained by the sender).

Hard copy files and media containing PII must be:

- sent via a shipping method that can be tracked with signature required upon delivery
- double packaged in packaging that is approved by the shipping agent (FedEx, DHL, UPS, USPS)
- labeled with both the "To" and "From" addresses on both the inner and outer packages
- identified by a manifest included in the inner package that lists the types of files in the shipment (a copy of the manifest must be retained by the sender).

PII data cannot be sent via fax.

Prepared for
Everest Institute



START HERE
GO FURTHER
FEDERAL STUDENT AID

OPE ID 01035600
PRCN 201220327869

Prepared by
U.S. Department of Education
Federal Student Aid
School Participation Division - Philadelphia

Program Review Report

August 29, 2012

Federal Student Aid, Philadelphia School Participation Division
830 First Street NE
Washington, DC 20202-5402
www.FederalStudentAid.ed.gov

Table of Contents

	Page
A. Institutional Information.....	2
B. Scope of Review.....	3
C. Findings	3
Finding #1 Return of Title IV Made Late	3
Finding #2 Delayed Payment of Credit of Title IV Funds	4
Finding #3 Failure to Resolved C Code (Defaulted Perkins Loan)	5
D. Recommendations	6
E. Appendices	8
Appendix A: Student Sample	

A. Institutional Information

Everest Institute
5514 Big Tyler Road
Cross Lanes, WV 25313-1304

Type: Propriety

Highest Level of Offering: Associate's Degree

Accrediting Agency: Accrediting Commission of Career Schools and Colleges

Current Student Enrollment: (2011-2012)

% of Students Receiving Title IV: % (2011-2012)

Title IV Participation (2010-2011, per PCNet)

Title IV Participation: 2010-2011

Federal Pell Grant (Pell)	\$9,777,747.00
Federal Family Education Loan Program (FFELP)	\$2,089,057.00
Federal Supplemental Education Opportunity Grant (FSEOG)	\$220,955.00
Federal Perkins Loans	\$65,029.00
Federal Work Study (FWS)	\$58,727.00
Federal Direct Loan Program (FDLP)	<u>\$16,691,556.00</u>
Total:	\$28,903,071.00

Default Rate		Default Rate		
FFEL/DL	2009 24.1%	Perkins Loans	June 30, 2010	8.89%
	2008 20.2%		June 30, 2009	40%
	2007 14.8%		June 30, 2008	18.4%

B. Scope of Review

The U.S. Department of Education (the Department) conducted a program review at Everest from April 16, 2012 to April 20, 2012. The review was conducted by Mr. Kenneth Porter and Ms. Laurie Carmean.

The focus of the review was to determine Everest Institute's (Everest) compliance with the statutes and federal regulations as they pertain to the institution's administration of Title IV programs. The review consisted of, but was not limited to, an examination of Everest's policies and procedures regarding institutional and student eligibility, individual student financial aid and academic files, attendance records, student account ledgers, and fiscal records.

A sample of 33 files were identified for review from the 2010-2011 and 2011-2012 (year to date) award years. The files were selected randomly from a statistical sample of the total population receiving Title IV, HEA program funds for each award year. Appendix A lists the names and social security numbers of the students whose files were examined during the program review.

Disclaimer:

Although the review was thorough, it cannot be assumed to be all-inclusive. The absence of statements in the report concerning Everest's specific practices and procedures must not be construed as acceptance, approval, or endorsement of those specific practices and procedures. Furthermore, it does not relieve Everest of its obligation to comply with all of the statutory or regulatory provisions governing the Title IV, HEA programs.

This report reflects initial findings. These findings are not final. The Department will issue its final findings in a subsequent Final Program Review Determination letter.

C. Findings

During the review, several areas of noncompliance were noted. Findings of noncompliance are referenced to the applicable statutes and regulations and specify the actions to be taken by Everest to bring operations of the financial aid programs into compliance with the statutes and regulations.

