Dispelling myths about default rates, default calculations, and default consequences is the primary aim today.

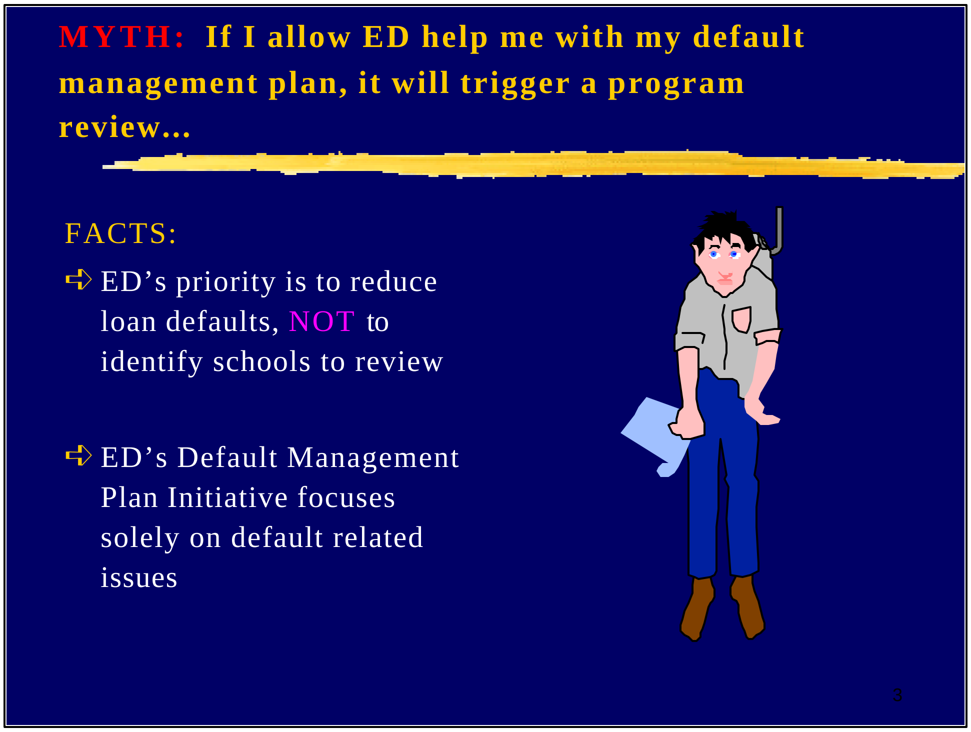
I hope that this session will clarify myths concerning default rates and their affect on institutions.

The key to unlock the myths is the Official Cohort Default Rate Guide which is published by the Department of Education. It was the main source used to prepare this presentation. If you need a copy, please contact the Default Management Division. The phone number and email address of the Default Management Division is included on the last slide.

Let's begin with Myth Number 1.

All schools wishing to participate in the loan programs must develop a default management plan for the Department's approval as part of the initial application for participation. Schools must implement this plan.

The Department has specific recommendations for school regarding core and optional elements useful for ALL schools in developing and implementing a Default Management Plan.



No mechanism is in place to identify schools, based on their success or lack of success with a Default Management Plan, with the intention of targeting for a review.

The Default Management Plan Initiative is only looking at Default related issues and not Title 4 issues as a whole.

The lack of a Default Management Plan or not successfully working a Default Management Plan, is more likely to target the school for a review than working with ED to develop and implement a Default Management Plan.

BULLET 1

A continuous improvement approach is key

BULLET 2

Integrate all simultaneously - Use everything available

redundancy OK; e.g., entrance & exit counseling

BULLET 3

effectiveness starts here!

EXAMPLE: Texas - UTPA reduced CDR 10% in 5 yrs.

[back-up handout - Default Prev. Model]

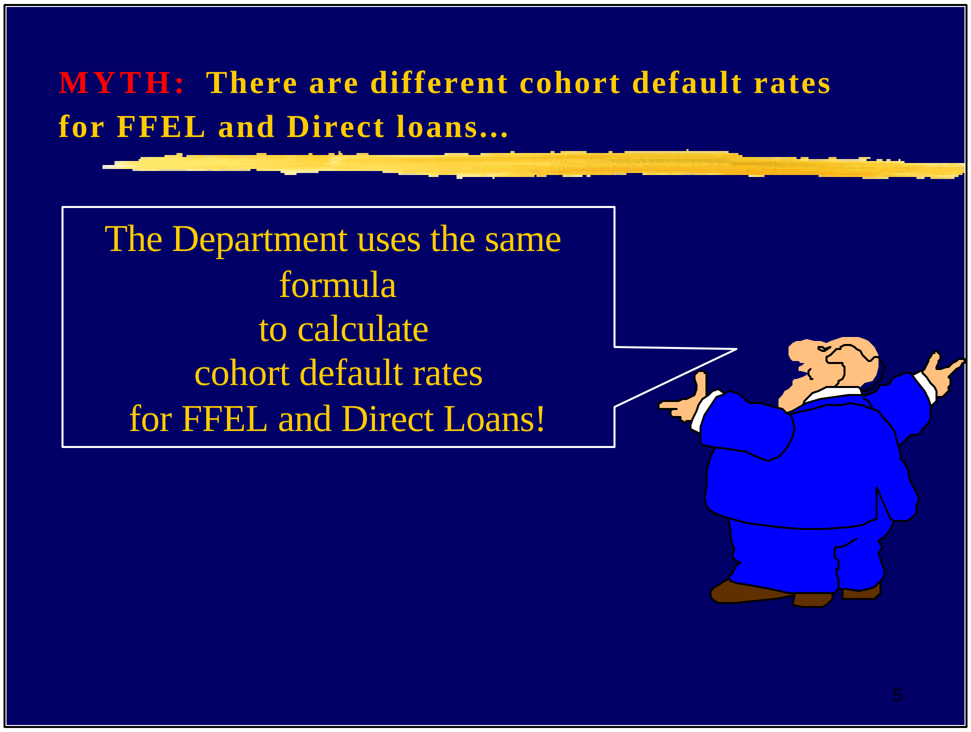
studied student pop.; gathered/analyzed data regularly

