

Session #5

Schools' Best Practices in Default and Delinquency Management

Presenters

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School Panelists

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Ricky Mitchell, Mitchell's Hair Styling Academy

In This Session

Section 1: Cohort Default Rate Overview

Section 2: Why Discuss Default Prevention?

- The Consequences
- The Changes, Risks, and Challenges

Section 3: Default Prevention Strategies

- Traditional: Financial Aid Office Centered
- Non-Traditional: A Student Success Focus

In This Session

Section 4: School Engagement in Default Prevention – School Panel

3 Examples

- Cuyahoga Community College
Working With At-Risk Borrowers in Developmental Studies Programs
- Michigan State University
Working With At-Risk Borrowers on Academic Probation
- Mitchell's Hair Styling Academy
Working With At-Risk Borrowers in Repayment

Section 1

A Cohort Default Rate Overview

Understanding Cohort Default Rates (CDRs) – A Quick Review

- Draft and Official CDRs
- The Numerator and Denominator
- Formulas used for CDR calculations
- CDRs – a historical perspective

CDRs Are Released Twice A Year

February
(DRAFT)

Not public
No sanctions
No benefits

September
(OFFICIAL)

Public
Sanctions apply
Benefits apply



CDR Release Dates

- FY09 **Draft** Cohort Default Rate
 - Will be released on February 14, 2011
- FY09 **Official** Cohort Default Rate:
 - Will be released on September 12, 2011

CDRs: The Formula

Numerator

Borrowers who entered repayment in one year, and defaulted in that year or the next

Denominator

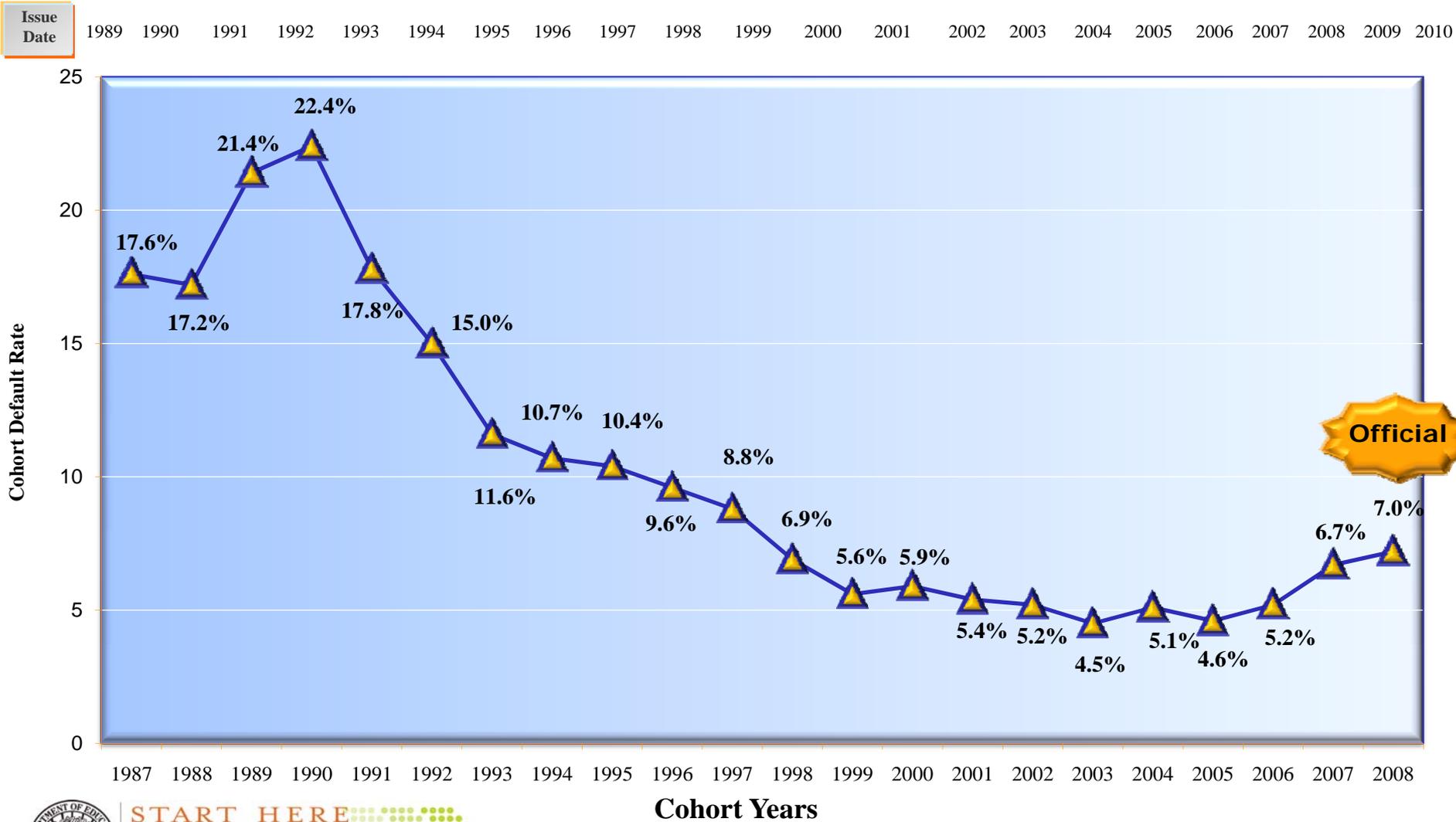
Borrowers who entered repayment during the one-year cohort period