Finding #1: Return of Title IV Made Late

Citation:

An institution does not meet the requirement of a timely Return of Title IV funds, if the institution's records show that the institution deposits or transfers the funds into the bank account it maintains under § 668.163 more than 45 days after the date it determines that the student withdrew. 34 C.F.R. 668.173(b)(1)

Noncompliance:

Everest failed to return Title IV funds in a timely manner for student #5. According to student #5's ledger card, the student withdrew from Everest on September 22, 2010. Everest's date of determination of the withdrawal was October 6, 2010. The return of the Direct Unsubsidized loan (\$2,985) and a Direct Subsidized loan (\$1,742) disbursement was made 140 days after the date of determination on February 23, 2012 after discovering the error.

An institution's failure to return Title IV funds in a timely manner may result in additional expenses and hardships for the student.

Required Action:

Everest is required to review its policies and procedures for the Return of Title IV funds to ensure sufficiency in preventing a recurrence of this finding. Everest must include a copy of any revisions to its policies and procedures with its response to this report.

Finding #2: Delayed Payment of Credit of Title IV Funds

Citation:

When an institution disburses Title IV funds by crediting a student's account and the total amount of all Title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible. However, the payment of the credit balance must take place no later than 14 days after the balance occurs, if the credit balance happens after the first day of class of a payment period. 34 CFR §668.164(e)(1)

Noncompliance:

Everest failed to pay a credit balance to student #20 within 14 days of the credit balance occurring on the student's account. According to student #20's ledger card, Everest credited Title IV funds to the student's account on January 31, 2012, which resulted in a \$630.89 credit balance. The credit balance was disbursed to the student on March 6, 2012, 21 days late. Subsequently, the institution provided the Department with a copy of the cancelled check confirming that the credit balance was paid on March 6, 2012.

An institution's failure to pay credit balances in a timely manner may result in additional expenses and hardships for students.

Required Action:

Everest Institute is required to review its policies and procedures for Title IV credit balances to ensure sufficiency in preventing a recurrence of this finding. Everest Institute must include a copy of any revisions to its policies and procedures with its response to this report.

Finding #3: Failure to Properly Resolve a Comment Code

Citation:

A student is eligible to receive Title IV, HEA program assistance if the student either meets all of the requirements in paragraphs (a) through (m) of this section or meets the requirement in paragraph (n) of this section as follows:

1. Is not in default, and certifies that he or she is not in default, on a loan made under any title IV, HEA loan program;
2. Is not liable for a grant or Federal Perkins loan overpayment.
3. A student receives a grant or Federal Perkins loan overpayment if the student received grant or Federal
4. Perkins loan payments that exceeded the amount he or she was eligible to receive; or if the student withdraws, that exceeded the amount he or she was entitled to receive for non-institutional charges 34C.F.R.668.34(g)(1)(4)

When the Department processes the Free Application for Federal Student Aid (FAFSA) any student applying for FSA funds must certify that he/she is not in default on any FSA loan and does not owe an overpayment on any FSA grant, or that he/she has made satisfactory arrangements to repay the overpayment or default. This certification statement is printed on the *Free Application for Federal Student Aid (FAFSA)*.

The FAFSA is processed, and Central Processing System (CPS) matches the student against the National Student Loan Data System (NSLDS) to see if he/she is in default, owes an overpayment, or has exceeded the aggregate loan limits. The institution must resolve any conflicts between NSLDS and other information before disbursing FSA funds. For example, the match for NSLDS shows that a student is not in default, but you have documentation showing that the student is in default, the institution must resolve the conflicting information before disbursing Title IV funds to the student. HEA Sec. 484(a)(3), 484(f), 34 CFR 668.32(g), 668.35

Noncompliance:

Everest failed to correctly resolve and document the resolution of a Comment Code (C Code) listed on the Institutional Student Information Record (ISIR) for student # 14. Specifically, student #14's ISIR indicates the student defaulted on a Perkins loan. According to the National Student Loan Data System (NSLDS) the Perkins Loan

remained in default and unresolved (DF) since June 16, 2000. Marshall University is the current servicer of this loan.