modified packaging philosophy

assign function to responsible individual(s) [back-up - Def. Prev. Ofcr]

enhanced entrance & exit counseling

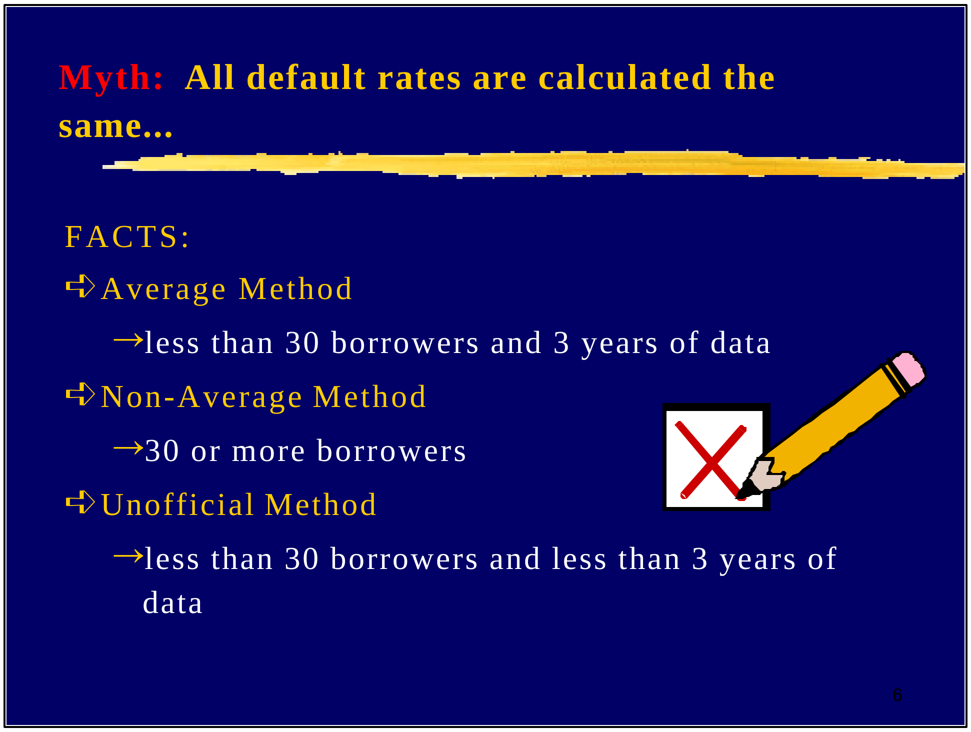
provided direct counseling to delinquent & defaulted borrowers



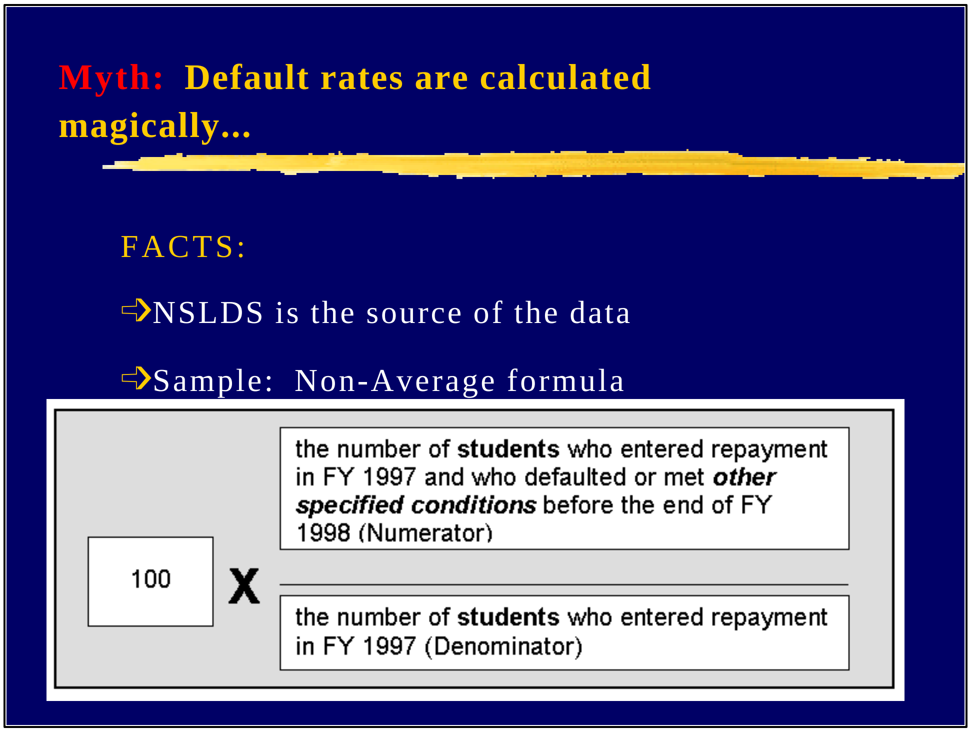
An FFEL cohort default rate is the cohort default rate for schools whose students have only FFEL Program loans.

A Direct Loan cohort default rate is the cohort default rate for for schools whose students only have Direct Loan Program loans.

A Dual-Program cohort rate is the cohort rate for schools whose students have both FFEL Program and Direct Loan Program loans.



Refer to pages 5-7 of Tara's Presentation. Also see pages 105-107 of the 1999-2000 SFA Handbook.



