



Session 13

DEFAULT PREVENTION



PRESENTERS

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Institutional Obligation:

- **Achieve optimum CDR levels to create disbursement options.**
- **Maintain Title IV eligibility.**



Cohort Default Rate (CDR)

A cohort default rate is the percentage of borrowers entering repayment on loans in a fiscal year and subsequently defaulting (or meeting other conditions) in that same fiscal year or the next fiscal year.



Differentiating CDRs

Draft CDR

- Late winter
- Not public
- No effects
- Preliminary look at data to correct for official CDR calculations
- All schools may challenge draft CDR

Official CDR

- Fall
- Public
- Benefits and Sanctions
- Schools may have limited adjustment/ appeal rights



Challenges: How do we respond to . . .

- **Cost of Attendance vs.. Loan Amounts**
- **Plastics--ATM, Debit, Charge, or Credit cards**
- **Alternative Loans**
- **Car Loan**



Credit and Debt Counseling agencies

- Educate students on how to manage their finances
- Build sound financial future
- Promote successful loan repayment
- Reduce defaults



Patterns of Defaulted Borrowers

- **Borrowers who drop out of school within the first two years of enrollment tend to be a higher risk for loan default.**



Why would you need a Default Management Plan

- **Success is proven when plans are implemented and executed.**
- **Plans pull together people & resources for a common goal.**
- **Essential ingredients: Institution-wide “buy-in” and top executive involvement..**



Why have Best Practices?

- **Keep your borrowers in school**
- **Control your Cohort Default Rate**
- **Reduce defaults overall**



Benefits with Official CDRs

- **CDR is $< 10.0\%$ for 3 most recent FYs**
 - **disburse all loan funds in one disbursement**
- **CDR is $< 5.0\%$ for most recent FY**
 - **single disbursement for study abroad**



Elements of a DMP

- Establish a default management team
- Identify offices involved in the delivery of student financial aid
- Determine staff represented (president, senior administration & middle management)
- Select a leader from senior administration
- Consider other potential team members (student representative, faculty)
- Formulate duties of the team



Elements of a DMP

- Identify & allocate resources to implement plan
- Define roles & responsibilities of independent third party
- Involvement in the process (development & implementation of plan, process)
- Scope of work (skip tracing, counseling, progress review)
- Define default management evaluation methods & establish data collection



Elements of a DMP

- Create profiles of students that default
- Conduct detailed analysis
 - Average dollar amount borrowed
 - Borrowers in repayment
 - Borrowers in deferment/forbearance
 - Borrowers in delinquency/default
 - Contacts with borrowers



Elements of a DMP

- Establish annual cohort default rate reduction targets
- Identify realistic and obtainable targets
- Perform regular reviews of progress
- Build in measurement tools
- Establish process to ensure accuracy of default rates data (challenge/adjustment/appeal)



Elements of a DMP

- Communication with other offices
- Timely SSCR reporting and NSLDS updates
- Electronic Cohort Default Rate Loan Record Detail Reports/extracts available on NSLDS web page
- Student Repayment History Reports/extracts available on NSLDS web page
- Regular contact with your guaranty agency/servicer



How Can The Department Help Me?

- **ED's priority is to reduce loan defaults, NOT to identify schools to review**
- **ED's default management plan initiative focuses solely on default related issues**
- **ED will review proposed default management plans**
- **Recommend specific core and optional elements of default management plans**



Finally.....

**The Department has
resources to assist with
default prevention...**



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SFA Default Management Session

We appreciate your feedback and comments. We can be reached:

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Background



Focus Group Research
Role of Council
Debt Management Team
Overview of Activities



Course Goals & Objectives

Teach students the following strategies for

- ✓ managing their money wisely.
- ✓ obtaining financial support – along with helping them grasp their rights, obligations, and responsibilities.
- ✓ succeeding in school and completing their education in a timely manner.
- ✓ taking control of their future by finishing school and repaying their loans.
- ✓ repaying their loans and meeting their financial responsibilities and obligations.



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Package Components

- ✓ 5 separate Trainer Manuals
- ✓ 5 separate Student Skills books
- ✓ 5 PowerPoint Presentations
- ✓ Interactive CD-Rom
- ✓ Video
- ✓ We provide training for delivery

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LIFE SKILLS



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Media Preview

Student Financial Assistance

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LIFE SKILLS



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Module 1: A Preview

Student Financial Assistance

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Get a Grip on Your Finances: Smart Spending for Students



Make smart choices about spending and saving

- Develop a financial plan: Set realistic goals for financing and completing your education.
- Make a budget and stick to it.
- Only borrow what you need and no more.