Everest incorrectly assumed that a letter from the Department curing a William D Ford Direct Loan default, made the student eligible for federal funds. However, the Department's letter clearly indicates that it only applies to loans held by the William D. Ford Direct Loan Program. It did not resolve the C Code for the defaulted Perkins loan on the ISIR.

The student received a total of \$14,904 in Title IV funds as follows:

2009-2010

Federal Pell Grant \$2,675.

Federal Direct Subsidized Loan \$1,742

Federal Direct Unsubsidized Loan \$2,985

2010-2011

Federal Pell Grant \$2,775

Federal Direct Subsidized Loan \$1,742

Federal Direct Unsubsidized Loan \$2,985.

The institution's failure to properly resolve a C Code may result in the institution and the student receiving Title IV funds for which they are not entitled.

Required Action:

Everest is required to review its policies and procedures for resolving a C Code for Defaulted Student Loans to ensure sufficiency in preventing a recurrence of this finding. Everest Institute must include a copy of any revisions to its policies and procedures with its response to this report.

Everest will be liable for all Title IV funds for which the student was not eligible. Instruction for the payment of any liability associated with this finding will be included in the Final Program Review Report Determination Letter.

D. Recommendation

The following are recommendations based upon observations made by the Department during the program review. Everest Institute is not required to provide a response to, nor is Everest Institute required to act upon, these recommendations. However, the Department believes that adoption of these recommendation(s) will assist the institution in its administration of Title IV, HEA program funds. These recommendations specifically apply to The Drug-Free Schools and Campus Regulations

1. Enhance procedures for notifying staff and students of the required information as stated in The Drug-Free Schools and Campuses Regulations (Edgar Part 86). This

information must be made in writing in a manner that ensures all students and employees receive it.

2. The required Biennial Review of the schools alcohol and other drugs (AOD) prevention programs should contain not only a description of these programs but a determination of effectiveness of programming, consistency of sanction enforcement and identification of changes to enhance the programming .

For additional guidance please refer to the following guide. *Complying With The Drug-Free Schools and Campuses Regulations-A guide for University and College Administrators.* (www.higheredcenter.org)

E. Appendices

Appendix A (Student Sample) contain personally identifiable information and will be emailed to Everest as an encrypted WinZip file using Advanced Encryption Standard, 256-bit. The password needed to open the encrypted WinZip file(s) will be sent in a separate email.

Assigned Student #	Last, First Name	Last 4 digits of SSN
1#	(b)(6); (b)(7)(C)	
2#		
3#		
4#		
5#		
6#		
7#		
8#		
9#		
10#		
11#		
12#		
13#		
14#		
15#		

Assigned Student #	Last, First Name	Last 4 digits of SSN
16#	(b)(6); (b)(7)(C)	
17#		
18#		
19#		
20#		
21#		
22#		
23#		
24#		
25#		
26#		
27#		
28#		
29#		
30#		
31#		
32#		
33#		

**Appendix C: Institution's Written Response to the Program Review Report dated
September 13, 2012**

Audit/Compliance Department

14231 Seaway Rd., Suite 5001
Gulfport, MS 39563
tel 228.867.1905 fax 228.867.9310
www.cci.edu

September 13, 2012

Federal Student Aid
School Participation Division – Philadelphia
830 First Street, Northeast
Washington, D.C. 20202-5402

Attn: Mr. Kenneth Porter

Re: Program Review Report
Everest Institute – Cross Lanes, WV
OPE ID: 01035600
PRCN: 201220327869

Dear Mr. Porter:

We are in receipt of the program review report for the referenced program review and appreciate the opportunity to respond.