CDRs: Applying the Formula

- Non-Average Rate
 - 30 or more borrowers in repayment
- Average Rate
 - less than 30 borrowers in repayment
 - 3 years of data

Suggestion: Attend Session #18 where CDRs will be discussed in greater detail.

National Student Loan Default Rates



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Section 2

Why Discuss Default Prevention?

The Changes, Risks, and Challenges

Default Prevention

Why is it Important?

Because defaulted loans have significant consequences for:

- Taxpayers
- Borrowers
- Schools

The Consequences of Default *For the Taxpayer*

- Default impacts the integrity of the student loan programs
- The loss of taxpayer dollars currently exceeds one billion dollars per year
- Recovering defaulted loans is costly to the Department of Education, and therefore to the taxpayers

National – Dollars in Default

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
\$647 Million	\$801 Million	\$915 Million	\$1.183 Billion	\$1.465 Billion	\$1.533 Billion
↑	↑	↑	↑	↑	↑



The Dollars in Default

Volume of Dollars in Default:

- Although not currently used to measure schools, the dollars in default impact the integrity of the student loan programs

Remember:

Big Schools +
Big Volume =
Big Dollars in
Default

The Consequences of Default *For the Borrower*

- Credit report damage (7-year minimum)
- 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
- Collection costs

National – Borrowers in Default

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
115,568	114,128	161,951	204,507	231,659	238,852
↑	↑	↑	↑	↑	↑

The Consequences of Default *For the School*

- The CDR is a measure of a school's administrative capability
- High CDRs can
 - Negatively reflect on school quality
 - Result in provisional certification
 - Result in loss of Title IV eligibility
 - Threaten access to private loan funds

The Changing Landscape

- Loan default is increasing for most schools
- Educational costs continue to rise
- More students borrowing more money
- The combination of Stafford and private loans equal greater debt
- Changes to CDR calculation accompanied by new sanctions and an enhanced benefit
- Transition to all-Direct Loan origination and new servicing partners

CDRs and the Economy

- CDR default data is retrospective, so the economic impact on borrower repayment will be seen in future CDR calculations
- Borrowers are having difficulty repaying
- Higher unemployment and economic problems are occurring concurrent with the change from a 2-year to a 3-year CDR calculation
- More schools may face compliance difficulties due to CDRs in coming years

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%
 - New set of requirements for FY09, FY10...
 - Possible compliance issue beginning in September 2014
(FY 2011 CDR – receipt of third 3-Year CDR)
- Increases availability of “disbursement relief” from 10 to 15% (effective 10/01/11)

2 to 3-Year CDR (a scenario)



Numerator = # of borrowers from the denominator who default within a FY



Denominator = # of borrowers who enter repayment within a FY

Year 1	Year 2
125	230
5,000	

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

Year 1	Year 2	Year 3
125	230	250
5,000		

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



Institutional CDR Calculations By CDR Year

Table 1.
Remaining Publications of 2-year CDR

CDR	Denominator: Enter Repayment	Numerator Default	Publish 2-year rates	Rate used for Sanctions
FY 2009	10/1/08-9/30/09	10/1/08-9/30/10	September 2011	2-year rate
FY 2010	10/1/09-9/30/10	10/1/09-9/30/11	September 2012	2-year rate
FY 2011	10/1/10-9/30/11	10/1/10-9/30/12	September 2013	2-year rate

