Session #5

Default and Delinquency Management

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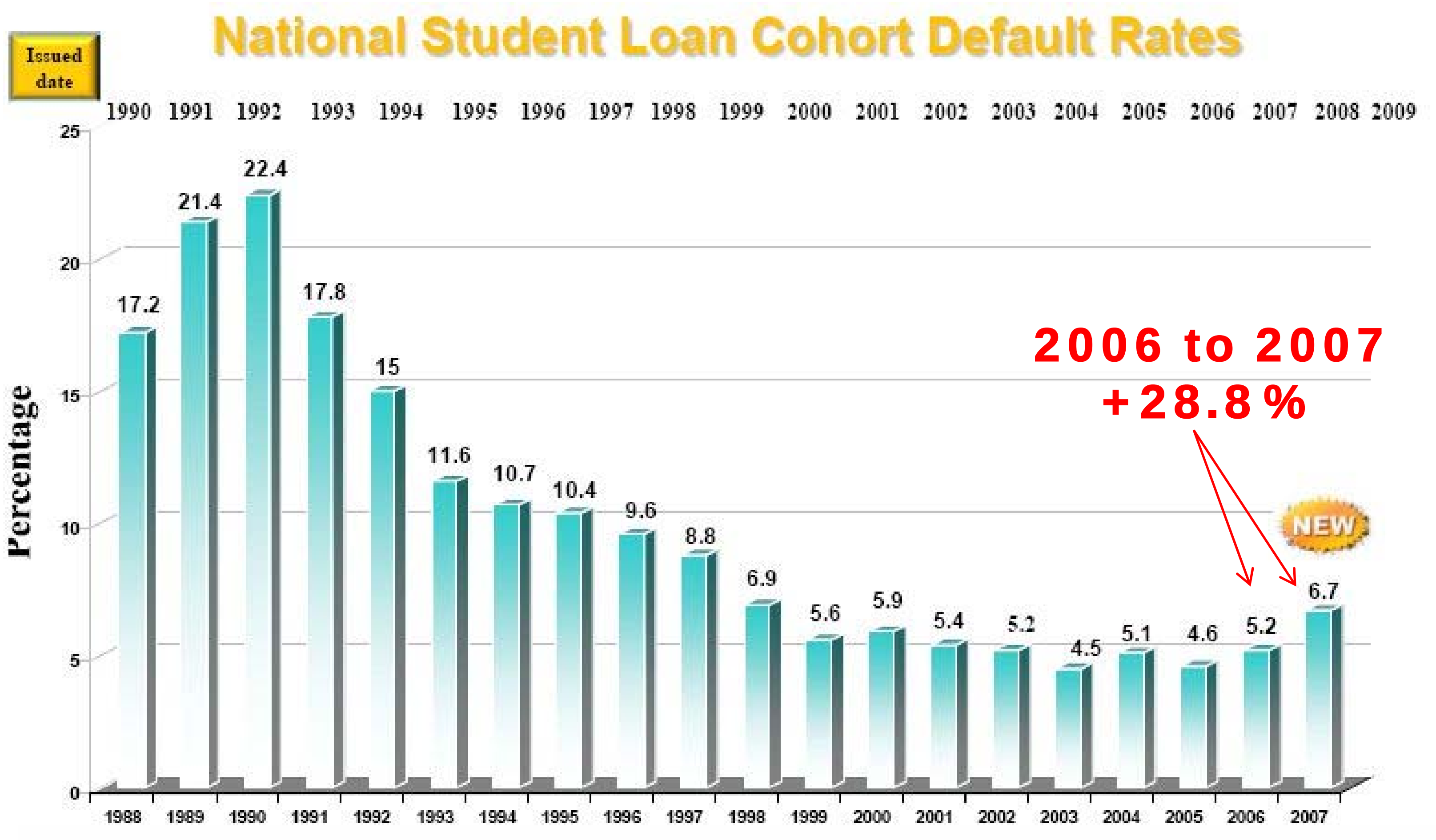
Cohort Default Rates (1988-2007)