Your report stated:

"Finding #1: Return of Title IV Made Late

Citation:

An institution does not meet the requirement of a timely Return of Title IV funds, if the institution's records show that the institution deposits or transfers the funds into the bank account it maintains under §668.163 more than 45 days after the date it determines that the student withdrew. 34 C.F.R. 668.173(b)(1)

Noncompliance:

Everest failed to return Title IV funds in a timely manner for student #5. According to student #5's ledger card, the student withdrew from Everest on September 22, 2010. Everest's date of determination of the withdrawal was October 6, 2010. The return of the Direct Unsubsidized loan (\$2,985) and a Direct Subsidized loan (\$1,742) disbursement was made 140 days after the date of determination on February 23, 2012 after discovering the error.

An institution's failure to return Title IV funds in a timely manner may result in addition expenses and hardships for the student.

Required Action:

Everest is required to review its policies and procedures for the Return of Title IV funds to ensure sufficiency in preventing a recurrence of this finding. Everest must include a copy of any revisions o its-policies and procedures with its response to this report."

Institution's Response:

The institution concurs this Return to Title IV was paid late on February 23, 2011 and believes this to be an isolated incident. The Institution concurs with the finding. The Institution has reviewed its procedures and conducted additional training with the appropriate staff with respect to refunds/Return of Title IV Funds (R2T4) and post-withdrawal disbursements to assure timely processing and payment of refunds.

Student Finance Support (SFS), Corinthian Colleges, Inc.'s centralized corporate department, was created to assist the institution in the processing of refunds, Return of Title IV Funds and post withdrawal disbursements resulting from a student's change in status. SFS will identify all students with a change in status processed by the institution via reports from CampusVue. Once students with a change in status are identified, SFS staff will utilize all student and programmatic data from the student record system in order to calculate and schedule the appropriate tuition adjustments, refund transactions and Return of Title IV transactions within seven business days of the student's change in status. Transactions will be posted to the student's ledger within 3 business days. Refund tracking reports, detailed transaction registers and student change in status reporting is available in CampusVue to assist the institution with the review of outstanding and posted transactions. Management and staff will monitor transactions via CampusVue reports on a weekly basis ensuring timely return of funds to lenders.

Your report stated:

"Finding #2: Delayed Payment of Credit of Title IV Funds

Citation:

When an institution disburses Title IV funds by crediting a student's account and the total amount of all Title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assess the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible. However, the payment of the credit balance must take place no later than 14 days after the balance occurs, if the credit balance happens after the first day of class of a payment period. 34 C.F.R. §668.164(e)(1)

Noncompliance:

Everest failed to pay a credit balance to student #20 within 14 days of the credit balance occurring on the student's account. According to student #20's ledger card, Everest credited Title IV funds to the student's account on January 31, 2012, which resulted in a \$630.89 credit balance. The credit balance was disbursed to the student on March 6, 2012, 21 days late. Subsequently, the institution provided the Department with a copy of the cancelled check confirming that the credit balance was paid on March 6, 2012.

An institution's failure to pay credit balances in a timely manner may result in additional expenses and hardships for students.

Required Action:

Everest Institute is required to review its policies and procedures for Title IV credit balances to ensure sufficiency in preventing a recurrence of this finding. Everest Institute must include a copy of any revisions to its policies and procedures with its response to this report."

Institution's Response:

The institution concurs with the finding and has reviewed its policies and procedures and believes this to be an isolated incident. SFS was created to assist the institution in the processing of refunds resulting from a Title IV credit balance. When a student enrolls, he/she selects a credit balance option indicating whether to hold the credit on their ledger until the end of the academic year, return it to the lender or refund it to the student. SFS will identify all students with a credit balance by monitoring the information available in CampusVue. Once students with a credit balance are identified, SFS staff will utilize the information in CampusVue to determine the student's preference. The transaction will be scheduled within 7 days of the credit balance's existence and post to the student's ledger within 3 business days. Refund/credit balance payment tracking reports, detailed transaction registers and credit

balance monitoring reporting is available in CampusVue to assist the institution with the review of outstanding and posted transactions. Weekly monitoring is performed by management and staff.

The Institution's Student Record Systems pull extracts containing requests for payments to students each night and automatically issues checks on the day they are requested by the institution. Checks are sent via regular mail directly to the student from the Campus Support Center located at the corporate offices.