Page 6 (book), slide 8

Please note:

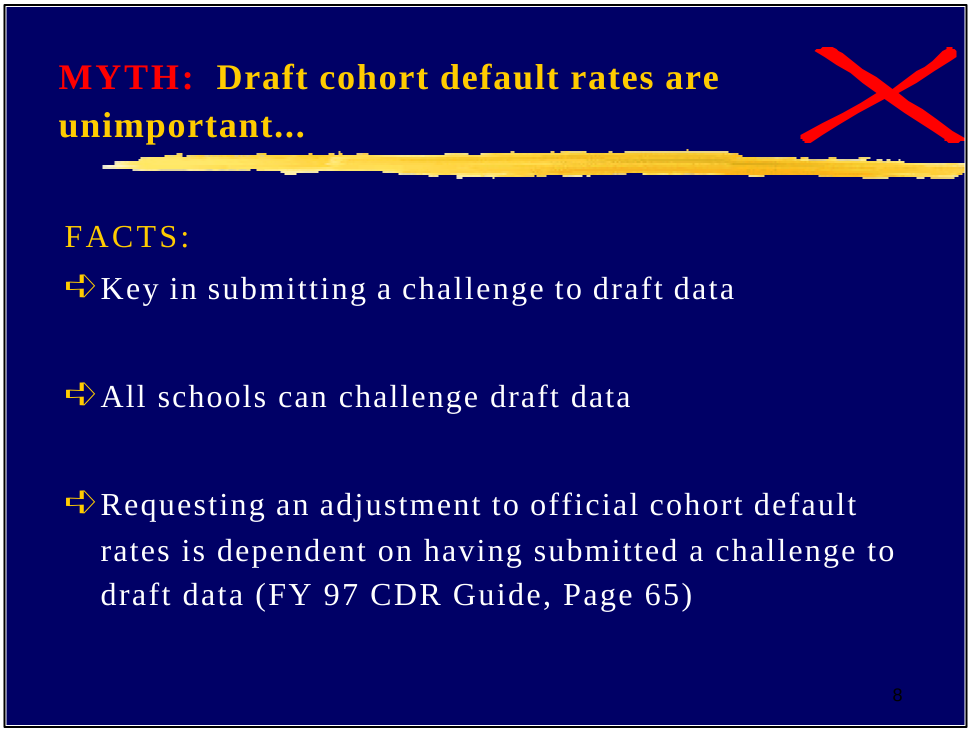
<u>Numerator - count of defaults for a 2 yr. Period</u>

Denominator - borrowers into repayment for a 1 yr. Period

Other specified conditions are:

- non-degree proprietary school
- direct loan
- for 270 days, in repayment, ICR w/ payments , 15./mo. And less than the interest accruing

*** No borrowers have ever met this condition to date.**



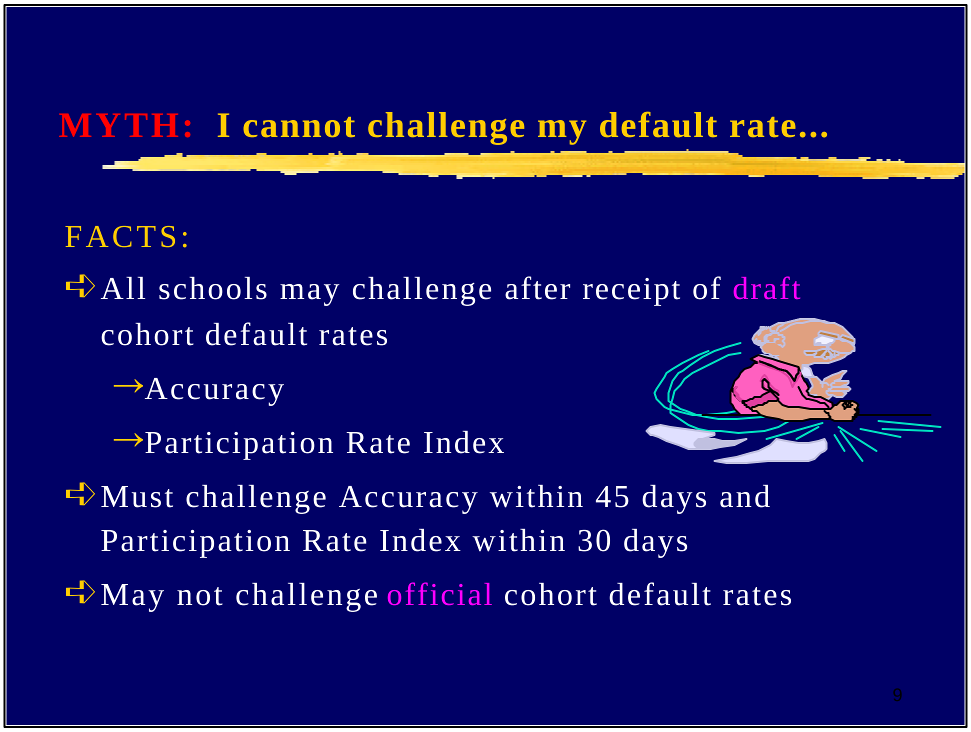
Draft CDRs are released in the Spring, Official CDRs are released in the Fall.

Only the school receives the Draft Data. It is NOT public information. It is NOT shared with ED offices outside of DMD.

Draft CDRs are challenged, Official CDRs are appealed.

All schools can challenge but only certain schools can appeal.

Challenges must be submitted to DMD no later than 45 days after the school receives the draft data.



New - Schools may challenge a DRAFT CDR 45 calendar days of receipt, used to be within 30 days.

The Department of Education releases a DRAFT CDR in the spring.   They are not public, have no sanctions or consequences associated with a DRAFT CDR.

All schools may submit a draft data challenge. A draft data challenge is the process used by the schools to correct cohort default rate data BEFORE the official cohort default rates are calculated.

Official Cohort Default rates released in the fall (September 29,1999 FY1997)

Thy are public ,

They can cause sanctions and may have benefits

Only certain schools may appeal data -

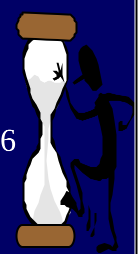
MYTH: I can always appeal my default rate...