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Default Prevention Challenges

- Increasing Loan Default in a Changing Landscape
- The Consequences of Loan Default
- The Recession
- The Dollars in Default
- Our New Servicing Partners
- The “New” Three-Year Cohort Default Rate Calculation

The Changing Landscape

- Loan default increasing for most schools
- Educational costs continue to rise
- More students borrowing more money
- Combination of Stafford and private loans equal greater debt
- Schools require uninterrupted loan capital and high CDRs may cause access issues
- Changes to CDR calculation accompanied by new sanctions

The Consequences of Default

Not only does student loan default impact the integrity of the student loan programs, but there are significant consequences for:

- Taxpayers
- Schools
- Borrowers

The Consequences of Default
For the Borrower

- Credit report damaged (7-year min.) + higher interest rates for years
- Wage garnishment
- Seizure of federal and state tax refunds
- Seizure of portion of any federal payment
- Legal action in federal district court
- Title IV ineligible
- May lose state occupational license
- No mortgage loans
- May have difficulty obtaining car loans
- May be unable to rent an apartment
- May be turned down for jobs

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The Consequences of Default

For Schools

- The CDR is a measure of a school's administrative capability
- High CDRs may
  - Result in adverse publicity
  - Negatively reflect on school quality
  - Result in loss of Title IV eligibility
  - Threaten continued access to both Stafford and private loan funds
  - Result in extra work to reverse high rates

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The Recession

- CDR default data is retrospective, so the impact of the recession will be seen in FY 08, FY 09 and FY 10 CDR calculations
- More borrowers are having difficulty repaying their loans
- The recession is (unfortunately) occurring concurrent with the change from a 2-year to a 3-year CDR calculation
- Some schools may face compliance difficulties due to CDRs in the coming years

National – Borrowers in Default and Annual Percentage Increase

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
115,568	144,128	161,951	204,507	225,271
	+24.7% ⬆	+12.3% ⬆	+26.4% ⬆	+10.2% ⬆

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Source: DL / FFEL portfolio

The Dollars in Default

Volume of Dollars in Default:

- Not currently used to measure schools, however, the Dollars in Default impact the integrity of the student loan program and demand attention!
- Big schools + big volume = Big Dollars in Default
- Private loans = more debt for borrowers
- Accomplishment of President's education priorities depend in part on repayment of student loans

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National – Dollars in Default and Annual Percentage Increase

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
$647 Million	$801 Million	$915 Million	$1.183 Billion	$1.279 Billion
	+23.6 ⬆	+14.2 ⬆	+22.9 ⬆	+8.1 ⬆

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Source: DL/FFEL portfolio

Our New Servicing Partners

- Proposed transition to all-Direct Loan origination
- FFELP schools will have new default prevention partners for PUT/Conduit loans
  - 80% of the 2008-2009 FFELP loan portfolio was purchased by ED
- Resources and tools may be different from servicer
- More from Cindy later

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The 3-Year CDR Calculation

- Expands the default tracking window from 2 years to 3 years
- Creates a transition period (FY09/10/11)
- Raises penalty threshold from 25% - 30%
  - A new set of consequences, and,
  - For some schools a possible compliance issue in September 2014 (FY 2011 CDR)
- Increases availability of “disbursement relief” from 10 to 15% (effective 10/01/11)

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2 to 3-Year CDR (a scenario)

- (green) Numerator = # of borrowers from the denominator who default within a FY
- (blue) Denominator = # of borrowers who enter repayment within a FY

FY-09	FY-10
125	230
5,000	

$$\frac{355}{5000} = .071 \text{ or } \mathbf{7.1\%}$$

Released Sept 2011

FY-09	FY-10	FY-11
125	230	250
5,000		

$$\frac{605}{5000} = .121 \text{ or } \mathbf{12.1\%}$$

Released Sept 2012

2-Year CDR Monitored

Cohort Year	Years Monitored	Official Rates Published	2 year Sanctions
2007	2007, 2008	2009	Yes at 25%
2008	2008, 2009	2010	Yes at 25%
2009	2009, 2010	2011	Yes at 25%
2010	2010, 2011	2012	Yes at 25%
2011	2011, 2012	2013	Yes at 25%