Your report stated:

"Finding #3: Failure to Properly Resolve a Comment Code

Citation:

A student is eligible to receive Title IV, HEA program assistance if the student either meets all of the requirements in paragraphs (a) through (m) of this section or meets the requirement in paragraph (n) of this section as follows:

1. Is not in default, and certifies that he or she is not in default, on a loan made under any title IV, HEA loan program;
2. Is not liable for a grant or Federal Perkins loan overpayment.
3. A student receives a grant or Federal Perkins loan overpayment if the student received grant or Federal
4. Perkins loan payments that exceeded the amount he or she was eligible to receive; or if the student withdraws, that exceeded the amount he or she was entitled to receive for non-institutional charges 34C.F.R.668.34(g)(1)(4)

When the Department processes the Free Application for Federal Student Aid (FAFSA) any student applying for FSA funds must certify that he/she is not in default on any SFA loan and does not owe an overpayment on any FSA grant, or that he/she has made satisfactory arrangements to repay the overpayment or default. This certification statement is printed on the *Free Application for Federal Student Aid* (FAFSA).

The FAFSA is processed, and Central Processing System (CPS) matches the student against the National Student Loan Data System (NSLDS) to see if he/she is in default, owes an overpayment, or has exceeded the aggregate loan limits. The institution must resolve any conflicts between NSLDS and other information before disbursing FSA funds. For example, the match for NSLDS shows that a student is not in default, but you have documentation showing that the student is in default, the institution must resolve the conflicting information before disbursing Title IV funds to the student. HEA Sec. 484(a)(3), 484(f), 34 CFR 668.32(g), 668.35

Noncompliance:

Everest failed to correctly resolve and document the resolution of a Comment Code (C Code) listed on the Institutional Student Information Record (ISIR) for student # 14. Specifically, student #14's ISIR indicates the student defaulted on a Perkins loan. According to the National Student Loan Data System (NSLDS) the Perkins Loan remained in default and unresolved (DF) since June 16, 2000. Marshall University is the current servicer of this loan.

Everest incorrectly assumed that a letter from the Department curing a William D Ford Direct Loan default, made the student eligible for federal funds. However, the Department's letter clearly indicates that it only applies to loans held by the William D. Ford Direct Loan Program. It did not resolve the C Code for the defaulted Perkins loan on the ISIR.

The student received a total of \$14,904 in Title IV funds as follows:

2009-2010

Federal Pell Grant \$2,675.

Federal Direct Subsidized Loan \$1,742

Federal Direct Unsubsidized Loan \$2,985

2010-2011

Federal Pell Grant \$2,775

Federal Direct Subsidized Loan \$1,742

Federal Direct Unsubsidized Loan \$2,985.

The institution's failure to properly resolve a C Code may result in the institution and the student receiving Title IV funds for which they are not entitled.

Required Action:

Everest is required to review its policies and procedures for resolving C Code for Defaulted Student Loans to ensure sufficiency in preventing a recurrence of this finding. Everest Institute must include a copy of any revisions to its policies and procedures with its response to this report.

Everest will be liable for all Title IV funds for which the student was not eligible. Instruction for the payment of any liability associated with this finding will be included in the Final Program Review Report Determination Letter."

Institution's Response:

The institution disagrees in part with this finding. At the time this student presented the default clearance letter to the institution it was believed it pertained to the defaulted Perkins loan listed on the student's 2009-10 ISIR. The Department's letter, dated April 5, 2010, does

not as the program review asserts "clearly indicate that it only applies to loans held by the William D. Ford Direct Loan Program". On the contrary it states "This notice pertains only to the defaulted student aid debt held by the Department and payable to the National Payment Center as of the date of this notice. It does not pertain to any other obligations held by other agencies, schools, or institutions (including banks and lending institutions), or to loans currently held by the William D. Ford Direct Loan Program." Please see Exhibit 3 for a copy of the Department letter.

