



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF POSTSECONDARY EDUCATION

THE ASSISTANT SECRETARY

FP-07-06

April 27, 2007

**Subject:** Audit Requirements for 9.5 Percent Minimum Special Allowance Payment Rate

**Summary:** This letter provides general information about the audit requirements with which FFELP lenders must comply to receive Special Allowance Payments (SAP) at the minimum 9.5 percent rate.

Dear Colleague:

Dear Colleague Letter FP-07-01 (DCL FP-07-01), issued on January 23, 2007, restated the requirements of the statute and regulations that control whether Federal Family Education Loan Program (FFELP) loans made or acquired with funds derived from pre-October 1, 1993 tax-exempt financing sources are eligible for special allowance payments (SAP) at the 9.5 percent minimum return rate. DCL FP-07-01 included, as an attachment, a copy of a more detailed letter that was sent to any lender that was claiming, at that time, SAP at the 9.5 percent minimum return rate.

The lender letter stated that as of January 24, 2007 (date of lender letter), the Department would pay SAP at the standard rate on any loans that were included in SAP billings submitted at the 9.5 percent minimum rate until the Department received the results of an audit or review of the loans included in the lender's December 31, 2006 request for SAP at the 9.5 percent rate, and accepted the results as proving that the loans met the 9.5 percent billing requirements restated in DCL FP-07-01. Such audits must be conducted either by an accounting firm engaged by the Department or, at the lender's option, by an independent accounting firm of the lender's choosing, using the audit methodology established by the Department. A lender's internal auditor may not be used for this purpose.

The Department's Office of the Inspector General (OIG) has drafted a special Auditor's Guide to implement a methodology established by the Department to identify first-generation and second-generation loans that the Department will accept as eligible for SAP at the 9.5 percent minimum return rate as part of the comprehensive resolution offered to lenders in the January 24, 2007 correspondence. The Auditor's Guide, a copy of which is included as an attachment to this letter, must be used for this audit. The Auditor's Guide uses a methodology that will allow a lender to identify loans included in a lender's December 31, 2006 SAP billing that the Department will consider to be eligible for the 9.5 percent SAP rate. A description of the basis for the methodology is also included as a separate attachment to this letter.

Audit Requirements for 9.5 Percent Minimum Special Allowance Payment Rate  
Page 2

Much as we did for DCL FP-07-01, we will be sending an individual letter to any FFELP lender that submitted SAP claims for the 9.5 percent minimum return rate in their December 31, 2006 SAP billing. That letter will ask those lenders to confirm that they wish to have their SAP billing paid at the 9.5 percent rate, and if so, how they plan to comply with the audit requirements.

Sincerely,

A handwritten signature in dark ink, reading "James S. Manning". The signature is fluid and cursive, with the first name "James" and last name "Manning" clearly legible.

James Manning  
Delegated the Authority of the Assistant Secretary  
Office of Postsecondary Education

Attachments