3-Year CDR Monitored

Cohort Year	Years Monitored	Official Rates Published	3 year Sanctions
2009	2009, 2010, 2011	2012	No (**Will receive** 3-year calculation, but no sanction applies.)
2010	2010, 2011, 2012	2013	No (**Will receive** 3-year calculation, but no sanction applies.)
2011	2011, 2012, 2013	2014	Yes at 30%
2012	2012, 2013, 2014	2015	Yes at 30%

3-Year CDR Sanctions

- Beginning with the 2011 CDR (published September 2014)
  - Schools with CDRs of 30% or higher must take certain corrective actions:
    - Create a Default Prevention Team
    - Submit a Default Prevention Plan to FSA for review

Note: These are solid default prevention strategies already recommended by FSA

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3-Year Sanctions - The Details

- First year at 30% or more
  - Default prevention plan and task force
  - Submit plan to FSA for review
- Second consecutive year at 30% or more
  - Review/revise default prevention plan
  - Submit revised plan to FSA
  - FSA may require additional steps to promote student loan repayment
- Third year at 30% or more
  - Loss of eligibility: Pell, ACG/SMART, FFEL/DL
  - School has appeal rights due to extenuating circumstances

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HEOA Requires That Default Prevention Plans….

- **Identify the factors** causing the institution's cohort default rate to exceed the threshold;
- **Establish measurable objectives and identify steps** to take to improve the institution's rate; and
- **Specify actions the institution will take** to improve student loan repayment, including loan repayment counseling.

CDR Disbursement Waivers

- New threshold: Schools with a default rate less than 15% for the 3 most recent fiscal years
  - May disburse a single term loan in a single installment, and
  - Need not delay the first disbursement to a first-year undergraduate borrower until the borrower has completed the first 30 days of their program of study
  - What are the default prevention implications?

Effective for loans first disbursed on or after October 1, 2011

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Default Prevention Best Practices

- Form a Default Prevention Team
- Develop or adopt a default prevention plan
- Utilize traditional financial aid office-based default prevention strategies
- Utilize non-traditional student success-focused default prevention strategies
- Best option: Use a combination of these four approaches

“Traditional” Approach

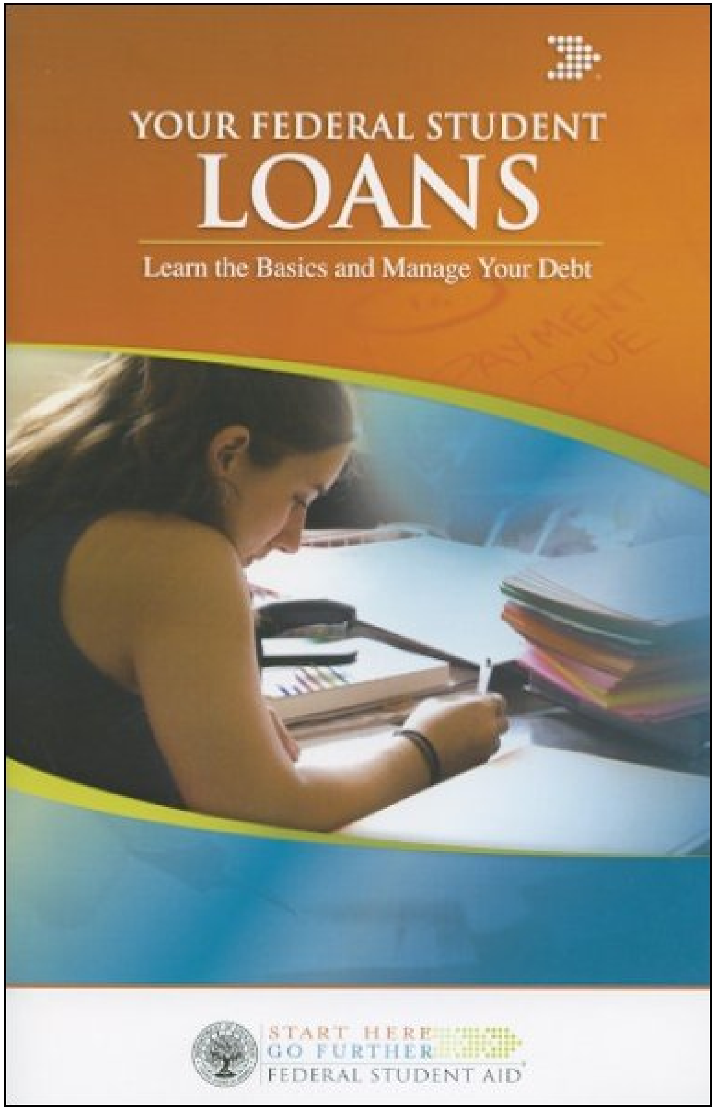
- Primarily involves the financial aid office
- Focus is on helping borrowers to develop a healthy relationship *with their loans* to include:
  - Understanding loan repayment
  - Teaching financial literacy
  - Updating enrollment status changes
  - Reaching out when help is needed