As detailed in an email on April 19, 2012 to the reviewer, SFS has added additional steps to the file review process for clearing default codes to include rejecting files and asking the servicer to provide more specific information – loan type, amount, etc. so that we can correlate it to the appropriate loan and ensure the student is not in default on any loans not covered by the clearance letter. We respectfully request this finding be closed without further action on the part of the institution.

We trust this response satisfactorily addresses all concerns expressed in the program review report and request that this review be closed. Should additional information be needed or you have questions please feel free to contact me at 228 867-1905 or via email at libuchan@cci.edu

Sincerely,

(b)(6)

Linda Kaye Buchanan
Vice President
SFA Compliance

Enclosures

cc: Aimee Switzer, President Everest Institute

hard copy exhibit

Everest Institute Crosslanes, WV

OPEID: 01035600

PRCN: 201220327869

Program Review Response

EXHIBIT 3



FSA
FEDERAL
STUDENT AID

We Help Put America Through School

April 5, 2010

Account No.: 236-17-8727

Borrower Name: AMANDA WARREN

Dear Borrower:

This notice serves as written verification that you have paid in full the defaulted student loan(s) and/or grant overpayment(s) owed to the U.S. Department of Education and payable to the National Payment Center, and that no further payments are due.

This notice pertains only to the defaulted student aid debt held by the Department and payable to the National Payment Center as of the date of this notice. It does not pertain to any other obligations held by other agencies, schools, or institutions (including banks and lending institutions), or to loans currently held by the William D. Ford Direct Loan Program. If you have received a notice of proposed offset from a guaranty agency acting on behalf of the Department, this letter does not apply to that notice.

This notice of satisfaction will be null and void if:

- any part of this student aid debt was reduced by offset of federal and/or state tax refunds or other payments and that offset is subsequently reversed either in whole or in part (e.g., if your tax refund was applied to this debt and you or your spouse file an injured spouse claim that reduces the amount the Department originally received);
- other debts that you owe are subsequently assigned to the Department for collection; or
- any of the payments you have made to the Department subsequently bounce or are otherwise not honored.

If the Department has reported your defaulted student aid debt to credit bureaus, the credit bureaus will be notified that the account is satisfied. This does not delete the credit line reference but only updates it to show a zero balance, per Section 430A (F)(1) and Section 463 (C)(1) of the Higher Education Act of 1965, as amended.

Page 2 - AMANDA WARREN

The defaulted student aid debt held by the Department and payable to the National Payment Center should no longer prevent you from receiving Title IV federal student financial assistance.

For further information, you should contact the Department's Default Resolution Group at 1-800-621-3115.

Sincerely, _____

Default Resolution Group
Servicing Center

Institutional Student Information Report - 2009-10

Campus: 0708 - EVEREST INSTITUTE - CROSSLANES

Process Date: 05/04/10

Name: (b)(6); (b)(7)(C)

Receive Date: 05/05/10

ISIR-ID: [REDACTED]

*** NSLDS Financial Aid History ***

Page: 5

Overpayment: Contact: Fraud: No Defaulted Loans: Yes Discharged: No Satisfactory Repayment: No Active Bankruptcy: No
 PELL: No N/A Post Screening Reason: Default resolved
 ACG: No N/A
 N. SMART: No N/A
 TEACH: No N/A
 FSEOG: No N/A
 Perkins: No N/A

NSLDS Transaction No: 02

Aggregate Amounts:	Outstanding Principal	Pending Disbursements	Loan Total
FFELP/Direct Loans:			
Subsidized Loans:	0	0	0
Unsubsidized Loans:	0	0	0
TEACH Loans:	0	0	0
Combined Loans:	0	0	0
FFEL Unallocated Consol. Loans:	0	0	0

Perkins Loans: Outstanding Principal Bal: \$500 Current Year Loan Amount: \$0
 TEACH Grants: Undergrad/Post Bacc Disb Amt: \$0 Grad Disbursement Amount: \$0

2009-10 Pell Payment Data: School Trx No. Verification EFC Scheduled Disbursed Percent Used Award Status As Of
 First School Code:
 Second School Code:
 Third School Code:

