



# National Default Prevention Day 2002

**Default Prevention: You Are The Key!**

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# ***GUARANTY AGENCY DEFAULT PREVENTION BEST PRACTICES***

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# ***Guaranty Agency Default Prevention Best Practices***

This session will focus on guaranty agency default prevention best practices.

Although these best practices are used by guaranty agencies in servicing FFELP loans, they can be as equally effective in servicing William D. Ford Direct Loan Program loans.





# ***Understanding Your Borrower Population***

One of the first steps in developing a successful default prevention program is determining the characteristics of your borrower population in order to identify default prevention strategies.





# ***Understanding Your Borrower Population***

Some key characteristics useful in identifying default prevention strategies are as follows:

- % of borrowers who complete school
- % of borrowers who complete an exit interview





# ***Understanding Your Borrower Population***

Some key characteristics useful in identifying default prevention strategies are as follows (cont.):

- Accuracy of forwarding addresses of borrowers once they leave school





# ***Understanding Your Borrower Population***

Borrower characteristics will vary from school to school. Therefore, it is important that you understand the borrower characteristics for your school.





# ***Understanding Your Borrower Population***

An example of understanding borrower characteristics at the guaranty agency level is a study conducted by ECMC. In the Spring 2000, ECMC performed an analysis of repeat default aversion requests received on the same borrower.



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# ***Repeat Default Aversion Assistance Request Analysis***

The average number of default aversion assistance requests received per borrower, for those borrowers with multiple requests, was 3.4 requests.





# ***Repeat Default Aversion Assistance Request Analysis***

Borrower status prior to the most recent delinquency:

- |                        |        |
|------------------------|--------|
| ■ Deferment            | 24.96% |
| ■ Forbearance          | 28.83% |
| ■ Payment Arrangements | 46.21% |





# ***Repeat Default Aversion Assistance Request Analysis***

Only 2.01% of those borrowers in a status of payment arrangement prior to the most recent delinquency, were in an income sensitive payment arrangement.





# ***Repeat Default Aversion Assistance Request Analysis***

In an effort to minimize repeat default aversion assistance requests, ECMC began contacting those borrowers with a previous default aversion assistance request which are currently in a deferment status, 30 – 60 days prior to the conclusion of the deferment.





# ***Understanding Your Borrower Population***

After the implementation of additional default prevention initiatives, including contacting borrowers near the end of their deferment period, ECMC re-performed the analysis of repeat default aversion requests received on the same borrower, in the Summer 2001.



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# ***Repeat Default Aversion Assistance Request Analysis - 2001***

The average number of default aversion assistance requests received per borrower for those borrowers with multiple requests, dropped from 3.4 requests to 2.75 requests.





# ***Repeat Default Aversion Assistance Request Analysis - 2001***

Borrower status prior to the most recent delinquency:

- |                        |        |
|------------------------|--------|
| ■ Deferment            | 15.70% |
| ■ Forbearance          | 21.19% |
| ■ Payment Arrangements | 63.11% |





# ***Repeat Default Aversion Assistance Request Analysis – 2001***

Those borrowers in a status of payment arrangement prior to the most recent delinquency and who were also in an income sensitive payment arrangement, dropped from 2.01% to 1.23%.





# ***Basic Guaranty Agency Default Prevention Practices***



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# ***Guaranty Agency Default Prevention Focus***

Guaranty agency default prevention not only focuses on cohort default rates, but also focuses on those delinquent borrowers whose repayment period has taken those borrowers past the cohort period, for purposes of default rate calculation.





# ***Measuring Guaranty Agency Default Prevention Performance***

Guaranty agency default prevention performance is not only measured by cohort default rates, but also by total defaults averted regardless of repayment begin date.





# ***Basic Guaranty Agency Default Prevention Practices***

Weekly attempts to contact borrowers by telephone in Default Aversion Assistance using a predictive dialing system. A predictive dialing system allows you to increase your borrower contacts significantly without increasing staff.





# ***Basic Guaranty Agency Default Prevention Practices***

Default Prevention letter series mailed to borrowers in Default Aversion Assistance. The letter series consists of letters which become stronger in tone as the borrower becomes further delinquent and continue until the guaranty agency is notified that the borrower has brought their loan current or the borrower defaults.





# **Basic Guaranty Agency Default Prevention Practices**

Provide skip trace assistance for schools and lenders/servicers at any time during the life of the student loan. ECMC provides schools and lenders/servicers a weekly report identifying all address changes identified by ECMC during the prior week.





# ***Other Guaranty Agency Default Prevention Practices***

Use of third party contactors for default prevention services. These services can normally be tailored to a guaranty agency's particular needs.





# ***Other Guaranty Agency Default Prevention Practices***

One on one counseling for schools regarding the school's default prevention efforts.





# ***Other Guaranty Agency Default Prevention Practices***

In person student counseling provided at the school in the second semester of freshman year, explaining borrower rights/responsibilities and possible consequences of default.





# ***Other Guaranty Agency Default Prevention Practices***

Letter sent to borrower in the 4th month of their six (6) month grace period, instructing the borrower to contact their lender/servicer to discuss repayment of their loan(s).





# ***Other Guaranty Agency Default Prevention Practices***

Development of “hot transfer” function between borrowers, guaranty agency and lender/servicer. This function brings all parties together via a three way conference call to discuss options to bring delinquent student loan(s) current.