FACTS:

- Once official cohort default rate is released, only certain schools may submit certain types of cohort default rate appeals

Resources:

- Refer to Official Cohort Default Rate Guide
- Default Management Division (202) 708-9396



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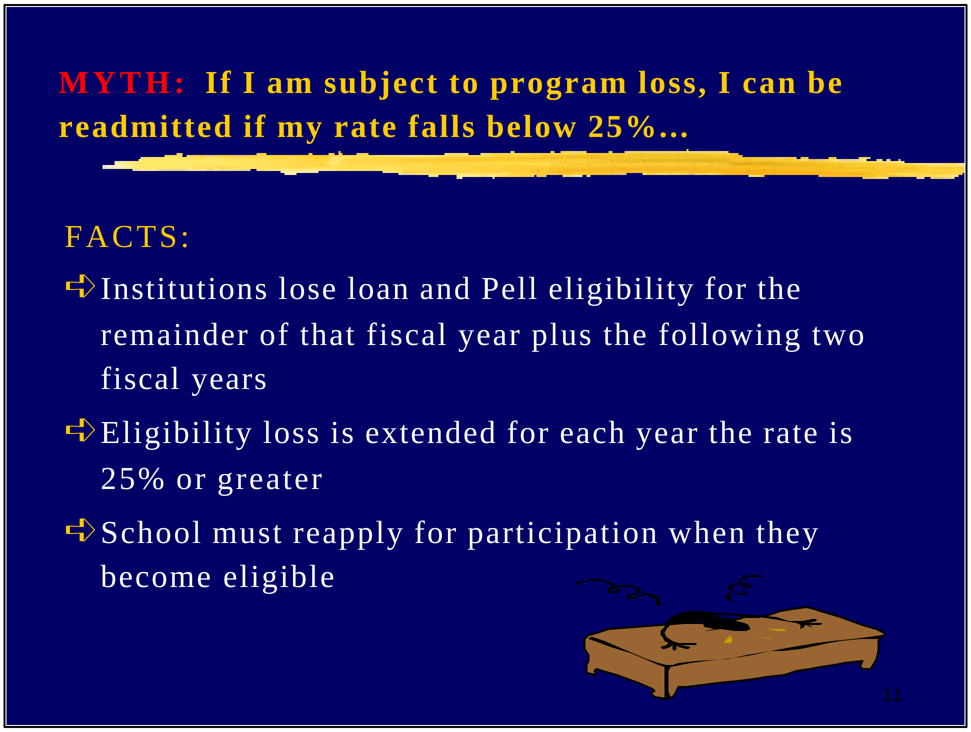
Note to Presenter: (asked to refer all questions to Default Management Division or to the guide.)

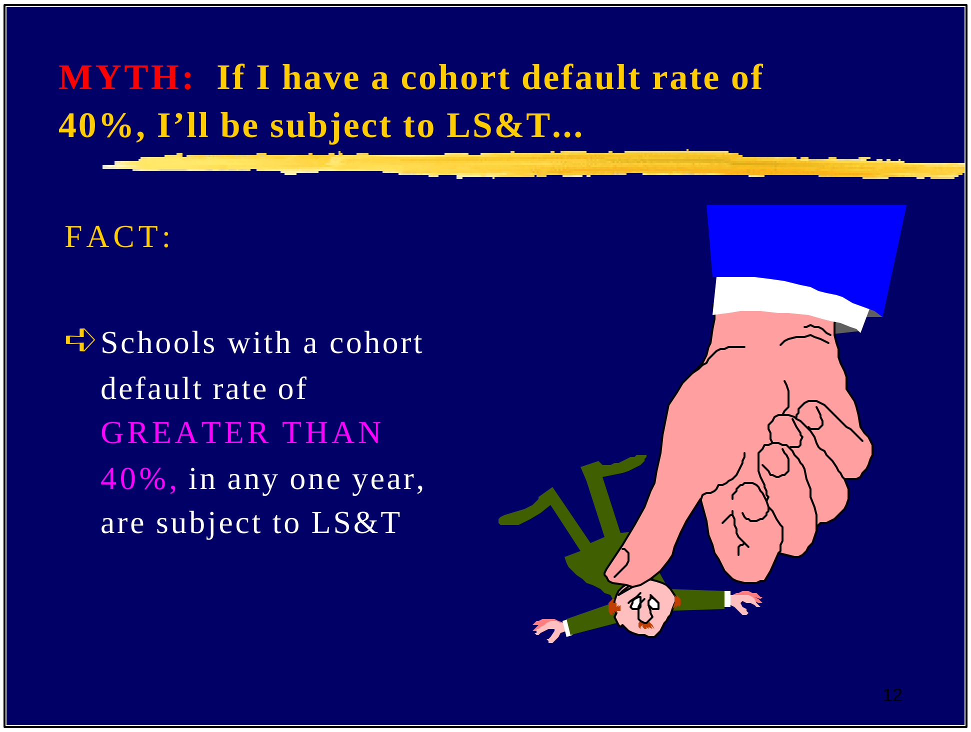
Please refer anyone with questions to DMD or the Official Cohort Default Rate Guide sent out with the default rates.

If anyone needs another guide the can get a copy from the DMD



Institutions with a cohort default rate of 25% or greater for three consecutive years lose their Federal student loan (not PLUS or Perkins) and Pell grant eligibility. This lose of eligibility is effective 30 calendar days after the date the institution receives notification for the remainder of that current fiscal year plus the following two fiscal years.