Develop a financial game plan.

- Goals: Desires and/or plans to achieve a specific outcome.
 - What are your educational goals?
 - What are your career goals?
 - What are your financial goals?



Develop a financial game plan.

- Needs: Necessities for everyday living and goal attainment.
 - What are your everyday needs (not wants)?
 - What are your educational needs?

Develop a financial game plan.

- Wants: Things that are nice to have, things that gratify some desire or urge.
 - What things do you want (not need)?
- What do you need to survive while in school versus what might you merely want or desire?

Make a budget and stick to it.

- How much money do I have to spend?
 - Wages and tips
 - Savings
 - Financial Aid
 - Scholarships
 - Parents & Relatives
 - Other





Make a budget and stick to it.

- What do you spend money on? Where does your money go?
- Find out by preparing a budget.
- Identify general spending categories
 - Housing
- Identify specific spending categories
 - Utilities, phone, rent

Make a budget and stick to it.

- Compare your total income against your estimated monthly expenses.
- Where do you come up short?

Make a budget and stick to it.

- "Cents-able" strategies for cutting down on spending
 - What expenses can you cut?
 - Distinguish between expenses that are real needs versus those that are merely wants.





Only borrow what you need for school and no more.

- How much do you think you'll need to pay for school?
 - Tuition and fees
 - Books and supplies
 - Lab fees
 - Health insurance
 - Library fines
 - Campus parking fees
 - Computer and related expenses
 - Monthly memberships and dues

Only borrow what you need for school and no more.

- Financial Fact 1: Getting an education is expensive.



Only borrow what you need for school and no more.

- Financial Fact 2: Know what you're financing. Anticipate your income in your chosen career.





Only borrow what you need for school and no more.

- Financial Fact 3: Whatever you borrow, you have to pay it back.



Only borrow what you need for school and no more.

- Financial Fact 4: Your credit history stays with you for life.



How do I establish good credit?

- Pay off your credit balances in full.
- If you can't pay your balance in full, make at least the minimum payment.
- Pay your bills on time.
- Undercharge. Don't charge as much as your limit allows.



How do I lose good credit?

- Making late payments
- Exceeding the credit limit on your credit card
- Writing bad checks
- Filing for bankruptcy

How do I access my credit report?

- Check out these on-line addresses to seek your credit report from one of the three largest credit bureaus.

<http://www.equifax.com>

<http://www.transunion.com>

<http://www.experian.com>

<http://www.myfico.com>



Get a Grip on Your Finances Now

Be a smart spender!



Agenda

- Direct Loan Statistics
- Delinquency Pattern
- How Schools Can Help
- What Tools Can Make it Easy



Direct Loan Statistics as of 9/30/01

5.4 Million Active Borrowers

www.directloans.ed.gov

Web Activity In September

- 311,743 Visits
- 36,861 PIN Requests

Program to Date

- 18.4 Million Booked Loans
- 26.5 Million Borrower Services Calls
- 67.8 Million Payments Received