Institutional CDR Calculations By CDR Year

Table 2.
Publications of 3-year CDR

CDR	Denominator: # In Repayment	Numerator # In Default	Publish 3-year rates	Rate used for Sanctions
FY 2009	10/1/08- 9/30/09	10/1/08- 9/30/11	September 2012	N/A
FY 2010	10/1/09- 9/30/10	10/1/09- 9/30/12	September 2013	N/A
FY 2011	10/1/10- 9/30/11	10/1/10- 9/30/13	September 2014	3-Year rate
FY 2012	10/1/11- 9/30/12	10/1/11- 9/30/14	September 2015	3-Year rate
FY 2013	10/1/12- 9/30/13	10/1/12- 9/30/15	September 2016	3-Year rate
FY 2014	10/1/13- 9/30/14	10/1/13- 9/13/16	September 2017	3-Year-rate



3-Year CDR Corrective Actions

- **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** consecutive year at 30% or more
 - Loss of eligibility: Pell, ACG/SMART, FFEL/DL
 - School has appeal rights



"Trial" 3-Year Rates Released

<http://federalstudentaid.ed.gov/datacenter/cohort.html>

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Default Rates

Federal student loans are borrowed funds that must be repaid with interest. Failure to repay a loan can result in default. The reports below show default rates for the federal student loan programs.

- [Cohort Default Rates by school, lender, state and institution type](#)
- [Budget Lifetime and Cumulative Lifetime Default Rates](#)
- [Federal Perkins Loan Program Status of Default \(Orange Book\)](#)
- [Trial Three-Year Cohort Default Rates](#)

[Data Center Home](#)

Featured Announcements

[Federal Aid First](#)
Explains the differences between federal and private education loans.

[Federal Student Aid FY2009 Annual Report](#)

[Disaster Assistance](#)
Disaster assistance information for students and federal student loan borrowers.

[FAFSA Filing Options](#)
Learn how you can file a Free Application for Federal Student Aid (FAFSA).

I'm Going



Other Sessions Related to CDRs

Session 15

Using the eCDR Appeal System

Day #2, Day #3

Session 18

Cohort Default Rates

Day #1, Day #2, Day #3

See agenda for times

Section 3

Default Prevention Strategies

Why Schools Should Participate

- Although our servicers work diligently to encourage repayment, schools can play a critical role and their contribution will yield improved results
- What is your motivation to help?
 - Protect loan program integrity?
 - Fewer default dollars/taxpayer savings?
 - Improve your school's default rate?
 - Save students from the consequences of default?

School-Based Default Prevention

- 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-based default prevention strategies
- Best option is for schools to use a combination of these two approaches

Default Prevention Plan

- Success is achieved when solid plans are developed and executed
- A plan pulls together people and resources toward a common goal
- ED Default Management sample plan in Dear Colleague Letter GEN-05-14 issued September 2005
- The plan should not remain static, so revise and adjust the plan as needed to maximize your success

Default Prevention Team

- Team members should include
 - Senior school official
 - Representative from all offices
 - Student representative
- Regularly scheduled meetings
 - Provide agenda/minutes, discussion of agreed upon assignments
 - Training about default and prevention
- Evaluate progress and adjust the plan
- Celebrate and promote your successes

“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
 - Financial literacy program
 - Updating enrollment status changes
 - Engaging at-risk borrowers

FSA's Entrance/Exit Counseling

StudentLoans.gov

Home | Learn More | Tools and Resources | Managing Repayment | FAQs | Contact Us

Manage My Direct Loan

Sign In Please use your PIN to sign in
Why am I signing in?

- View My Loan Documents
- Entrance Counseling
- Sign Master Promissory Note
- Complete PLUS Request Process
- Endorse PLUS Loan

Please visit the PIN site if you are a new user or have forgotten your PIN.