# ***Other Guaranty Agency Default Prevention Practices***

Development of aggressive media campaigns including:

- Poster ads on college campuses
- Radio ads





# ***Other Guaranty Agency Default Prevention Practices***

Development of aggressive media campaigns including (cont'):

- Web sites geared towards college students providing information on personal finance, debt management, student loan repayment, etc.





# ***Other Guaranty Agency Default Prevention Practices***

Development of campaigns to promote loan rehabilitation. Although loan rehabilitation occurs after a student borrower has defaulted, it provides those defaulted borrowers who are truly interested in repaying their student loans with a “new start”.





# ***Partnerships with the U.S. Department of Education***

In October 2000, the U.S. Department of Education (ED) hosted a three day Student Loan Repayment Symposium. This symposium brought together experts from the financial aid community, including guaranty agencies, to share their ideas for reducing student loan defaults.





# ***Partnerships with the U.S. Department of Education***

During 2001, ED partnered with guaranty agencies nationwide in conducting regional guaranty agency default aversion information sharing sessions. These sessions provided guaranty agencies the opportunity meet regionally and share default prevention “best practices” with each other and ED.





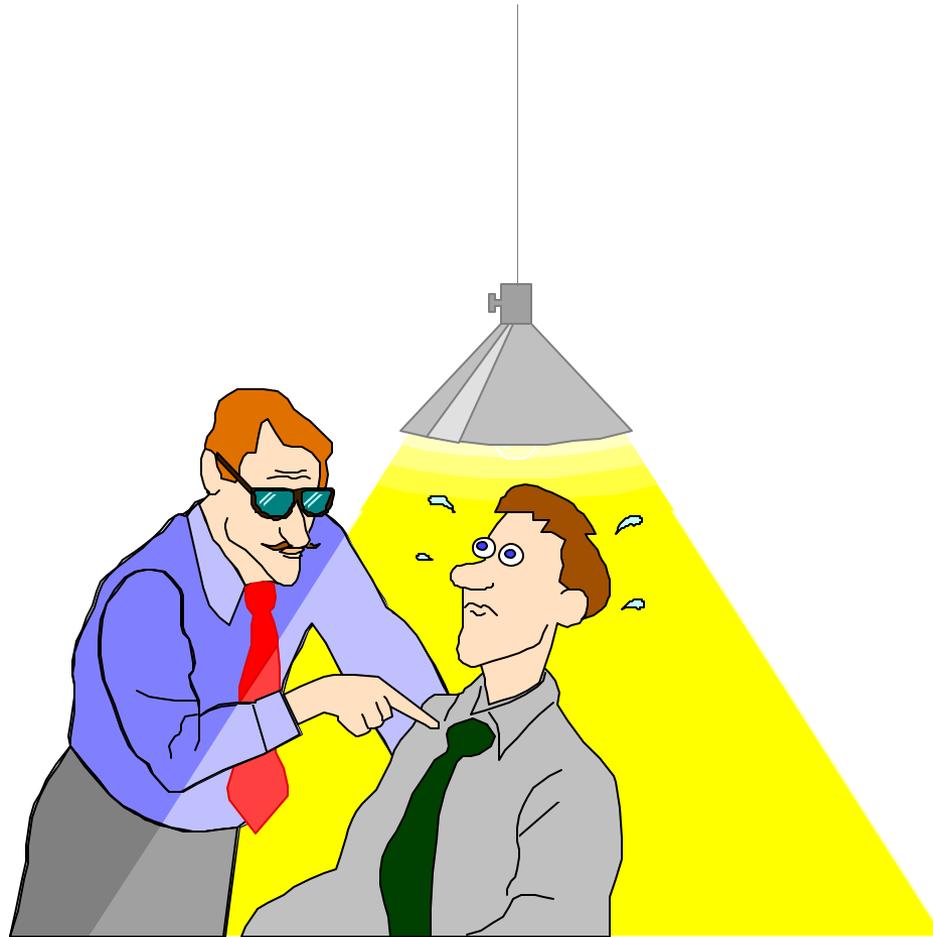
# ***Guaranty Agency Default Prevention Practices***

In closing, guaranty agencies in the past focused on default collections versus default prevention in order to encourage borrowers to repay their delinquent student loans. In many instances, the borrower's needs were not addressed as the focus was only on payment of the student loan.





# ***Default Collections***



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# ***Guaranty Agency Default Prevention Practices***

Today, that focus has changed with an emphasis on default prevention versus default collections. Helping the borrower avoid default by addressing their needs benefits not only the borrower, but also schools in managing their cohort default rates.





# ***Default Prevention***



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# ***Guaranty Agency Default Prevention Practices***

**Default Prevention is not  
“Rocket Science”!!!**



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# ***Guaranty Agency Default Prevention Practices***

The primary keys to a successful default prevention program are:

- Regular communication with the borrower/co-maker/endorser.





# ***Guaranty Agency Default Prevention Practices***

The primary keys to a successful default prevention program are (cont'):

- Good listening skills – Listen to the borrower!!! By listening to the borrower, you will be able to determine the best course of action for that borrower. All borrowers are not the same.





# **Contact Me**

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# ***Guaranty Agency Default Prevention Practices***

**Questions???**