Portfolio -- \$71.1 Billion Direct Loans

FULLFILLMENT

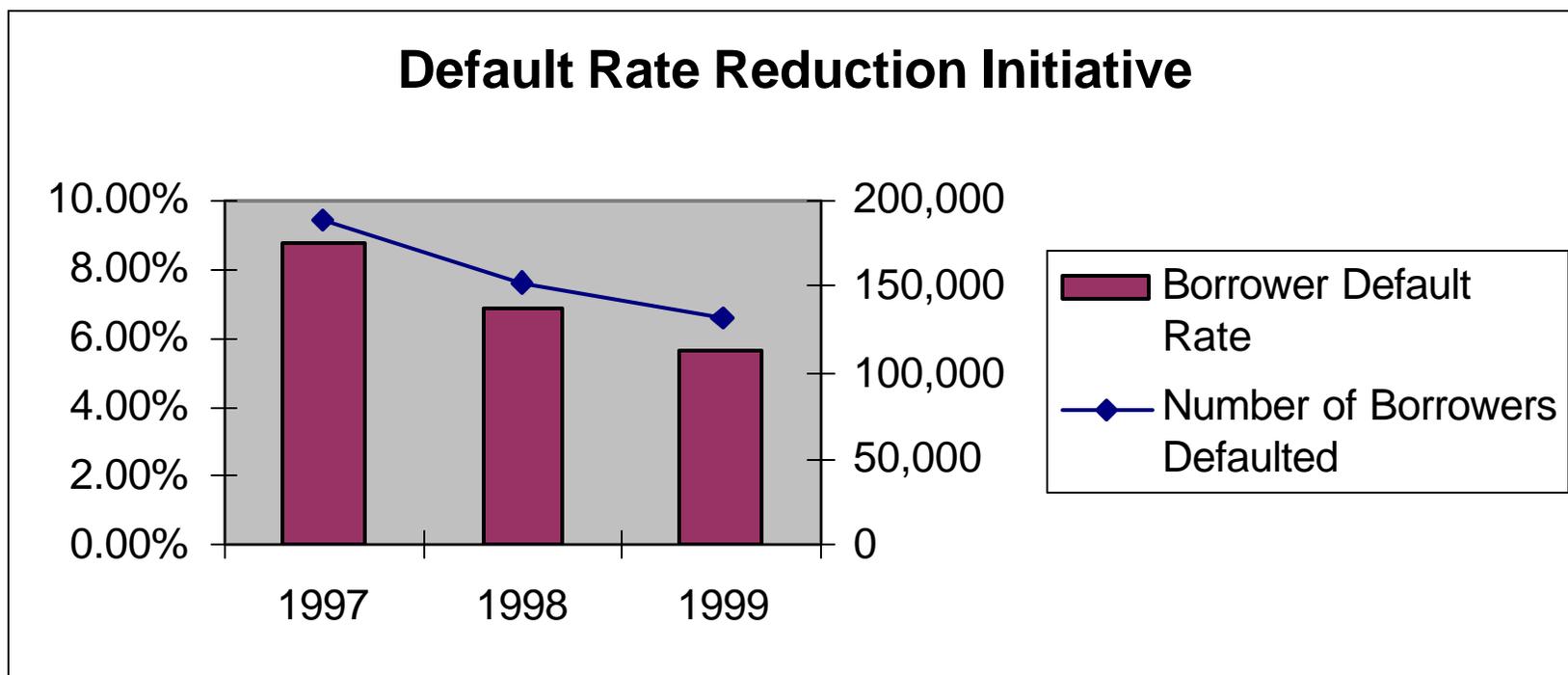
In September We Mailed...

- 2.5 Million Billing Statements
- 858,221 Account Statements
- 4.7 Million Interest Statements
- 3.5 Million 1098-E Forms

