



What is Risk Management

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Session 9

Agenda

- What is Risk Management?
- Reducing Delinquency and Default.
- Delinquency Patterns and Characteristics
- Tools for Schools to Help Students Avoid Delinquency and Default



What is Risk Management?

- ◆ Risk Management is the continuous management of reducing exposure of loss from non-performing loans.
- ◆ Includes a balanced review of business results and how to maximize opportunities.
- ◆ Provides the foundation that supports the quality, composition and profitability of loan portfolio.



Why is Risk Management Important?

- ◆ Department of Education owns or guarantees approximately \$290 billion in outstanding student loans.
- ◆ In 2002 \$56.5 billion was delivered in total new federal aid.
- ◆ There are approximately 22 million borrowers with student loans.
- ◆ As a taxpayer you are a share/stakeholder in the federally insured student loan portfolio, each of you have a vested interest in insuring that “your” investment is managed well.



Advantages of Risk Management

- ◆ Manages through the life of the loan
- ◆ Identifies borrower attributes throughout the life cycle of the loan that impact performing and non performing loans
- ◆ Prevents a “scatter gun” approach to managing the portfolio, which leads to managing on demand
- ◆ A focused vision and concentrated effort to managing default prevention and reducing the cost to the taxpayer



Direct Loans

Type of Loans	Number of Loans	% to Total	Total Principal & Interest	% to Total
Consolidation	2,052,633	12.00%	\$ 31,306,165,930	38.79%
Plus	779,486	4.56%	\$ 4,226,983,815	5.24%
Stafford Subsidized	8,820,358	51.55%	\$ 26,192,840,246	32.46%
Stafford Unsubsidized	5,456,330	31.89%	\$ 18,978,602,685	23.52%
	17,108,807	100.00%	\$ 80,704,592,676	100.00%
Average per Consolidated Loan			\$ 15,252	
Average per Non-Consolidated Loan			\$ 3,281	

Source: Credit Management Data Mart - September 2003



FFELP Loans

Type of Loans	Number of Loans	% to Total	Total Principal & Interest	% to Total
Stafford Sub.	25,388,786	55.59%	\$ 66,233,506,528	32.04%
Stafford Unsub.	13,716,235	30.03%	\$ 48,892,052,890	23.65%
Consolidation	4,152,677	9.09%	\$ 80,672,599,271	39.02%
PLUS	2,023,356	4.43%	\$ 9,658,519,916	4.67%
SLS	388,178	0.85%	\$ 1,264,482,351	0.61%
Refinanced	158	0.00%	\$ 379,705	0.00%
Total	45,669,390	100.00%	\$ 206,721,540,661	100.00%

Average per Consolidated Loan \$ 19,427

Average per Non-Consolidated Loan \$ 3,036

Source: NSLDS - September 03



Sample Report

Direct Loans - Defaulted Loans

Direct Loans - Defaulted Loans Comparison - FY 02 and FY 03

State	% Increase/Decrease
AK	-0.14%
AL	7.23%
FL	-0.61%
GA	7.53%
LA	-10.79%
MS	-1.68%
Overall % Increase	2.09%

Note: State represents where the borrowers are residing

Questions we would like to answer based on these numbers are:

1. Type of loan?
2. School Type?
3. Consolidated Loans?
4. Is there a relationship between state unemployment rate to the increase in defaults?
5. Type of repayment plans and amount of monthly payments?
6. Age of loan when default occurred?



Sample Report - Delinquency

Overall Rates - Southern States

Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
Consolidated Subsidized, Federal Direct Stafford	14.52%	11.98%
Consolidated Unsubsidized, Federal Direct Stafford	12.32%	10.46%
Consolidated, Federal Direct PLUS	4.24%	3.93%
Non-Consolidated Federal Direct PLUS	9.34%	9.43%
Non-Consolidated Subsidized, Federal Direct Stafford	13.84%	13.74%
Non-Consolidated Unsubsidized, Federal Direct Stafford	13.12%	12.94%
Overall Rates	13.34%	11.99%



Sample Report - Delinquency

Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
AK	Non-Consolidated Subsidized, Federal Direct Stafford	10.31%	9.60%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	9.71%	8.91%
	Non-Consolidated Federal Direct PLUS	5.34%	4.08%
	Consolidated Subsidized, Federal Direct Stafford	12.14%	11.14%
	Consolidated Unsubsidized, Federal Direct Stafford	9.78%	7.92%
	Consolidated, Federal Direct PLUS	2.86%	0.67%
	AK Overall Delinquency Rate	10.09%	9.24%