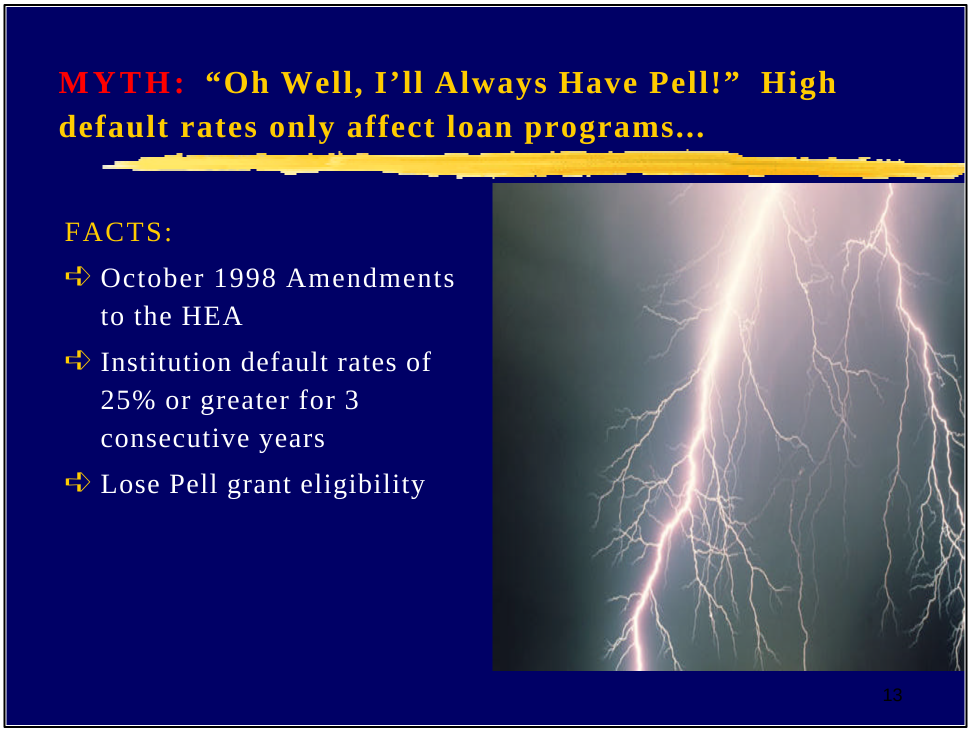
For each subsequent year that the school's cohort default rate is 25% or greater, the eligibility loss is extended. When and if the institution's CDR drops below 25% after its period of ineligibility expires must reapply for participation in order to be reapproved.



LS&T = Limitation, Suspension and Termination.

LS&T applies to ALL Title 4 programs.

LS&T is not automatic. DMD refers school to AAAD for administrative action.



With the October 1998 Amendments to the HEA, new legislation was passed that states institutions that lose their Federal student loan eligibility due to high defaults rates of 25% or greater for three consecutive years will also lose their Pell grant eligibility.

MYTH: Default = 180 Days Delinquent

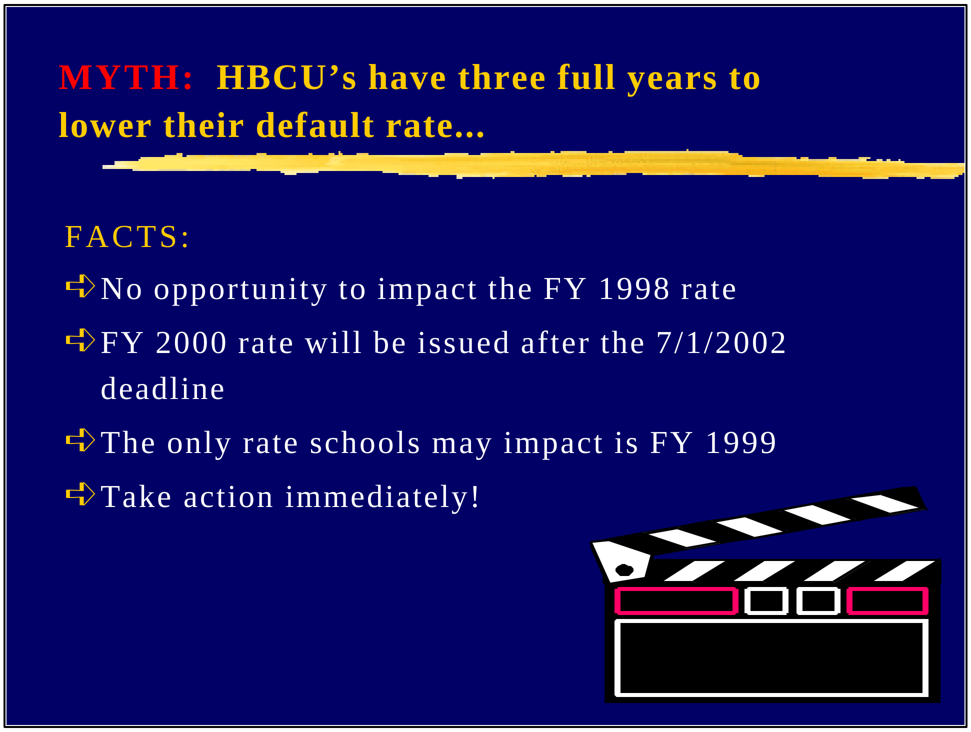
FACTS:

- The 1998 Amendments HEA: 270 days constitutes delinquency
- Effective October 7, 1998, which is outside the time period for the FY 1997 cohort period.
- Need More info? Refer to the table on page 17 of the Official Cohort Default Rate Guide!

The 1998 Amendments of the Higher Education Act changed the definition of default from 180 days to 270 days of delinquency.

The change in the definition of default did not become effective until October 7, 1998, which is outside the time period for the FY 1997 cohort period. Therefore, the change in the definition of default does not affect the FY 1997 cohort default rate.

The Table on page 17 of the Official Cohort Default Rate summarizes the date used to determine if a loan is included in the numerator of the cohort default rate calculation. There a loan program distinctions associated with the 270 day change. The chart gives the application of the 270 day change for the Direct Loan Program.



Current HBCU exemption states that schools lose eligibility due to cohort default rates that are 25.0% or greater for three years effective July 1, 1999 through 7/1/2002.

Default rates are actually running three years behind. So in actuality, schools need to be aware that FY99 rate will be the rate issued in three years. Must be concerned with students that are entered into repayment during 10/1/98-9/30/99 to ensure these borrowers do not enter into default before 9/30/00. To debunk this myth, the truth is, schools don't have 3 full years. They have from today until 9/30/00 to impact your

1998 rate is already gone

FY 2000 rate will be issued after the 7/1/2002 deadline

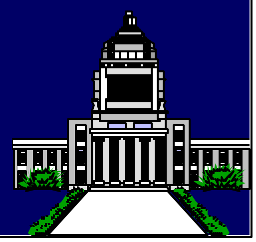
The only rate schools may impact is FY 1999

Take action immediately!