Learn More

- Find Information about Student Aid Programs
- Direct Loan Overview
- What you Need for Direct Loans
- What to Expect for Direct Loans
- Asesoramiento de Ingreso

Tools and Resources

- Apply for PIN
- FAFSA
- Exit Counseling
- Direct Loan Consolidation
- My Financial Aid History

Managing Repayment

- Repaying Your Loans
- Repayment Plans & Calculators
 - Income Based Repayment Plan
- Trouble Making Payments?
- Loan Discharge
- Public Service Loan Forgiveness
- Teacher Loan Forgiveness

Entrance Counseling
www.StudentLoans.gov

Exit Counseling
www.NSLDS.ed.gov

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Financial Aid Review | Exit Counseling | Glossary of Terms | Browser Information Setup | FAQs | Contact Us

Hurricane Assistance

NSLDS STUDENT ACCESS
National Student Loan Data System

Retrieve Your Loan Information

The National Student Loan Data System (NSLDS) is the U.S. Department of Education's (ED's) central database for student aid. NSLDS receives data from schools, guaranty agencies, the Direct Loan program, and other Department of ED programs. NSLDS Student Access provides a centralized, integrated view of Title IV loans and grants so that recipients of Title IV Aid can access and inquire about their Title IV loans and/or grant data.

Financial Aid Review

Exit Counseling

FOIA | Privacy | Security | Notices

WhiteHouse.gov | USA.gov | ED.gov

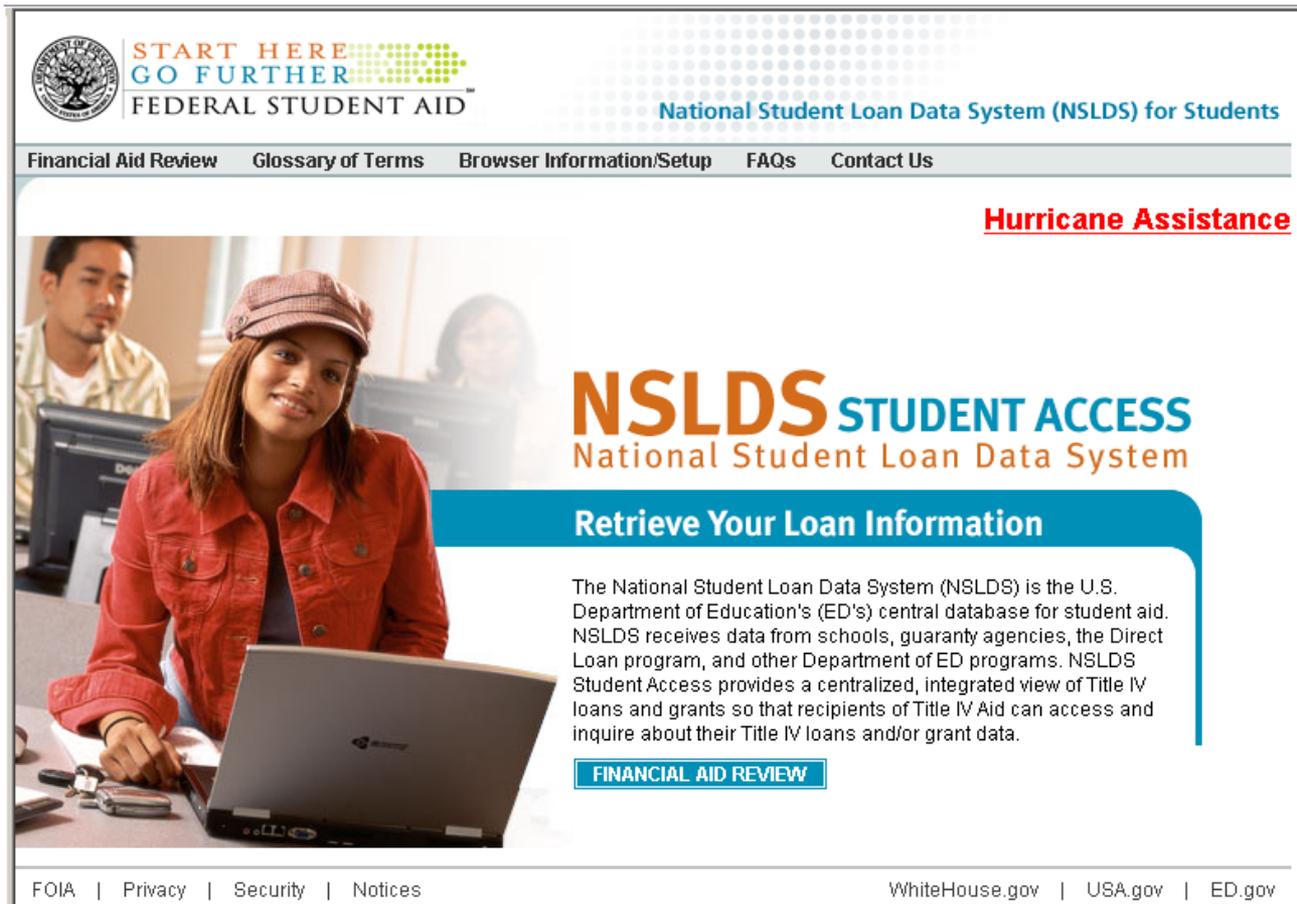
Entrance and Exit Counseling (Session #19)