Sample Report - Delinquency

Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
AL	Non-Consolidated Subsidized, Federal Direct Stafford	14.71%	14.66%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	13.82%	13.65%
	Non-Consolidated Federal Direct PLUS	10.23%	10.13%
	Consolidated Subsidized, Federal Direct Stafford	13.07%	10.71%
	Consolidated Unsubsidized, Federal Direct Stafford	10.46%	9.33%
	Consolidated, Federal Direct PLUS	4.49%	4.19%
	AL Overall Delinquency Rate	13.82%	12.24%



Sample Report - Delinquency

Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
FL	Non-Consolidated Subsidized, Federal Direct Stafford	13.72%	13.81%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	13.39%	13.24%
	Non-Consolidated Federal Direct PLUS	9.73%	9.55%
	Consolidated Subsidized, Federal Direct Stafford	14.46%	11.69%
	Consolidated Unsubsidized, Federal Direct Stafford	12.79%	10.47%
	Consolidated, Federal Direct PLUS	4.41%	4.41%
	FL Overall Delinquency Rate	13.44%	11.84%



Sample Report - Delinquency

Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
GA	Non-Consolidated Subsidized, Federal Direct Stafford	12.56%	12.49%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	11.97%	11.91%
	Non-Consolidated Federal Direct PLUS	8.46%	8.95%
	Consolidated Subsidized, Federal Direct Stafford	12.33%	10.26%
	Consolidated Unsubsidized, Federal Direct Stafford	10.23%	9.25%
	Consolidated, Federal Direct PLUS	3.72%	3.41%
	GA Overall Delinquency Rate	11.92%	10.78%



Sample Report - Delinquency

Direct Loans - Delinquent Loans Statistics

State Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
LA Non-Consolidated Subsidized, Federal Direct Stafford	16.65%	16.12%
Non-Consolidated Unsubsidized, Federal Direct Stafford	15.92%	15.56%
Non-Consolidated Federal Direct PLUS	9.31%	9.93%
Consolidated Subsidized, Federal Direct Stafford	18.31%	15.97%
Consolidated Unsubsidized, Federal Direct Stafford	16.98%	14.01%
Consolidated, Federal Direct PLUS	5.29%	4.09%
LA Overall Delinquency Rate	16.62%	15.07%



Sample Report - Delinquency

Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
MS	Non-Consolidated Subsidized, Federal Direct Stafford	20.06%	19.52%
	Non-Consolidated Unsubsidized, Federal Direct Staff	18.78%	17.62%
	Non-Consolidated Federal Direct PLUS	13.38%	11.68%
	Consolidated Subsidized, Federal Direct Stafford	20.15%	18.03%
	Consolidated Unsubsidized, Federal Direct Stafford	18.66%	15.30%
	Consolidated, Federal Direct PLUS	6.67%	3.94%
	LA Overall Delinquency Rate	19.42%	17.43%



Why is Risk Management Important?

As a taxpayer you are a share/stakeholder in the federally insured student loan portfolio, each of you have a vested interest in insuring that “your” investment is managed well.



Risk Management: Reducing Delinquency & Default

Tim Fitzgibbon, Iowa College
Student Aid Commission



Default Aversion

- Required by Regulation
- Pre-claims Assistance
- Supplemental Pre-claims Assistance
- Default Aversion



Student Loan Outfitters

- Referral service for “high-risk” borrowers
- Early awareness and delinquency prevention
- Available to all Iowa colleges and universities
- Interactive web site



Disaster Relief Grants

- Funds available to students and families affected by natural disasters – later expanded
- Matching funds from colleges and universities
- Recipients agree to limit borrowing
- 2,100 recipients – Grants average \$1,400



Foster Grants

- Funds available to students formerly in foster care
- Recipients agree to limit borrowing
- Support from colleges and universities, and Iowa Dept. of Human Services
- 60% completion rate
- \$3,000 average award



Default Reduction Grants

- Funds available to promote innovative default prevention programs at the campus level
- Competitive application process
- Tiered award levels
- Guest speakers, academic courses, community programs



Student Assistant Grants

- Funds provided to hire “peer advisors”
- SAs trained in financial aid, student loan, and debt management basics
- Increase awareness, communication on campuses
- Refer students to FAOs, ED, lenders, or the Commission