MYTH: HBCU's have congressional exemptions/previous exemptions will be reinstated...

FACTS:

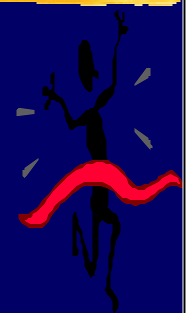
- The 1998 amendments removed the prior exemption of HBCU's from the default penalty (effective 7/1/99)
- The current HBCU exemptions, effective 7/1/99-7/1/2002 have specific conditions that must be met
- No reinstatement is anticipated



The 1998 Amendments to the Higher Education Act (1998 Amendments) removed the OLD exemption that allowed HBCUs and Tribally Controlled College institutions to continue to participate in certain federally funded student financial assistance programs if the schools' cohort default rates were 25% of greater for 3 consecutive years. NO REINSTATEMENT IS ANTICIPATED. The effective date of this change was July 1, 1999.

However, the 1998 Amendments established a provision which allows HBCUs and TCCs to remain eligible to participate in the federally funded programs despite high default rates provided the schools: submit acceptable default management plan, 2) engage independent third party to assist in implementation of default management plan, and 3) submit evidence to the Department demonstrating improvement of cohort default rate. July 1, 2000 is the first checkpoint for the demonstration of improving the cohort default rate. However, in order for an HBCU that has submitted a plan to continue its eligibility if its rates remain at ir greater than 25%, the school must demonstrate substantial improvement **each year** up until July 1, 2002 - when the exemption ends.

Myth: Schools with default rates below 25% do not need a default management plan...



FACTS:

- All schools/borrowers can benefit!
- Incentives include:
  - →Single disbursements
  - →Non-delayed disbursements
- Your default management plan may assist with challenges and appeals
- Begin working on your plan now!

All schools can benefit from a default management plan to ensure continued low default rates. There are benefits for schools with low cohort default rates. Incentives include: Single disbursements and Non-delayed disbursements.

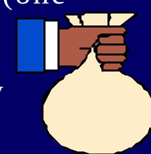
A good default management plan make sure to ensure that your institution will continue to enjoy these incentives and may assist with challenges and appeals.

Begin working on your plan now!

Myth: Curing a defaulted loan improves the default rate…

FACTS:

- Paying-off a defaulted loan does not affect the calculation
- Rehabilitation does not affect the calculation (one possible exception)
- Curing defaults reinstates borrower eligibility



BULLET 1

Purely from a calculation stand-point,

“Once in default, always in default”

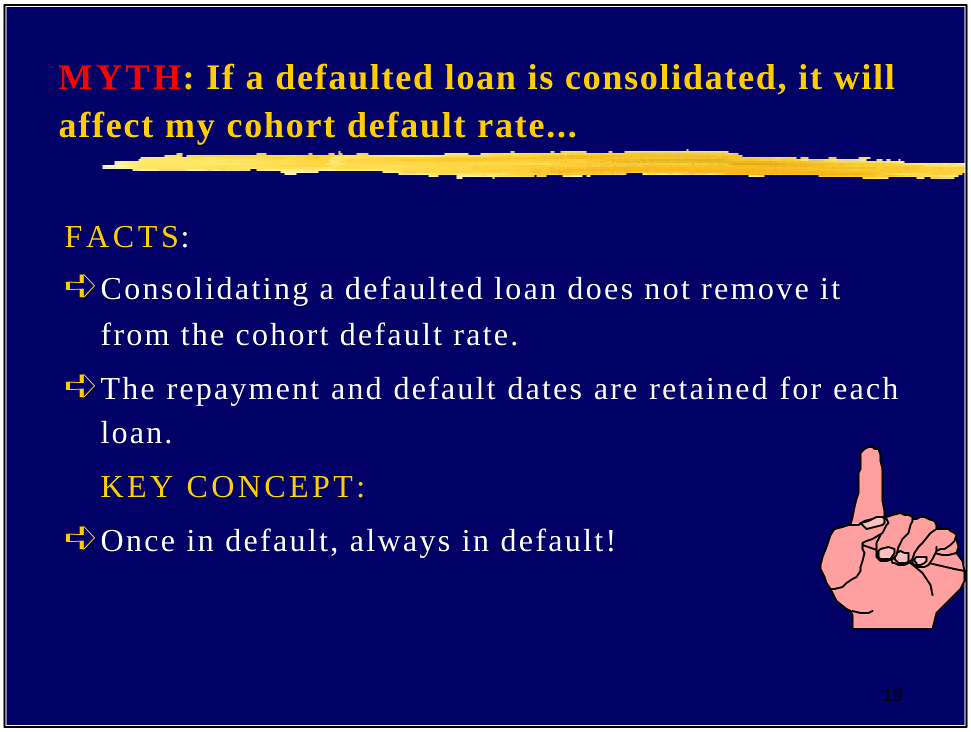
Also, “Once in repayment, always in repayment”

BULLET 2

Exception - 12 on-time monthly payments before the end of 24 mos. CDR window (numerator)

BULLET 3

Although not affecting the calculation of CDR, renewed eligibility may open the door to retraining & employment opportunities



SOME FORMATTING THINGS - ABOVE (JUST FOR VISUAL PURPOSES)

Consolidation loans that enter into default affect the cohort default rate of the underlying loans if the underlying loans fall within the cohort time frame. The underlying repayment and default dates are retained for purposes of calculating the cohort default rate.

If the underlying loan is in default, consolidating that loan does not remove it from the cohort default rate.

Once in default, always in default (for cohort purposes). (Tara's Comments follow.)

If the consolidation loan defaults **within the same cohort period that the underlying loans entered repayment**, the default of the consolidation loan applies to all of the underlying loans that were consolidated under the consolidation loan.