Understanding Loan Repayment

Your Federal Student Loans

On-line ordering at:
http://edpubs.ed.gov

Order by phone at:
1-877-4ED-PUBS



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Entrance Loan Counseling

Provide information which includes:

- Job opportunities & salary information
- Estimated monthly loan payment
- Providing loan servicer contact info
- Obtaining good borrower contact info
- “Self-help” via NSLDS for Students
- Counsel students against returning to school *only* to avoid entering repayment on existing loans

Federal Financial Literacy Info

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION

Money Smart - A Financial Education Program

U.S. Federal Reserve System

UNITED STATES DEPARTMENT OF THE TREASURY

1888 mymoney.gov

CONSUMER.gov

You resource for consumer information from the federal government.

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Financial Literacy

- Correlation exists between increased financial literacy and decreased defaults
- Schools can play an important role
- Make it part of your first year curriculum
- Offer a class for credit if possible
- There are many free resources available
  - Federal, Federal Loan servicers, non-profits, lenders, guarantors
- Consider on-line financial literacy programs
- Can you enhance what you are doing now?

Financial Literacy and Private Loans

- May still spell problems for student borrowers, especially when Federal Student Loans are not their first choice
  - 1 in 4 private loan borrowers in 2007-08 did not take out Federal Loans
  - 91% of private loan borrowers at *community colleges* in 2007-08 did not exhaust Federal Student Aid first
- Volume is decreasing and the Secretary now has some authority over them

Financial Literacy and Private Loans

- Are marketed directly to students
- Are typically based on factors such as the school attended and credit score
- Have variable interest rates with no cap
- Have no loan limits or restriction on fees
- May lack borrower protections available on Federal Student Loans
- Congress is taking steps to regulate private loans

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Protecting the Grace Period

Of the borrowers who defaulted, 91% did not receive their full 6-month grace period due to late or inaccurate enrollment notification by the school

Schools must learn when a borrower leaves campus and promptly report this to NSLDS

Why is this so important?

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Source: August 2008 Analysis of Federal Direct Loan Portfolio

Servicer Repayment Counseling

During the Grace Period Your Loan Servicer Does the Following:

- Establishes a relationship with the borrower
- Ensures the correct repayment status
- Discusses the appropriate repayment plan
- Promotes self-service through the Web
- Updates and enhances borrower contact information (school should do this also!)
- Discusses consolidation options

2 Key Defaulter Characteristics

Of the borrowers who defaulted……….

the majority had ***contact issues***:

- 49% had bad telephone numbers (actual population)
- 95% were not successfully contacted by phone during the 360-day collection effort leading up to default (sample)