Offered: Day #1
 Day #2
 Day #4

Unveiling FSA's new Entrance and
Exit Counseling website

See agenda for times

NSLDS For Students



The screenshot shows the NSLDS for Students website. At the top left is the Department of Education logo with the slogan "START HERE GO FURTHER FEDERAL STUDENT AID". To the right of the logo is the text "National Student Loan Data System (NSLDS) for Students". Below this is a navigation bar with links: "Financial Aid Review", "Glossary of Terms", "Browser Information/Setup", "FAQs", and "Contact Us". On the right side of the page, there is a red link for "Hurricane Assistance". The main content area features a photograph of a young woman in a red jacket and cap sitting at a desk with a laptop, smiling. To her right, the text reads "NSLDS STUDENT ACCESS National Student Loan Data System" and "Retrieve Your Loan Information". Below this is a paragraph explaining that NSLDS is the U.S. Department of Education's central database for student aid, receiving data from schools, guaranty agencies, the Direct Loan program, and other ED programs. It states that NSLDS Student Access provides a centralized, integrated view of Title IV loans and grants. At the bottom of the main content area is a blue button labeled "FINANCIAL AID REVIEW". The footer of the page contains links for "FOIA | Privacy | Security | Notices" on the left and "WhiteHouse.gov | USA.gov | ED.gov" on the right.

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National Student Loan Data System (NSLDS) for Students

[Financial Aid Review](#) | [Glossary of Terms](#) | [Browser Information/Setup](#) | [FAQs](#) | [Contact Us](#)

[Hurricane Assistance](#)

NSLDS STUDENT ACCESS
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[FINANCIAL AID REVIEW](#)

[FOIA](#) | [Privacy](#) | [Security](#) | [Notices](#) | [WhiteHouse.gov](#) | [USA.gov](#) | [ED.gov](#)

Financial Literacy

- Correlation exists between increased financial literacy and decreased defaults
- Schools can play an important role
- Can you make it part of your curriculum?
- Some schools offer literacy classes for credit
- There are many free resources available
 - Federal, non-profits, lenders, guarantors
- Consider online financial literacy programs
- Can you enhance what you are doing now?

Federal Financial Literacy Info



Money Smart - A Financial Education Program



U.S.
Federal
Reserve
System



Protecting the Grace Period

- Of the borrowers who defaulted, most 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?

Servicer Repayment Counseling

During the Grace Period a Loan Servicer Performs 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
- Discusses consolidation options

The Essentials of Federal Student Loan Servicing (Session #3)

Offered: Day #1
 Day #2
 Day #3

Learn how federal student loan servicing can help you reduce loan default

See agenda for times

Federal Loan Servicer Meetings

One session with each Servicer:

Session 56 – Day #1 ACS

Session 57 – Day #2 PHEAA

Session 58 – Day #2 Great Lakes

Session 59 – Day #3 Nelnet

Session 60 – Day #3 Sallie Mae

See agenda for times

Contacting Delinquent Borrowers

By examining large populations of defaulted borrowers FSA determined that the majority had *contact issues*:

- Half had bad telephone numbers
- Most defaulters were not successfully contacted by phone during the 360-day collection effort leading up to default

Ensure Borrowers Can Be Found

- Schools should create a separate form to collect additional borrower contact information
 - Goal is to supplement what is obtained via the MPN
 - Collect info during admissions process
 - 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 must not make a borrower's receipt of aid contingent upon providing this information.