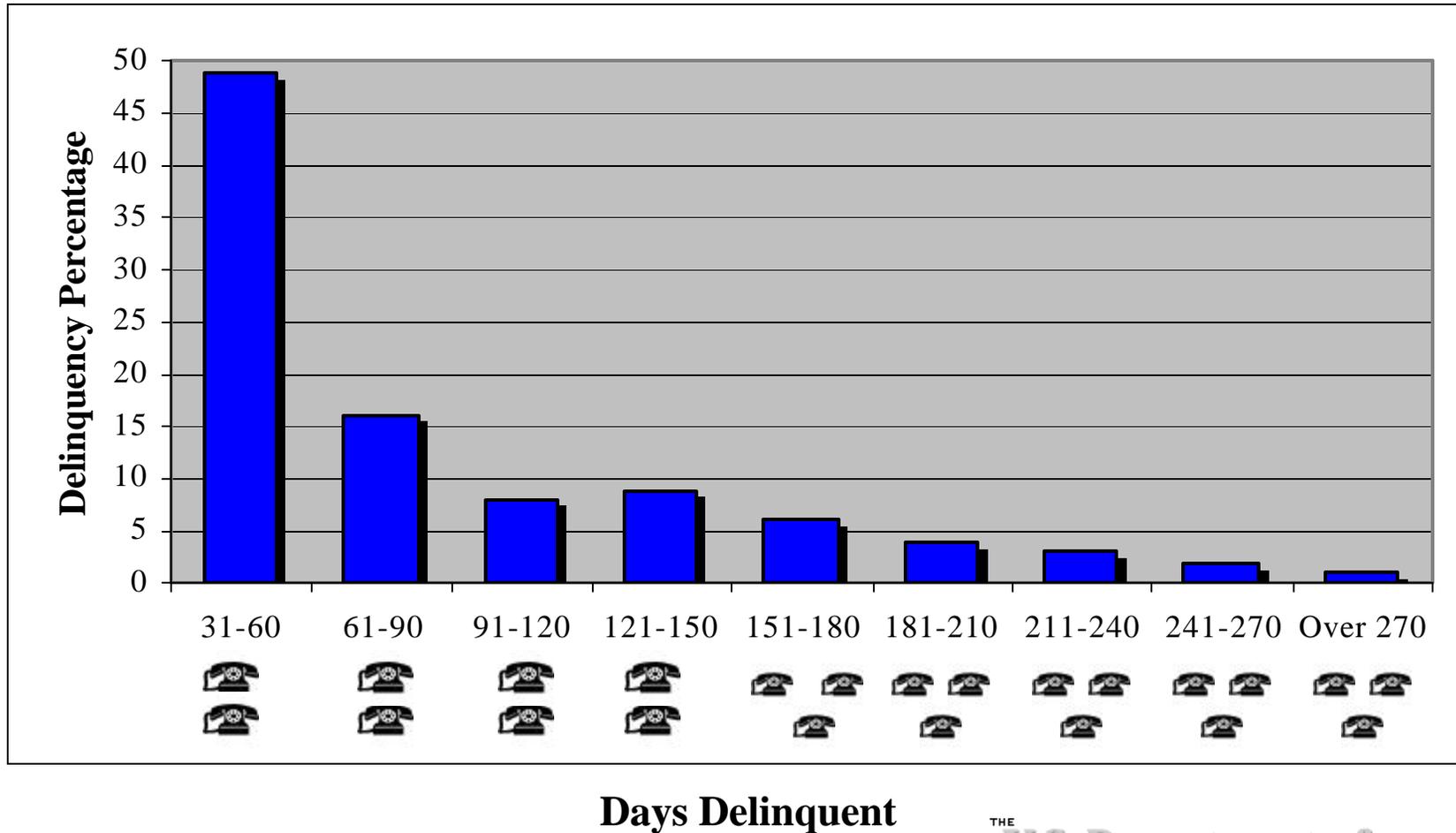
LOAN COUNSELING

- 11.53 % Delinquency Rate
- 425,000 Borrowers on EDA
(09/30/01)