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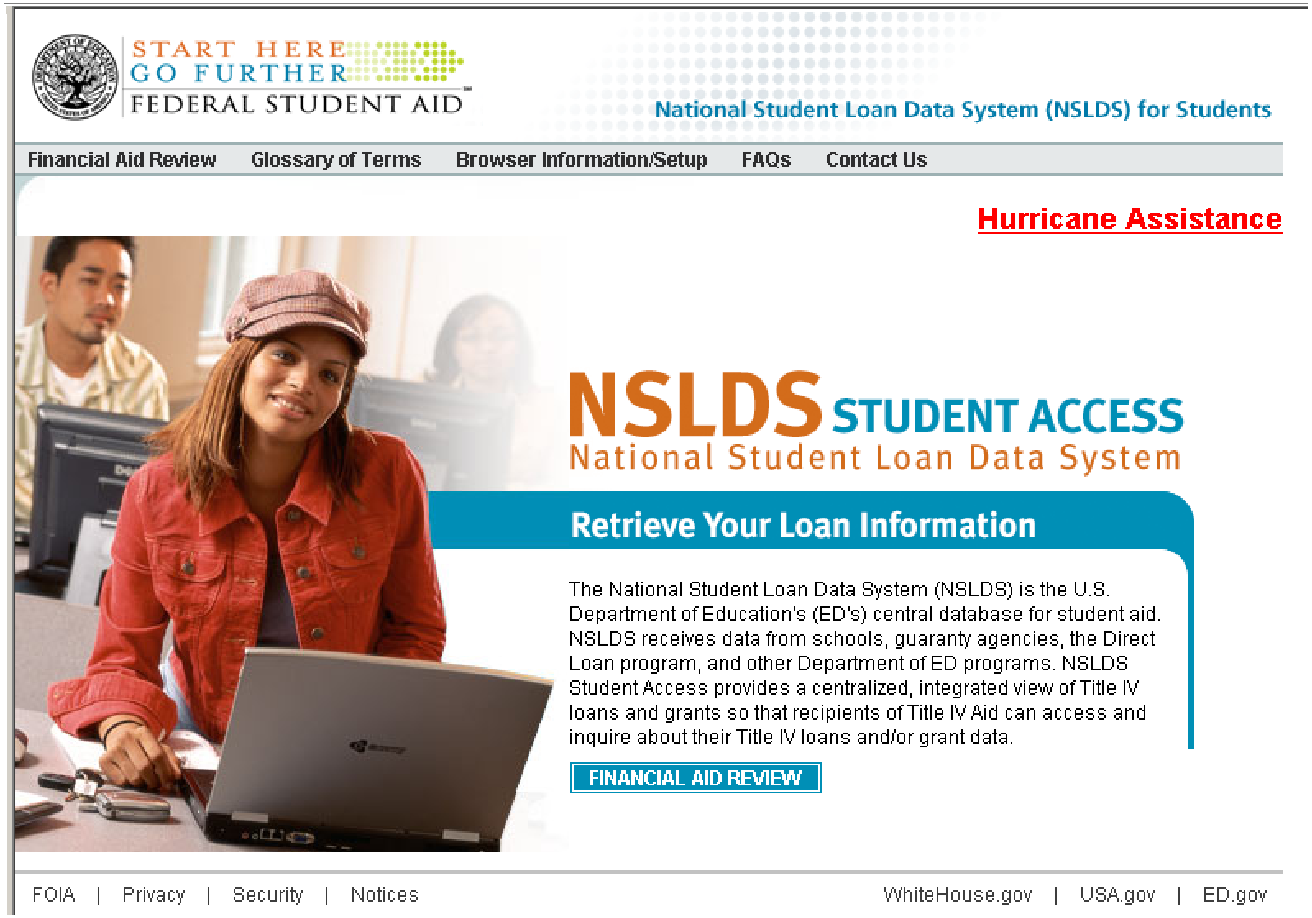
Source: August 2008 Analysis of Federal Direct Loan Portfolio

Ensure Borrowers Can Be Found

- Create a separate form to collect additional borrower contact information
  - Goal is to supplement what is obtained via the MPN
  - Get contact information for parents, siblings, aunts/uncles, grandparents
  - Inform borrowers that you may verify this info (to improve accuracy) and spot check if time permits

Important Note: Although you may collect this information, you may not make a borrower's receipt of aid contingent upon providing it.