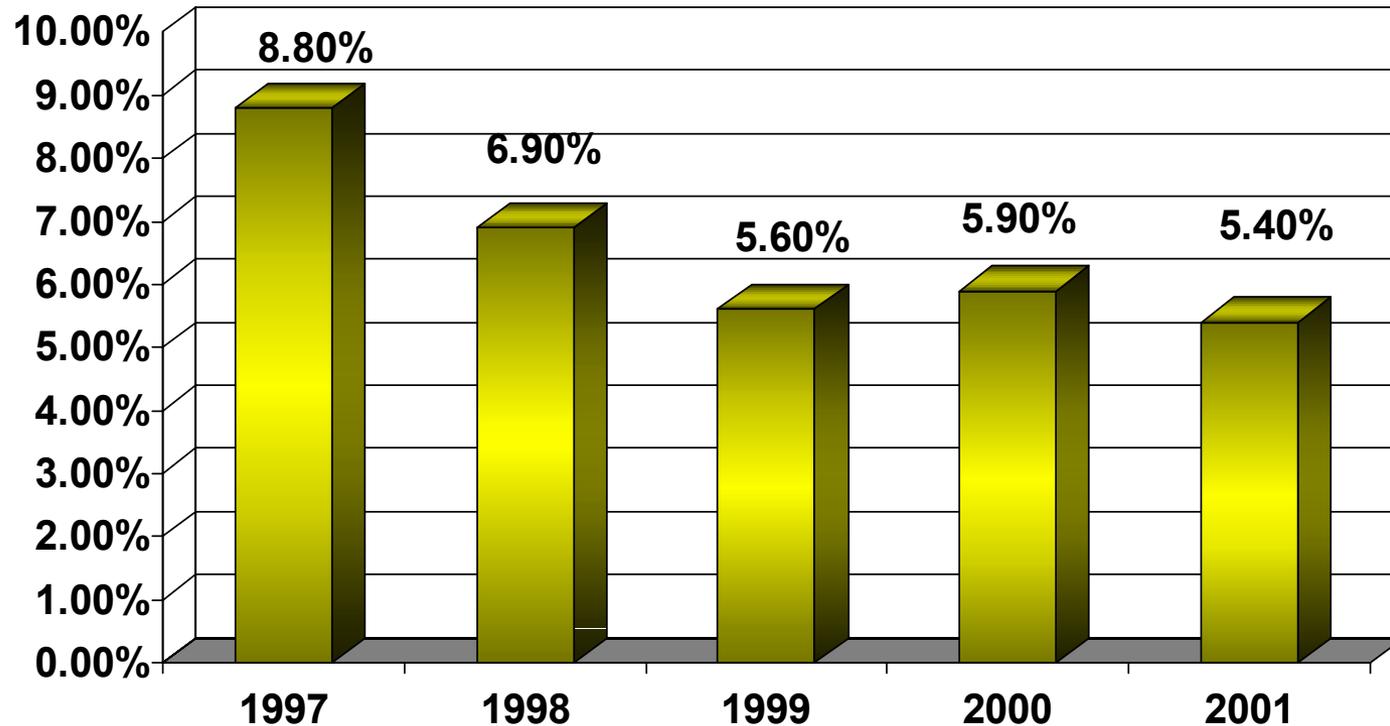
Agency Servicing Center

- Iowa-based default prevention call center
- Based on Commission theme of lowans-helping-lowans
- Expanding Iowa work force