Default Rate Trend



Borrower Delinquency Pattern

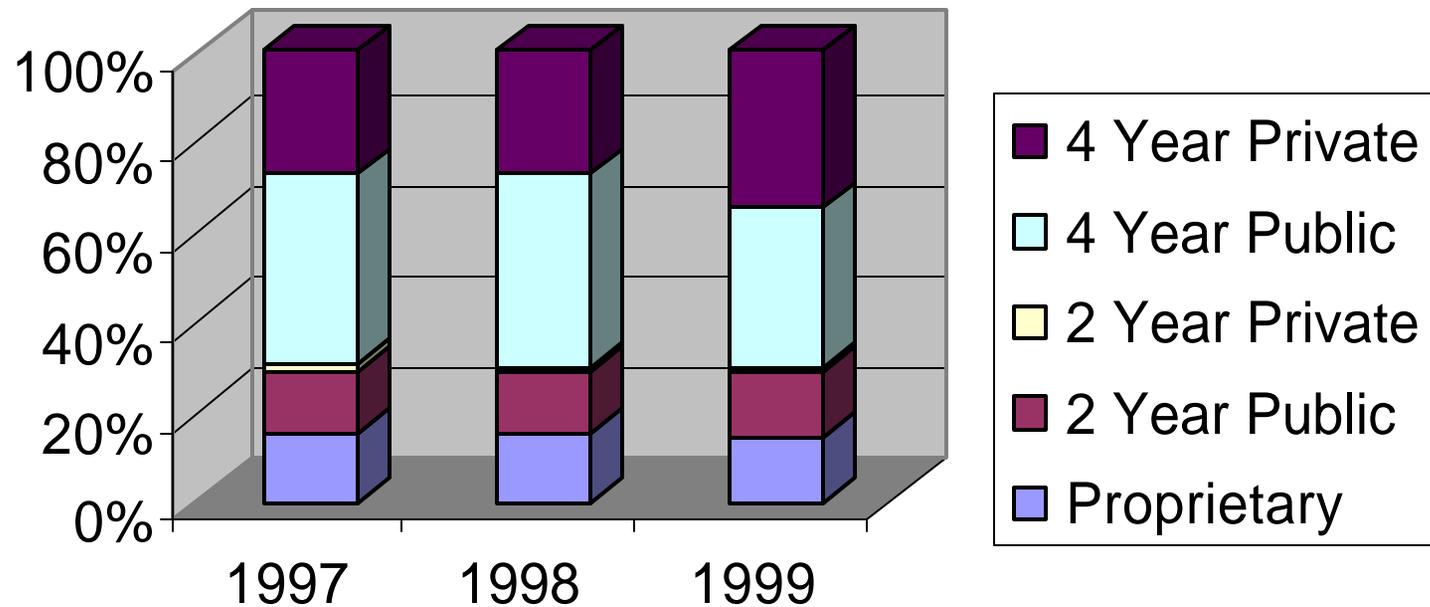


Days Delinquent



Makeup of Cohort Rate

Percent of Cohort Rate by School Type





Defaulter Characteristics

- 68% do not get the advantage of their full 6 month grace as the result of late enrollment notification
- 56% have withdrawn from school and did not completed their studies
- 50% have had bad telephone numbers during the life of the loan
- 57% have not been successfully contacted by telephone during the 12 months of collection effort



Schools can Help

- Assist the Service Center in finding and counseling severely delinquent borrowers
- Schools have options
- Contact the borrower and counsel
- Contact the borrower and transfer to Servicer
- Talking to the borrower makes all the difference



The Tools

- Direct Loan Web Site gives you the flexibility to identify the borrower population you want to work
- School Services is your point of contact to provide assistance to the borrowers' needs call 1-888-877-7658



With the Web Site you can see as little or as much as you want.

A screenshot of the SFA (Student Financial Assistance) website's "Delinquency Reports" page. The page has a red header with navigation links: Home, Direct Loan Servicing Resources, Student Account Info, School Reports, Versión en español, and Logout. Below the header is a blue banner with the SFA logo and "STUDENT FINANCIAL ASSISTANCE" text, along with links for Exit Counseling, Delinquency Reports, Portfolio Reports, Report Subscription, and Help with this Report. The main content area is titled "Delinquency Reports" and contains three report options, each with a document icon: "Borrower History Report" (describing delinquency history for selected borrowers), "Detail Report" (describing a list of delinquent students), and "Summary Report" (describing a count of delinquent borrowers). A footer contains a link to "Email Us" and a copyright notice: "Copyright © 2001 US Department of Education. All rights reserved." There is also a navigation bar at the bottom with links for SFA School Portal, Website Help, General Information, and Contact Us.

The Web Site offers you summary and detail information about delinquent borrowers



Summary Information

Home | Direct Loan Servicing Resources | Student Account Info | School Reports | Versión en español | Logout

SFA STUDENT FINANCIAL ASSISTANCE | DIRECT LOAN SERVICING'S ONLINE SCHOOL SITE

Exit Counseling | **Delinquency Reports** | Portfolio Reports | Report Subscription | Help with this Report

School Main Campus code: G01234

Delinquency Reports

Summary Report ? Print Export

Last update: 10/23/2001 4:55:28 PM
Rows: 12 Columns: 3

Reporting Period	Delinquency Bucket	Loan Type	Metrics	Number of Accounts	Original Loan Amount	Past Due Amount
August 2001	031 - 060	STAFFORD		372	\$ 1,451,628.00	\$ 51,477.15
August 2001	061 - 090	STAFFORD		109	\$ 405,548.00	\$ 25,355.63
August 2001	091 - 120	STAFFORD		64	\$ 219,227.00	\$ 15,838.10
August 2001	121 - 150	STAFFORD		55	\$ 230,359.00	\$ 22,164.89
August 2001	151 - 180	STAFFORD		59	\$ 227,065.00	\$ 28,925.85
August 2001	181 - 210	STAFFORD		31	\$ 139,269.00	\$ 21,924.20
August 2001	211 - 240	STAFFORD		41	\$ 132,696.00	\$ 22,524.73
August 2001	241 - 270	STAFFORD		125	\$ 401,152.00	\$ 83,268.18
August 2001	271 - 360	STAFFORD		70	\$ 275,270.00	\$ 56,965.94
August 2001	151 - 180	CONSOLIDATED		1	\$ 1,896.42	\$ 300.00
August 2001	Totals			927	\$ 3,484,110.42	\$ 328,744.67
Totals				927	\$ 3,484,110.42	\$ 328,744.67