NSLDS For Students



NSLDS Default Reports

NSLDS

Menu | Aid | Enroll | Org | Report

Report List | Web Report List

Logged on as: JOHN PIERSON from Department of Education Region 4

Report List

Search Report ID: Submit

	Report ID	Names	Log Page
1	APR001	REPORT OF FFEL LOAN DISBURSEMENTS	
2	APR002	AGENCY PORTFOLIO STATUS REPORT	
3	APR003	LENDER PORTFOLIO STATUS REPORT	
4	APR028	LOANS HELD BY LENDER	
5	DER002	DATE ENTERED REPAYMENT BY SCHOOL	
6	DRC010	SCHOOL REPAYMENT INFO LOAN DETAIL	
7	DRC029	ED COHORT DEFAULT RATE HISTORY RPT	
8	GADSC2	LOAN DISCHARGE	
9	GAERRS	GA LOAN ERROR RATES & TOP 10 ERRORS	
10	GATLF2	TEACHER LOAN FORGIVENESS REPORT	
11	GAUPD2	GA ONLINE UPDATE SUMMARY REPORT	

Assist Borrowers in Repayment

Late Stage Delinquency Assistance involves school personnel reaching out to seriously delinquent borrowers (240+ days), and facilitating the critical contact with the loan servicer to prevent default.

- Direct Loan Schools: (888) 877-7658
  - LSDA Users Guide available - DL Servicer
- FFELP Schools: Contact your lender/guarantor or your Federal Loan Servicer

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How to Get Started

- Borrower contact information (the form you had the borrower complete!)
- A list of delinquent borrowers in your current cohort
  - Request (late stage) delinquency reports from guarantor, DL Servicer, or Federal Loan Servicer
- Staff training
  - DL Servicer, FSA Default Prevention and/or guarantor can help prepare staff

"Non-Traditional" Approach

- Ideally involves all offices on campus
- Focus is on helping borrowers to develop a healthy relationship *with their education (student success solutions)* and include:
  - Increasing program completion rates
  - Decreasing program completion time
  - Helping non-completers find a job

Borrowers Who Do Not Complete

The Direct Loan program serves 7 million student loan borrowers. Of the borrowers who defaulted, **70%** withdrew without completing their academic program. (actual population)

While different measures of success exist, this is an important indicator that students who fail to complete are at high-risk to default.

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Source: August 2008 Analysis Federal Direct Loan Portfolio

Borrowers Who Do Not Complete

- Did not achieve academic credential
- May have reduced earning power
- May not benefit from school job placement
- Have one or more loans to repay
- May not receive exit counseling
- May not respond to communication attempts by their loan servicer
- May lose part or all of their grace period if they fail to notify the financial aid office and NSLDS is not updated timely and accurately

Borrowers Who Do Not Complete

- How quickly do you find out when they leave school?
- Do you have an "early warning" system?
  - Take attendance?
  - Issue mid-term grades which provide clues as to whether or not student will persist?
  - Receive an alert from faculty members?
- Make it somebody's responsibility for reaching out to those borrowers because they are at high risk of default

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Outreach to "At-Risk" Borrowers

- When borrowers leave school without completing their program:
  - Try to reach them quickly
  - Identify/help them to overcome obstacles to persistence **(Persuade them to return!)**
  - If they will not return, help them to understand repayment obligations
  - Learn what you can about their experiences and use this information to help other students stay in school

“Non-Traditional” Approach

- Driven by the fact that borrowers who do not complete are at high-risk of default (Remember the 70%)
- Holistic approach that involves faculty, staff, and administrators
- Goal is to increase student success, as successful students are typically in the best position to repay their loans

What Prevents Student Success?