Borrower Contact Sheet

Should include:

- All of the borrower's e-mail addresses
- Contact information for siblings, parents, grandparents, etc., including e-mail and cell phone numbers
- Ask borrower for the one phone number through which he/she can **always** be reached
- Identify all social networking sites where borrower has an account

No/Low-Cost Methods For Locating Delinquent Borrowers

- Student e-mail addresses (free)
- Perkins Loan information (free)
- Registrar and Alumni Offices (free)
- Collect cell phone numbers (free)
- Social Networking:
[Facebook](#) (free) [MySpace](#) (free)
- Data-mining/skip-tracing services (cost)

Tips For Success

- Telephone calls are most effective
- Use a light touch – remember you are calling to help, not to collect
- Mailing handwritten notes can be successful
- Letters and e-mail may be used with varying degrees of success
 - Servicers send many pieces of correspondence to borrowers

If You Decide to Send a Letter

- First, get the borrower to open it!
 - Hand-address regular envelopes
 - Use a stamp – not a postage meter
 - Consider colored envelopes or paper
 - Personalize the letter – sign it
 - Postcards can also be effective
 - School correspondence should not look like a bill!

NSLDS Reports for Schools

- Reports for Data Accuracy
 - Date Entered Repayment Report
 - School Repayment Info Loan Detail
 - School Cohort Default Rate History
 - Enrollment Reporting Summary
- Reports for Default Prevention
 - Date Entered Repayment Report
 - Borrower Default Summary
 - Exit Counseling
 - Delinquent Borrower Report *(New!)*

“Non-Traditional” Approach

- 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
- Successful students become successful borrowers
- Leverage efforts to increase retention, graduation, and employment

Borrowers Who Do Not Complete

- Historically, the majority of borrowers who default withdrew from school without completing their academic program
- While different measures of success exist, this is an important indicator that students who fail to complete have a higher risk of loan default

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

Characteristics: Students At Risk

- 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

Schools may have unique factors which must be identified and considered



Identifying Students in Trouble

- Does your school have an “early warning” system?
 - Take attendance
 - Issue mid-term grades which provide clues as to whether or not student will persist
 - Alerts from faculty members, student support staff: who has missed classes? failed tests? had adjustment challenges?
- Don't allow academic or social problems to become default risk

Helping Students in Trouble

- Reach out immediately
- Help them remain in school
- If they've already left, help them to return
 - May involve help to overcome obstacles
- If they will not return, help them to understand their repayment obligations – some think they don't owe anything because they left
- Learn what you can about their experiences and use this information to help other students stay in school

Section 4

Targeted School Engagement Panel Discussion

Engaging At-Risk Borrowers

School engagement can help reduce risk at any stage of the borrowing cycle

Questions:

- Who are my at-risk borrowers?
 - Learning to identify risk factors
- When should I intervene, and how?
 - The right time and the right strategy

Engaging At-Risk Borrowers

Identifying At-Risk Borrowers

- Determine, using available data, which students have defaulted in the past
- At what point are you most likely to be able to contact and influence these particular borrowers?

In school?

In grace?

In repayment?



Engaging At-Risk Borrowers

Example: While In School

- Target at-risk borrowers with early/extra exit loan counseling, financial literacy training, and collect additional contact information
- Which at-risk borrowers?
 - Students on academic probation
 - Students who express intention to withdraw
 - Students currently enrolled in programs producing a disproportionate number of defaulters



Engaging At-Risk Borrowers

Example: While In Grace

Steps to take:

- Validate contact information
- Re-enrollment assistance
- Transfer assistance
- Prepare borrower for repayment
- Provide employment counseling and search preparation
- Job placement assistance

Engaging At-Risk Borrowers

Example: While In Repayment

Reach out to at-risk borrowers and facilitate the critical contact with the loan servicer to prevent default

- Early in repayment: Target borrowers who did not complete
- Late in repayment: Target borrowers who are 240+ days delinquent

School Panelist

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Topic:

Working With At-Risk Borrowers Enrolled
in Developmental Studies Programs



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Topic:

Working With At-Risk Borrowers on
Academic Probation

School Panelist

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Topic:

Working With At-Risk Borrowers in
Repayment

Discussion

Questions?

Comments?

Default Prevention Contacts

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Operations Performance Management Service Group
(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