2009-10 ACG Payment Data: School Trans Scheduled Award Amt Disb Amt % Elig Used Awd Yr As Of Yr Level
 Seq: First School Code:
 Second School Code:
 Third School Code:

*** Access NSLDS for Additional ACG Data ***

2009-10 SMART Payment Data: School Trans Scheduled Award Amt Disb Amt % Elig Used Awd Yr As Of Yr Level
 Seq: First School Code:
 Second School Code:
 Third School Code:

*** Access NSLDS for Additional SMART Data ***

2009-10 TEACH Payment Data: School Trans Scheduled Award Amt Disb Amt Awd Yr As Of Grade Lvl Loan Conv Flg
 Seq: First School Code:
 Second School Code:
 Third School Code:

*** Access NSLDS for Additional TEACH Data ***

MPN/Loan Limit Information

Direct Loan Subsidized/Unsubsidized MPN: No MPN on file
 Direct Loan PLUS MPN: No MPN on file
 Undergrad Subsidized Loan Limit Flag: No Problem
 Undergrad Combined Loan Limit Flag: No Problem
 Grad Subsidized Loan Limit Flag: No Problem
 Grad Combined Loan Limit Flag: No Problem

Most Recent Loan Detail:

Loan Amount	Beginning Date	Ending Date	GA Code	School Code	Contact Code	Grade Level
Additional Unsub	Loan Type	Capitalized Interest	Date of Last Disb.	Amt of Last Disb.		

FEDERAL PERKINS	500	07/01/98	08/31/98	N/A	00381500	SCH
Status: Defaulted, Unresolved as of 06/15/2000	Neither	DEFAULTED	No	08/18/98	\$500.00	
Outstanding Balance: \$500.00 as of 04/22/2010						
DIRECT STAFFORD SUBSIDIZED	1,313	08/24/98	05/10/99	555	00381500	EDR
Status: as of 03/01/2010	Neither	RECENT	No	09/23/98	\$1,313.00	1
Outstanding Balance: \$0.00 as of 03/01/2010						

Appendix D: Estimated Actual Loss Formula Calculation

Appendix D Estimated Loss Formula

8/29/2012

Enter Institution Name: Everest Institute
 Select Institution Type: Proprietary 2 Yrs or Less

Select Type of Loan	Select Award Year	Enter Ineligible Loan Amount	Enter School CDR	Total Subsidy Costs	Estimated Loss Liability
1 DL Subsidized	2009-2010	\$ 1,742.00	24.10%	9.39%	\$ 163.51
2 DL Unsubsidized	2009-2010	\$ 2,985.00	24.10%	-11.94%	\$ -
3 Finding #3		\$ 4,727.00			\$ 163.51
4 DL Subsidized	2010-2011	\$ 1,742.00	24.10%	16.37%	\$ 285.11
5 DL Unsubsidized	2010-2011	\$ 2,985.00	24.10%	-4.85%	\$ -
6 Finding #3		\$ 4,727.00			\$ 285.11
7					
8					
9					
10					
11					
12					
Original Ineligible Loan Liability		\$ 9,454.00	Total Estimated Loss		\$ 448.62

To calculate estimated loss for a given ineligible loan amount, that amount is multiplied by the total subsidy rates calculated for the ineligible loans. Consolidation Loans will be obtained in the future to prepay some of the ineligible loans; the amount of Consolidation Loans divided by the ineligible Stafford/PLUS loans equals the "Consolidation prepayment rate" (H) for those loans.

The Department's Budget Office calculates, on an annual basis, the rate per dollar of loan of default subsidies (DSRs) and all other subsidies (OSRs) (D & F) for Stafford and PLUS Loans, by cohort year, program, loan type, and risk group (note that 2008-2010 FHEI loan costs are calculated only by cohort year).