- Finances/Need
- Relationship Issues
- Physical & mental health challenges
- Dependent-care
- Transportation
- Housing
- Transition difficulties
- Poor study habits
- Under-prepared, basic skill needs
- Language barriers
- Feel unwelcome, no "campus connection"
- First generation: No role models or family support

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Promoting Student Success

Explore the unique connections between loan default and student success at your school

Data collection:
- Info from current students
- Info from former students

Take Home Message

- The rate, number of borrowers, and dollars in default are increasing
- The combination of the recession and the new 3-year CDR calculation will cause rates to increase
- Schools should
  - Examine their CDR history
  - Assess their degree of risk for exceeding CDR thresholds
  - Take positive steps to reduce defaults on their campus

Take Home Message

- There are many things schools can do now to protect the taxpayer, school, and its borrowers from the consequences of default including
  - Implementing traditional, financial aid-based strategies
  - Implementing non-traditional student success-based strategies
  - Reaching out to FSA default prevention staff and others for assistance

Default Prevention Contacts

Mark Walsh 816-268-0412

mark.walsh@ed.gov

John Pierson 404-562-6269

john.pierson@ed.gov

Portfolio Performance Management

(CDR calculations and data challenges)

Main Line: 202-377-4258 Hotline: 202-377-4259

Email: fsa.schools.default.management@ed.gov

Web: ifap.ed.gov/DefaultManagement/DefaultManagement.html

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Servicing: Delinquency and Default

- Servicing "Today" with one Direct Loan Servicer
  - Direct Loan Servicing
    - School Reports
    - Delinquency & Default Aversion
- Servicing "Tomorrow" with multiple Servicers
  - Additional Servicers
    - Default Aversion

Direct Loan Servicing School Reports

- What types of Reports:
  - Entrance counseling
  - Exit counseling
  - Portfolio
  - Delinquency
- When:
  - as needed daily, weekly, monthly
- Where:
  - SAIG mailbox, email, DL servicing website
- Why:
  - to monitor borrower activity at DL servicing

Direct Loan Servicing
Preventing Delinquency & Defaults

- Educates and informs borrowers as to the tools and options available to assist them in the management of their student loans

- Exceeds minimum regulatory due diligence requirements

- Works in partnership with the school community to assist borrowers in the later stages of delinquency

Direct Loan Servicing

- Pre-Repayment Counseling
  - Calls made two months prior to entering repayment
  - Emails sent to assist with repayment options
- Delinquency Counseling
  - 31 days we begin a series of calls
  - Letters begin at 7 days delinquent
- Call Campaigns
  - High balance calls (balance of 80K or greater)
  - Borrowers who fall within the COHORT population will also receive up to 4 manual calling attempts

Direct Loans – Delinquency & Default Prevention

Late Stage Delinquency Assistance **(LSDA)** involves school personnel reaching out to seriously delinquent borrowers (240+ days), and facilitating the critical contact with the loan servicer to prevent loan default.

Remember…
We work together to combat delinquency. The DL servicer has developed an LSDA guide and online tools for schools to assist in delinquency efforts.

Direct Loan School Services: (888) 877-7658

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Servicing: Delinquency and Default

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Additional Servicers

- To ensure that the Department could handle volumes of loans sold to the government and any additional Direct Loan volumes, the Department has entered into agreements with four additional servicers

- These agreements are for servicing only. Origination and disbursement of all Direct Loans will be through the Common Origination and Disbursement System (COD)

Additional Servicers

- ❑ Created an environment of competition to ensure student borrowers received best in business service

- ❑ Selected Additional Federal Loan Servicers
  - ✓ ACS (current servicer)
  - ✓ Great Lakes Education Loan Services (additional)
  - ✓ Nelnet (additional)
  - ✓ Sallie Mae Corporation (additional)
  - ✓ AES / PHEAA (additional)

Additional Servicers: Performance through Competition

- Allocation of volume is performance based
  - ✓ Default management performance metrics
    - ✓ % of "In Repayment" Portfolio Dollars that go into default
    - ✓ % of unique "In Repayment" Portfolio borrowers that go into default
  - ✓ Customer Satisfaction Surveys (borrower, school, FSA)
  - ✓ Volume allocations will vary significantly among servicers based on results
- Competition will deliver improved services
  - ✓ Servicers are rewarded for providing excellent default aversion techniques that deliver the desired results
  - ✓ Healthy competition produces continuous improvement efforts