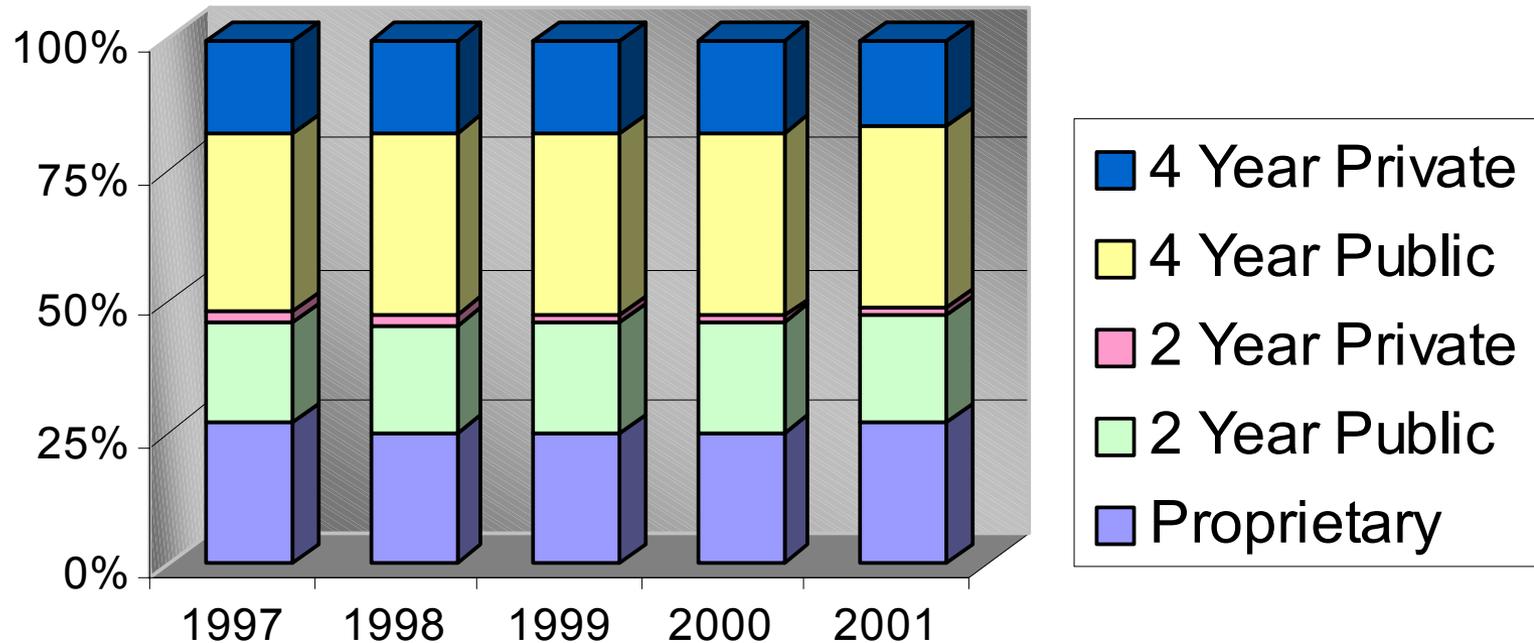
Stafford Late Stage Delinquency Assistance LSDA Ben LeBorys