A	B	C	D	E	F	G	H	I	J
School CDR	Sector CDR*	Ratio **	RNR ***	Adjusted DSR	OSR ***	Avg Cons. Prepay %	Cons. OSR ***	Cons. OSR ***	OSR ***
1 24.10%	14.49%	1.66	7.67%	12.73%	-3.76%	2017	21.1%	2.95%	-1.02%
2 24.10%	14.49%	1.66	9.44%	15.67%	-27.55%	2017	17.0%	3.16%	-3.54%
3									
4 24.10%	14.49%	1.66	6.28%	10.42%	5.00%	2018	21.1%	3.19%	1.30%
5 24.10%	14.49%	1.66	8.76%	14.54%	-19.94%	2018	23.0%	3.39%	-1.02%
6									
7									
8									
9									
10									
11									
12									

Federal Student Aid (FSA) calculates the cohort default rates (CDRs) of the institution (A), and the average CDR for the sector for that institution (B). FSA applies the CDR comparison ratio (C), (A/B = C) against the Budget Office's cohort loan DSR (D) to determine the default subsidy rate for the institution (E). The Budget Office estimates the default subsidy rate and other subsidy rate for the Consolidation Loans that will prepay some of these Stafford and PLUS Loans (I & J).

The total subsidy rate for the ineligible Stafford and PLUS Loans is ((E+F) + ((I+J) x H)).
 The total subsidy cost for these loans is the ineligible loan amount multiplied by the total subsidy rate.

Appendix E: Estimated Actual Loss Formula Description

Appendix E

The Estimated Actual Loss Formula (EALF) is used for only certain types of findings on ineligible Direct Loan liabilities. The EALF estimates (1) the principal amount that has or will default; and (2) the interest and special allowance on the entire ineligible loan amount.

The EALF uses an institution's applicable cohort default rate (CDR) to estimate the amount of defaults from the ineligible principal amount. This is usually the institution's latest published CDR. Draft CDRs are not used unless there is no prior CDR.

Example:	Ineligible Principal Loan Amount	\$100,000
	Cohort Default Rate	<u>10.0%</u>
	Estimated Default Amount Due	\$10,000

The EALF calculates interest and special allowance (SA), where applicable, on the entire amount of ineligible loan principal. The number of days used to calculate interest and special allowance is based on average historical data for various time periods for different types of schools.

Period	School Type	One-Year	Two-Year	Four-Year	Rate Types
Disbursement to Repayment		584	774	969	Interest & SA
Repayment to Default		418	498	619	SA
Repayment to Paid In Full		1659	1580	1712	SA

The EALF uses the actual interest rates in effect when the ineligible loans were disbursed and an annualized average of the quarterly special allowance rates in effect. The EALF divides the number of days in each time period so that changes in interest and special allowance rates are considered. The EALF also assumes that the ineligible loans were made in two disbursements after a 30-day delay.

Example for the Disbursement to Repayment Period for a Two-Year Institution (2004-05)

Variable Rate Ineligible Loans: \$40,000 subsidized and \$60,000 unsubsidized
 Interest Rates: 04-05 (2.77), 05-06 (4.70), 06-07 (6.54)
 SA Rates: 04-05 (1.45), 05-06 (1.55), 06-07 (0.53)

Subsidized Loan Amount (Interest and Special Allowance)

$\$40,000/2 \times (451 \times (.0422/365))$
 $+ \$40,000/2 \times (730 \times (.0625/365))$
 $+ \$40,000/2 \times (367 \times (.0707/365)) = \$4,964.61$

Unsubsidized Loan Amount (Special Allowance Only)

$$\begin{aligned} & \$60,000/2 \times (451 \times (.0145/365)) \\ & + \$60,000/2 \times (730 \times (.0155/365)) \\ & + \$60,000/2 \times (367 \times (.0053/365)) = \$1,627.36 \end{aligned}$$

NOTE: The number of days of 774 for this time period is doubled to 1548 (451+730+367) because the principal amount is divided by two.

Similar calculations are made for the other two periods. The total liability is the sum of the default amount with the interest and special allowance calculations for all three periods.

Appendix F: Cost of Funds