Example:

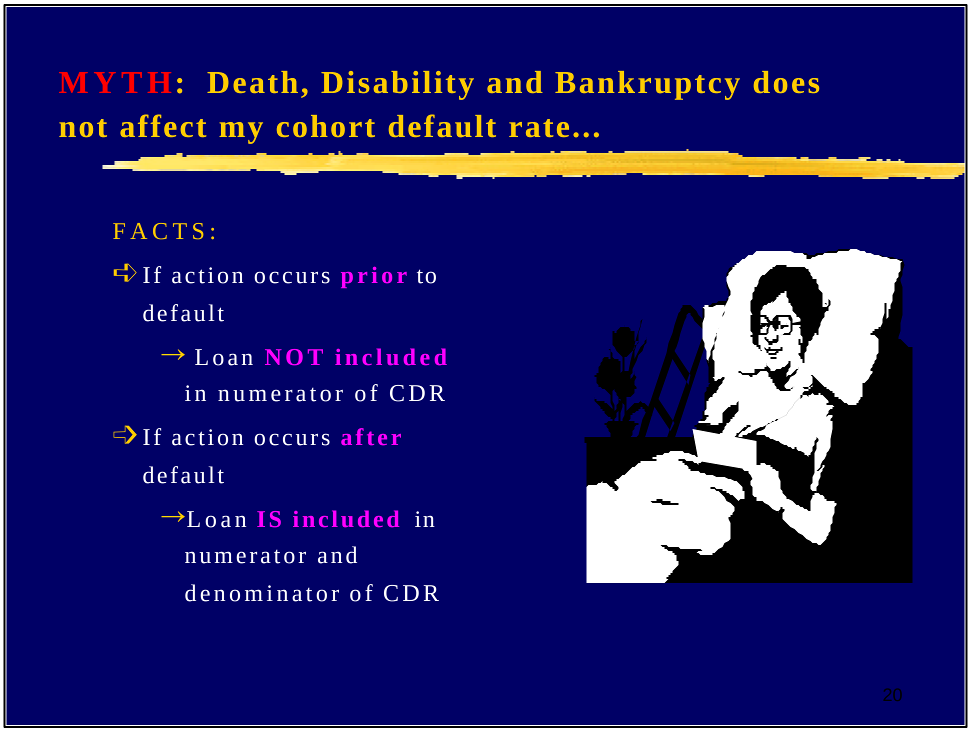
Underlying Loan #1 - DER: 1/97 (did not default prior to consolidation)

Underlying Loan #2 - DER : 1/98 (did not default prior to consolidation)

Consolidation Loan was obtained and it defaulted in 9/15/98

Based on the DER, Underlying Loan #1 is included in the denominator of the FY 1997 cohort default rate. To determine if this loan will be included in the numerator of the FY 1997 cohort default rate, we have to check to see if the underlying loan **or** the consolidation loan defaulted within the FY 1997 cohort period (i.e., October 1, 1996 - September 30, 1998). The underlying loan did not default **BUT** the consolidation loan did default prior to September 30, 1998. Therefore, Underlying Loan#1 is included in both the Numerator and Denominator of the FY 1997 cohort default rate calculation.

Based on the DER, Underlying Loan #2 is included in the denominator of the FY 1998 cohort default rate. To determine if this loan will be included in the numerator of the FY 1998 cohort default rate, we have to check to see if the underlying loan **or** the consolidation loan defaulted within the FY 1998 cohort period (i.e., October 1, 1997 - September 30, 1999). The underlying loan did not default **BUT** the consolidation loan did default prior to September 30, 1999. Therefore, Underlying Loan#2 is included in both the Numerator and Denominator of the FY 1998 cohort default rate calculation.



If borrower dies, becomes totally and permanently disabled or his loan is discharged in bankruptcy PRIOR TO default, the borrower's loan IS NOT included in the numerator of the institution's cohort default rate. The borrower should NOT be included in the numerator of the cohort default rate calculation because the loan did not default prior to the death, bankruptcy and/or disability.

If borrower dies, becomes totally and permanently disabled or his loan is discharged in bankruptcy AFTER default, the borrower's loan IS included in the numerator of the institution's cohort default rate. The borrower should be included in the numerator of the cohort default rate calculation because the loan defaulted within the fiscal year the loan entered repayment or the next fiscal year <u>and</u> the loan defaulted prior to the death, bankruptcy and/or disability.

REFERENCE: Page 20, Official Cohort Default Rate Guide

MYTH: Once a student leaves my institution, I have no control or obligation…

FACTS:

➪ Control:

- →Use data on delinquent borrowers
- →Use information to shape institution approach
- →Borrower contact after separation is essential

➪ Obligation:

- →Maintain Title IV eligibility
- →Achieve optimum CDR levels to create disbursement options

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BULLET 1

access sources in data on your borrowers (GA/lender; DL servicer)

maintain a borrower database; calculate own CDR to update people/offices involved; adjust efforts as needed

Methods of contact include

- Alumni Association
- E-mail
- Guardian/Parent
- Independent Third party Servicer

BULLET 2

Institution wide obligation

low default rates ensures future funds for students

Myth: Once a student leaves my institution, I have no control or obligation... (cont'd)

FACTS:

- Methods of contact include
  - →alumni association
  - →e-mail
  - →guardian/parent
  - →independent third party servicer