Official Cohort Default Rates

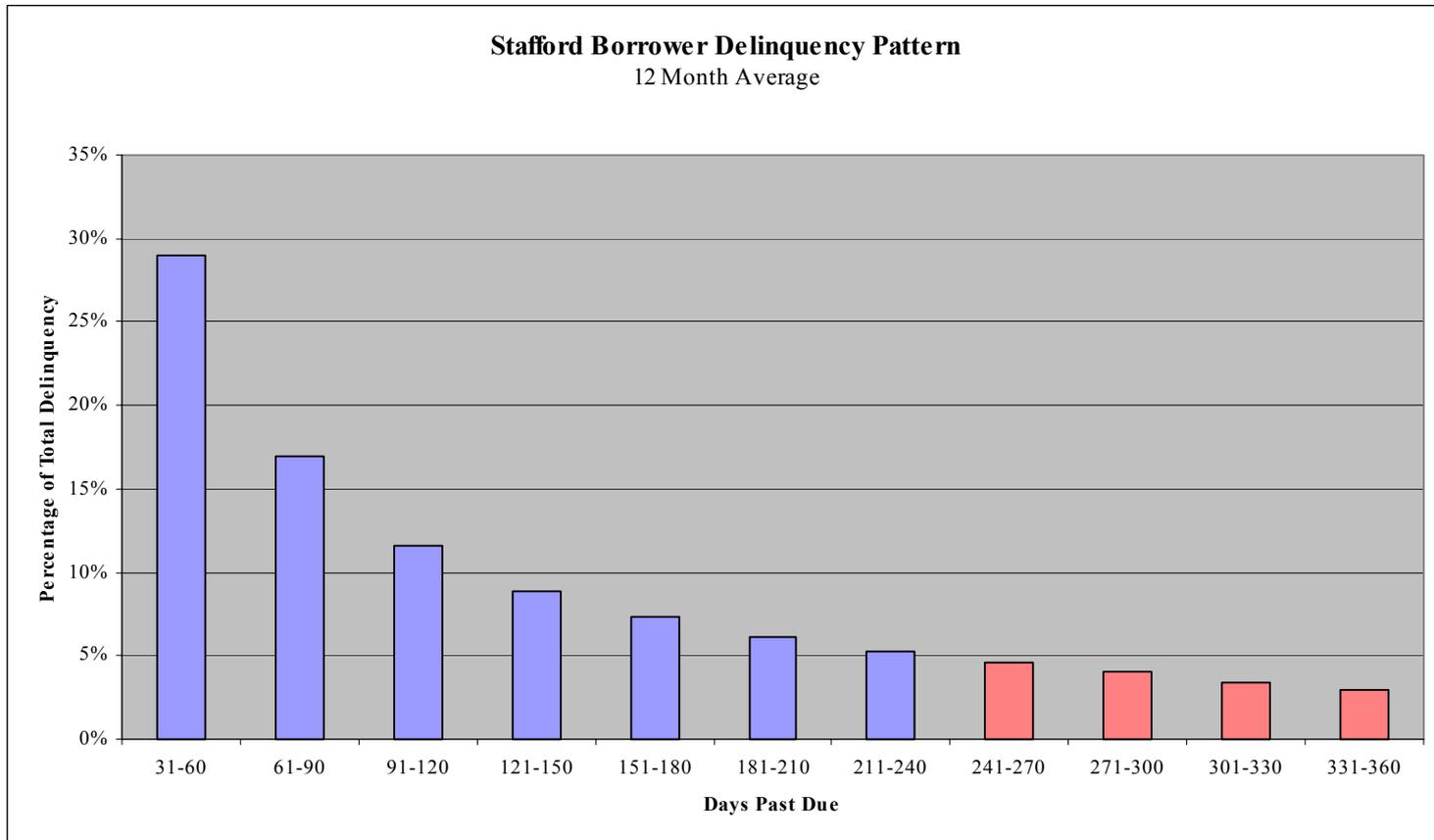


Makeup of Cohort Rate

Cohort Default Contribution by School Type



Borrower Delinquency Pattern





Defaulter Characteristics

- 84% do not receive the advantage of the full 6 month grace period as a result of late enrollment notification
- 71% have withdrawn from school and did not complete studies
- 43% have had bad telephone numbers at the time of default
- 58% have not successfully been contacted by telephone during the 360 day collection effort during delinquency

12 month average of Stafford borrowers - all cohort years



Schools Can Help

- Assist the severely delinquent borrowers in establishing communications with the Service Center
- There is a small subset of borrowers that have not responded to our attempts to communicate and help them resolve their delinquency
- These borrowers will frequently respond to school outreach



How It Can Work

- Identify the Borrower
- Contact the Student
- Schools have additional tools to locate Borrowers (i.e. Alumni Association directories, putting holds on records, etc.)
- Use email addresses and references you have
- Schools are not collectors but counselors

2003 Cohort Year Delinquency Detail



You can work as little or as much as you want

Detail Report										
Page-by Delinquency Bucket: <input type="text" value="271 - 360"/> GO 271-360									115	
Paged by: Delinquency Bucket: 271 - 360									Rows: 1 - 50 of 116 Columns: 3	
Reporting Period	Social Security Number	Last Name	First Name	Work Phone	Home Phone	Cohort Default Year	Cohort Default Indicator	Days Delinquent	Past Due Amount	Number of Accounts
August 2003	222-77-7777	FRESHMAN	FRANK			2003	Y	337	\$ 300.12	1
August 2003	111-22-2222	SCHOOL	SIRENA		666-777-4444	2003	Y	358	\$ 2,872.98	1
August 2003	222-66-6666	COLLEGE	CHRISTINE			2003	Y	337	\$ 1,371.70	1
August 2003	111-22-3333	CAMPUS	CARY		666-777-5555	2003	Y	337	\$ 600.00	1
August 2003	222-55-5555	SCIENCE	SYLVESTER		666-777-0123	2003	Y	337	\$ 600.00	1
August 2003	111-22-4444	MAIN	MARTY		666-777-6666	2003	Y	337	\$ 632.48	1
August 2003	222-11-1111	COMMON	CANDACE			2003	Y	344	\$ 600.00	1
August 2003	111-22-5555	ONLINE	OTIS		666-777-7777	2003	Y	337	\$ 3,008.88	1
August 2003	222-22-2222	SEMESTER	SAMUEL			2003	Y	310	\$ 598.99	1
August 2003	111-22-6666	SESSION	SUSAN			2003	Y	321	\$ 2,110.37	1
August 2003	001-44-4444	AMERICA	ALEXANDER	666-777-7890	666-777-1234	2003	Y	351	\$ 790.61	1
August 2003	111-22-8888	PARENT	PATRICIA			2003	Y	337	\$ 600.00	1
August 2003	222-44-4444	STUDENT	SAMANTHA			2003	Y	351	\$ 600.00	1
August 2003	111-22-7777	COUNSELOR	CORY		666-777-8888	2003	N	321	\$ 2,040.25	1

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Why Schools Do It ?