Additional Servicers
Default Aversion Techniques

The Additional Servicers:

- Exceeds minimum regulatory due diligence requirements
- Educates and informs borrowers as to the tools and options available to assist them in the management of their student loans
- Provides outbound targeted calling campaigns along with inbound call center representatives to help borrowers become current
- Utilizes electronic communication methods such as email to keep borrowers informed about account status

Additional Servicers Default Aversion Techniques (cont)

The Additional Servicers offer:

- Multiple repayment options tailored to borrower preferences (ie. Online payments, ACH, check, etc.)
- Options for receiving bills and/or correspondence electronically
- Self-Service tools for borrowers (telephone voice response system, Web portals)
- Dedicated services to schools to help manage cohort default rates

Additional Servicers Default Aversion

- Default management results will be published frequently and provide transparency in student loan servicing among each servicer
- Servicers will partner with financial literacy advocacy groups to educate borrowers and assist schools
- Each servicer is encouraged to continually improve and compete among one another to deliver the best results for borrowers, schools, and FSA

What does all this mean for schools?

- Will schools have to work with multiple servicers?
- Will schools likely have different reporting formats for various school reports ?
- Can a school designate which servicer they want?
- How will a school know which servicer has a borrowers loans?

Yes, schools will work with all servicers.

Yes, schools will likely have different reporting from each servicer.

No, schools cannot designate a servicer.

Schools will use NSLDS to determine which servicer has borrower loans.

Delinquency and Default Aversion Techniques	Direct Loan Servicer (Current)	Additional Federal Loan Servicers
Exceeds minimum regulatory requirements	✓	✓
Extended repayment options	✓	✓
Deferment and Forbearance options	✓	✓
Repayment Counseling	✓	✓
Targeted Call Campaigns	✓	✓
Borrower Self Service Tools	✓	✓
Financial Literacy Materials		✓
Delinquency Reporting for Schools	✓	✓
Dedicated School Services	✓	✓

Get to know the Federal Loan Servicers:

Direct Loan Servicing Center
NSLDS Servicer Code: 00100

NSLDS Name: **Direct Loan Servicing Center**

Borrower Phone: 800-848-0979
Web: www.dl.ed.gov

School Phone: 888-877-7658
Web: www.dl.ed.gov/schools

Student Loan Servicing Center (ACS)
NSLDS Servicer Code: 700577

NSLDS Name: **Dept of ED / ACS**

Borrower Phone: 800-508-1378
Web: www.ed-servicing.com

School Phone: 866-938-4750
Web: www.ed-servicing.com

Get to know your Federal Loan Servicers:

FedLoan Servicing (PHEAA)
NSLDS Servicer Code: 700579

NSLDS Name:
Dept of ED/ FedLoan Servicing (PHEAA)

Borrower Phone: 800-699-2908
Web: www.myfedloan.org

School Phone: 800-655-3813
Web: www.myfedloan.org

Great Lakes Educational Loan Services
NSLDS Servicer Code: 700581

NSLDS Name: **Dept of ED/ Great Lakes**

Borrower Phone: 800-236-4300
Web: www.mygreatlakes.org

School Phone: 888-686-6919
Web: www.mygreatlakes.org

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Get to know your Federal Loan Servicers:

Nelnet

NSLDS Servicer Code: 700580

NSLDS Name: **Dept of ED / Nelnet**

Borrower Phone: 888-486-4722
Web: www.nelnet.com

School Phone: 866-463-5638
Web: www.nelnet.com

Sallie Mae

NSLDS Servicer Code: 700578

NSLDS Name: **Dept of ED / Sallie Mae**

Borrower Phone: 800-722-1300
Web: www.salliemae.com

School Phone: 888-272-4665
Web: www.opennet.salliemae.com

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Contact Information

Questions or Comments ?

Thank You!

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