

Default Management Picklist

This pick list is a guide that schools can use to develop an effective default management plan and implement effective default management practices at their campuses. The large boxes are the main objectives for an effective default management plan. Each pick list item should be addressed in your default management plan. The bulleted items under each objective are tips and strategies that can be used to complete the objective.

Use Resources Efficiently

- ❑ Establish a default management team by engaging its chief executive officer and relevant senior executive officials and enlisting the support of representatives from offices other than the financial aid office.
- ❑ Identify and allocate the personnel, administrative, and financial resources appropriate to implement a default management plan.
- ❑ Establish a process to ensure the accuracy of data used to calculate the draft and official cohort default rates.
- ❑ Access the loan information in the National Student Loan Data System (NSLDS) to help prevent ineligible students from receiving loans and ensure that legal loan limits are not exceeded.
- ❑ Establish a data collection system to track and analyze borrowers who default on their loans. The evaluation method and data collection system should measure and verify relevant default management statistics, including a statistical sample of borrowers who default on loans.
- ❑ Establish a data collection system to track “Dollars in default.”
- ❑ Define evaluation methods, set default reduction targets, and conduct an annual comprehensive self-evaluation of Title IV program administration. Identify institutional practices that should be modified to reduce defaults and implement those modifications.

- ❑ Use the Default Management Reporting Application to review various reports for all NSLDS loan data pertinent to your school. This application can be obtained from FSA by sending your name, telephone number, and state to Gary.Smith@ed.gov
- ❑ Use the Cohort Default Rate Compare Application to compare draft cohort default rates against official cohort default rates for your school. This application can be obtained from FSA by sending your name, telephone number, and state to Gary.Smith@ed.gov

Work to Reduce the Number of Dropouts

- ❑ Collect and analyze data to identify characteristics of the “drop out” student population.
- ❑ Ensure that admission policies and screening practices only admit students who have a reasonable expectation of succeeding in their program of study.
- ❑ Enhance the enrollment retention and academic persistence of borrowers through counseling and academic assistance, especially for academically high-risk students.
- ❑ Evaluate and improve, if necessary, curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program to ensure that borrowers remain in school and are employed after they complete their program of study.
- ❑ Monitor attendance and counsel borrowers to prevent unofficial withdrawals.
- ❑ Track transfer students.

Work to Ensure that Borrowers Can Repay their Loans

- ❑ Assist borrowers who are experiencing difficulty in finding employment through career counseling and job placement assistance.

- ❑ Provide borrowers with statistics on salary expectations for their particular field of study and/or job possibilities.
- ❑ Identify and implement alternative financial aid award policies and develop alternative financial resources to reduce the need for student borrowing in the first 2 years of study.
- ❑ Develop default prevention strategies that are effective for the life of the loan, not just the first 2 years of repayment.
- ❑ Identify the characteristics of high-risk borrowers and formulate default prevention strategies based on findings.
- ❑ Require all borrowers to complete loan counseling each year prior to loan disbursements. Provide borrowers with their current estimated loan balance during counseling.

Provide Enhanced Entrance and Exit Counseling

- ❑ Use interactive technology that teaches students about borrowing. Use Internet websites to assist in Entrance and Exit Counseling.
- ❑ Establish an evaluative process for determining borrowers knowledge of the terms and conditions of their loans.
- ❑ Provide additional counseling, if borrowers demonstrate that they do not understand the terms and conditions of their loans (for example, by failing a written test).
- ❑ Include parents and significant others in entrance counseling sessions.
- ❑ Tailor entrance and exit counseling to specific borrower groups. Consider having separate sessions for dependent and independent students.
- ❑ Contact borrowers who drop out of school and provide individual exit counseling to those borrowers.
- ❑ Require that borrowers complete exit counseling prior to graduation or the receipt of a transcript.