- Reduce the CDR for their school
- Improve the integrity of the program
- Rescue over 30% of potential defaulters
- Minimal effort, maximum results, schools say “we help the borrowers and the school with a little effort”
- Web tools identify & focus on the most severe delinquencies that have a direct impact on a school’s CDR
- No major investment in time, staff or money
- LSDA really works
- It’s the right thing!



Sample Results for Late Stage Delinquency Assistance (LSDA) Schools 2nd Quarter 2002CDR					
SCHOOL	Total	Defaults	Percent Default	Rescued	Percent Rescued
Technical Institute	2	0	0%	2	100%
Institute of Technology	25	9	36%	16	64%
College	10	4	40%	6	60%
University	41	20	49%	21	51%
Memorial College	21	11	52%	10	48%
College	23	13	57%	10	43%
State University	32	19	59%	13	41%
State University	50	30	60%	20	40%
College	36	23	64%	13	36%
College	23	15	65%	8	35%
State University	66	44	67%	22	33%
College of Business	15	10	67%	5	33%
University	23	16	70%	7	30%
University	11	8	73%	3	27%
University	9	7	78%	2	22%
TOTAL	387	229	59%	158	41%



Total Test Results

1st Quarter 2002	683	465	68%	218	32%
2nd Quarter 2002	387	229	59%	158	41%
Total	1070	694	65%	376	35%



Post Default Cures

- 14 months after the default condition was cured, 82.49% of the borrowers did not re-default.
- 24 months after the default condition was cured, 76.70% of the borrowers did not re-default.



Perkins Late Stage Delinquency Assistance (Perkins LSDA)

John Pierson



Perkins LSDA

- Perkins “Late Stage Borrowers”
 - 180-240 days delinquent
 - Current default cohort
- Who is servicing the loan?
 - Institution
 - Outside contractor
 - Why is this important?



Perkins LSDA

Stafford LSDA principles apply:

- Do something different
- Light touch
- Monthly attention works best
- Limit investment: cost, time and staff



Perkins LSDA

When doing LSDA for both Perkins and Stafford:

- QC your data before you start:
 - Review delinquency lists for overlap.
 - Update contact information
- Borrower Contact process: How will you do it?
 - Separate LSDA process for each program?
 - Combined LSDA process?
- Know the rules:
 - Resolution for Stafford and Perkins may be different.



Default Analysis: The Long Term Solution

John Pierson



Default Analysis: The Long Term Solution

Our Targets:

- Stafford Loan Program
and
- Perkins Loan Program



Default Analysis: The Long Term Solution



Working Assumptions:

- We cannot effectively change long term patterns until we know who is likely to default.
- The core remaining default for most Perkins and Stafford portfolios can be impacted through administrative and/or academic intervention while borrowers are enrolled.



Default Analysis

The Long Term Solution

Resources: Data

- Institutional student data (FISAP/Perkins)
- Department of Education data (Stafford):
 - Loan Record Detail Report
 - NSLDS School Repayment Loan Detail Report
- Servicer and Guaranty Agency Reports



Default Analysis The Long Term Solution

Resources: Process

- Free software to assist in creating defaulter profile for both Stafford and Perkins
- FSA Self-Assessment/Tools/Schools/Default Management via Schools Portal (fsa4schools.ed.gov)



Default Analysis

The Long Term Solution

Create an intervention:

- Collect and analyze data
- Identify co-related factors
 - Examples: retention, GPA, grad rates, etc.
- Intervention based upon empirical analysis
- Choose the biggest targets
- Implement
- Track outcome, evaluate, recalibrate



Default Analysis

The Long Term Solution

- Likely problem areas:
 - Academic?
 - Administrative?
 - Other?
- The solution may require the active participation of academic and/or administrative (or other) departments and staff.



Creating a long term intervention

- Change in co-related factors may occur in the near term: reduction in rate of delinquency and default will take longer.
- Follow the trail wherever it leads.



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