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You can see the delinquency status of your student borrowers



Detail Information

Home | Direct Loan Servicing Resources | Student Account Info | School Reports | Versión en español | Logout

SFA STUDENT FINANCIAL ASSISTANCE

DIRECT LOAN SERVICING'S ONLINE SCHOOL SITE

Exit Counseling | Delinquency Reports | Portfolio Reports | Report Subscription | Help with this Report

School Main Campus code: G01234

Delinquency Reports

Detail Report Last update: 10/23/2001 5:02:52 PM

More Information

Page-by: Delinquency Bucket: 271 - 360

Paged by: Delinquency Bucket: 271 - 360

Page 1 of 2 Rows: 1 - 50 of 71 Columns: 3

Reporting Period ▲	SSN ▲	Last Name ▲	First Name	Home Phone	Work Phone	Cohort Default Year ▲	Cohort Default Indicator	Metrics	▼ Days Delinquent	Past Due Amount	Number of Accounts
August 2001	000-66-3333	DE	ROBERT	315-738-9224		2000	N		297	\$ 500.00	1
August 2001	123-80-7800	BAI	ROYSTON	845-564-5788		1997	N		297	\$ 500.00	1
August 2001	000-58-3333	LINE	WENDY	315-738-9224		1998	N		358	\$ 1,390.83	1
August 2001	123-60-8572	FRALICK	ERIC	315-823-2671		1997	N		290	\$ 250.00	1
August 2001	000-66-3333	GULISANO	ANTHONY	315-738-9224		1999	N		344	\$ 600.00	1
August 2001	123-70-4796	BELL	CALVIN	315-732-6424	315-885-7973	1997	N		283	\$ 1,137.18	1

You can elect to see detail of all borrowers in the 271-360 days delinquent category



Cohort Year Delinquency

Home | Direct Loan Servicing Resources | Student Account Info | School Reports | Versión en español | Logout

SFA STUDENT FINANCIAL ASSISTANCE | DIRECT LOAN SERVICING'S ONLINE SCHOOL SITE | Exit Counseling | Delinquency Reports | Portfolio Reports | Report Subscription | Help with this Report | School Main Campus code: G01234

Delinquency Reports

Detail Report

Choose One Cohort Default Year (Required)
Select the Cohort Default Year to be displayed on the report by highlighting the chosen year listed in the display box.

Available:

- 2002
- 2001**
- 2000
- 1999
- 1998
- 1997
- 1996
- 1995
- 1994

Execute Report Cancel

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You can elect to see severely delinquent borrowers for a selected cohort year



Cohort Year Delinquency Detail

Home | Direct Loan Servicing Resources | Student Account Info | School Reports | Versión en español | Logout

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Delinquency Reports

Detail Report Last update: 10/23/2001 5:05:22 PM

More Information Page by: Delinquency Bucket: 271 - 360

Paged by: Delinquency Bucket: 271 - 360 Rows: 4 Columns: 3

Reporting Period ▲	SSN ▲	Last Name ▲	First Name	Home Phone	Work Phone	Cohort Default Year ▲	Cohort Default Indicator	Metrics	▼ Days Delinquent	Past Due Amount	Number of Accounts
August 2001	000-66-3333	BORROWERDE		315-738-9224		2001	Y		276	\$ 874.45	1
August 2001	123-80-7800	LENDER	BAI	845-564-5788		2001	Y		276	\$ 821.39	1
August 2001	000-58-3333	SMITH	LINE	315-738-9224		2001	Y		283	\$ 1,441.56	1
August 2001	Totals									\$ 3,137.40	3

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You can work as little or as much as you want



School Services offers assistance options

- Can provide you with scripts on how to counsel the borrower
- Will assist you while on a call with a delinquent borrower
- Will ensure the borrower is assisted after you contact them



Why Does This Work?

- See the need to assist with late stage delinquency
- Don't need to wade through every delinquent student
- Use the web tools to identify the accounts you are willing to help collect
- Minimal effort maximum results
- Service Center is available to assist
- No financial or contractual commitment



Default Management Software Demonstration

- Visit our PC Lab for a demonstration on the new software tool to effectively manage your defaults. Features include an ability to compare ED loan data with school data, analyze underlying loan and borrower detail, and help identify common characteristics of defaulted and delinquent borrowers.



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Questions ?

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