- ❑ Focus on the following information during entrance and exit counseling to supplement the requirements in 34 CFR 682.604 and 34 CFR 685.304:

Repaying the Loan

- Provide an estimated balance of the borrower's loan(s) when the borrower completes the program.
- Provide the interest rate on the borrower's loan(s).
- Provide the name, address, and telephone number for the borrower's lender.
- Provide the borrower's estimated monthly payments based on their loan balance. During exit counseling, provide a sample loan repayment schedule based on the borrower's total loan indebtedness.
- Provide the estimated monthly income that the borrower can reasonably expect to receive in his or her first year of employment based on the education received at the school.
- Provide the estimated date of the borrower's first scheduled payment.
- Use new technologies, such as loan servicer websites, to give borrowers access to their individual account information
- Evaluate borrowers knowledge of all of the loan repayment options available to them.
- Evaluate borrowers knowledge of loan consolidation.
- Help students develop good repayment habits by encouraging them to make small payments on their loans while still in school and during the grace period when they are not required to pay.

Personal Financial Management and Title IV Loans

- Ensure that borrowers understand that dissatisfaction with, or non-receipt of, educational services being offered by the school does not excuse borrowers from repayment of their FFEL, Direct, or Perkins Loans.
- Inform borrowers that they must notify their lenders and the school immediately of any change of name, address, telephone number, or Social Security number.
- Inform borrowers that if they are unable to make a scheduled payment, that he or she should contact their lender before the payment's due date to discuss his or her other repayment options.
- Provide general information about—
 - ❖ Budgeting of living expenses and other aspects of personal financial management.
 - ❖ Use/misuse of personal credit cards, which when combined with student loan debt, exceeds the debt to salary ratio and causes finances to be unmanageable.
 - ❖ Loan deferments, forbearances, cancellation, consolidation, and other repayment options, including procedures for obtaining these benefits.
 - ❖ The sale of loans by lenders and the lenders use of outside contractors to service loans.
 - ❖ The different players in the student loan program, lenders, secondary markets, servicers, guarantors, and their roles.
- Encourage borrowers to borrow responsibly, complete their programs, and repay their debts.
- Ensure that borrowers clearly understand that they are borrowing money that must be repaid and the interest accumulation process. Reiterate this throughout the borrower's enrollment at the school.

Information about Delinquency and Default

- Provide a description of the charges imposed, on the borrower, for failure to pay all or part of a scheduled payment when it is due.
- Define the consequences of a borrower's failure to repay a loan, including--
 - ❖ A damaged credit rating for at least 7 years,
 - ❖ Loss of generous repayment schedule and deferment options,
 - ❖ Possible seizure of Federal and State income tax refunds due,
 - ❖ Exposure to civil suit,
 - ❖ Referral of the account to a collection agency,
 - ❖ Liability for collection costs and attorney's fees,
 - ❖ Garnishment of wages
- Ensure that borrowers leave school understanding their repayment obligations and options, such as deferment and forbearance.

Request Borrower Information

- Obtain information from the borrower, during entrance counseling, regarding references and family members beyond those provided on the loan application.
- Obtain updated information from the borrower, during exit counseling, regarding the borrower's address, the addresses of the borrower's references and family members, and the name and address of the borrower's expected employer.

Keep in Touch with Borrowers

- ❑ Review borrowers' in-school status, frequently, to ensure that borrowers do not withdraw without notice.
- ❑ Contact borrowers during their grace period to remind them of the importance of their repayment obligation and of the consequences of default.
- ❑ Track borrowers' delinquency status by obtaining reports from the Department, NSLDS, guaranty agencies, lenders, and servicers.
- ❑ Maintain records regarding borrowers' addresses, telephone numbers, employers, and employers' addresses.
- ❑ Use activities such as skip tracing and send letters with "Forwarding and Address Correction Requested" to maintain contact with borrowers who have moved.
- ❑ Proactively prevent defaults by staying in frequent contact with the borrower while they are still in school. Consider speaking with lenders to find out how they maintain contact during the in-school period.
- ❑ Employ new technologies, such as loan servicer websites, that can greatly simplify the loan repayment process for borrowers and provide continued contact from loan origination to payoff.
- ❑ Establish ways to improve communication with borrowers such as face to face meetings, directing them to informative websites, email, and providing written materials that students will keep and use, such as bookmarks.
- ❑ Extend email privileges to borrowers, for up to two years after they leave school, so that the school can stay in touch with the borrowers.

This document was compiled from the following sources:

Sample Default Management Plan – GEN-01-08 (ifap.ed.gov)

Ensuring Student Loan Repayment – National Handbook of Best Practices (ifap.ed.gov)

Default Management Best Practices Presentation – Developed by SFA staff