- Maintain borrower database

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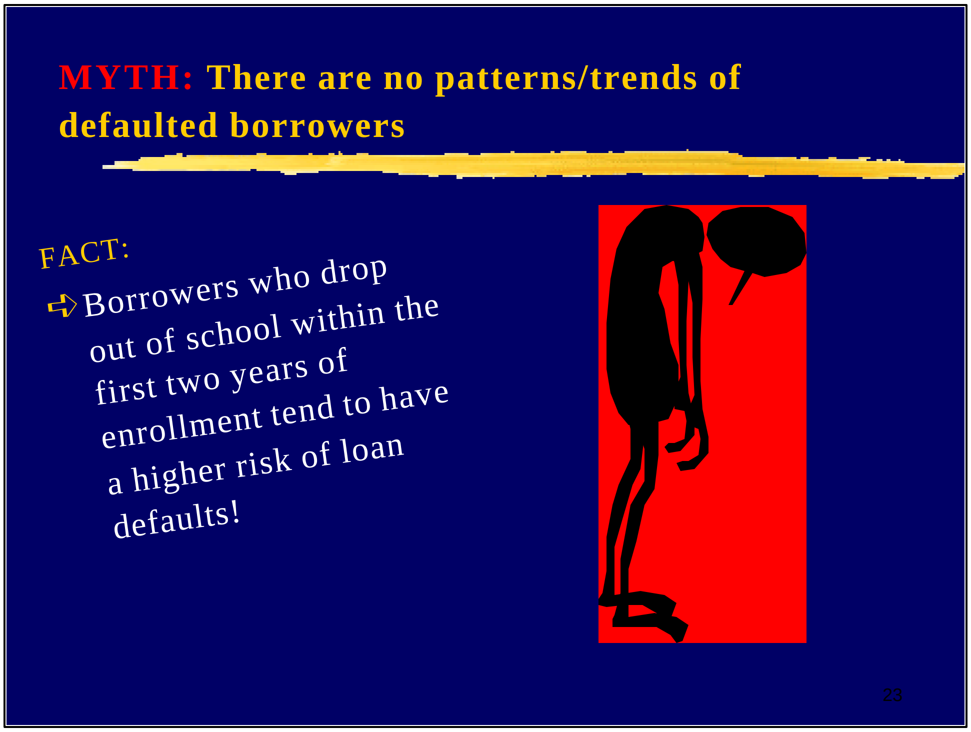
One way to track borrowers is to maintain a database at your institution.

Some examples used by other schools include the using other offices on campus, allowing student's to keep their email accounts for 2 years after they leave your institution, contacting parents or guardian and/or the hiring a 3rd party servicer to assist with collecting and maintaining current information.

By keeping track of borrowers and encouraging them to repay their loans, offering assistance with questions or concerns both the student and the school will benefit.

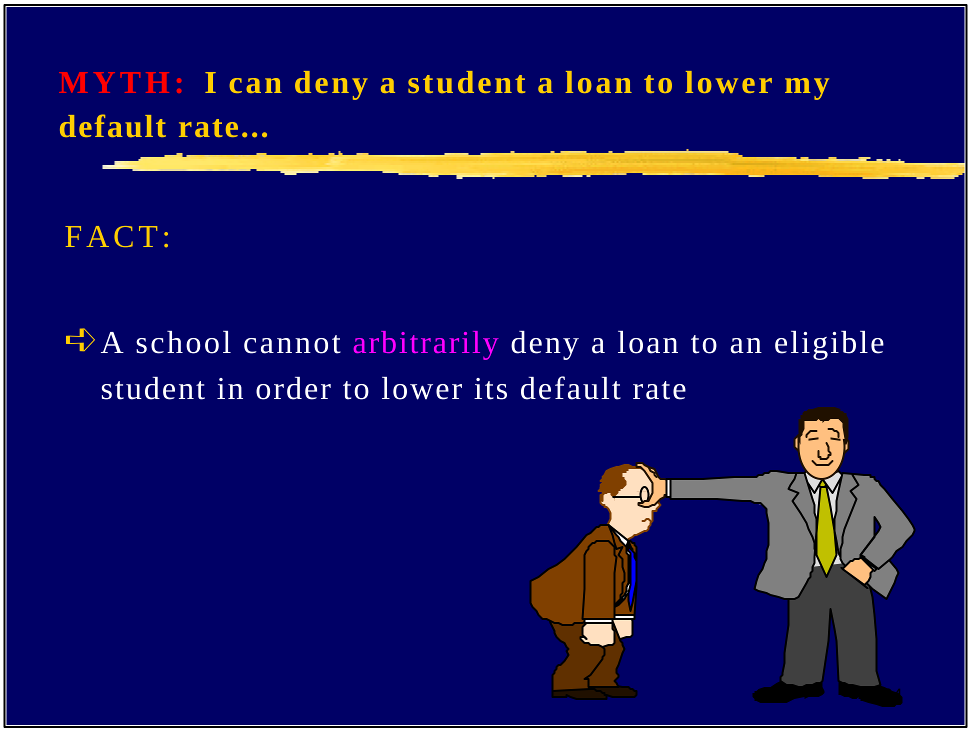


One of the Required Elements of a Default Management Plan is the definition of evaluation methods and the establishment of a data collection system for measuring relevant default management statistics.

Although many institutions find that borrowers who drop out of school within the first two years of enrollment tend to have a higher risk of loan default, you must collect data and analyze that data to determine the unique defaulter profile for your student population. You might need to look at **all aspects** of your defaulter profile, late registration, test scores, etc.

Sallie Mae, as well as other Lenders and Guarantee Agencies have conducted similar studies. Their analysis of the data indicate that those who drop out within the first two years tend to have a greater risk of defaulting.

What does your data tell you?



The regulations allow a school to refuse to certify(FFEL) or originate(DL) if the reason for the action is documented and provided to the student in writing,provided

1.The determination is made on a case- by- case basis;

2.The documentation supporting the determination is retained in the student's file,

3.The school does not engage in any pattern or practice that results in a denial of a borrower's access to FFEL or DL because of the borrower's race,sex,color,religion,national origin,age,handicapped status,income,or selection of a particular lender or guaranty agency.

Myth: I don't offer PLUS loans--they raise default rates...

FACTS:

Loans included in Cohort default rates:

- FFEL Program Loans
  - →Subsidized Stafford
  - →Unsubsidized Stafford
  - →Supplemental Loans (SLS)
- Direct Loans
  - →Subsidized Stafford
  - →Unsubsidized Stafford

The cohort default rate does not include all types of FFEL and/or Direct Loan Program Loans. The following loans are NOT included in the cohort default rate calculation:

Plus Loans

Federal Direct Plus Loans

Federal Insured Student Loans

Federal Perkins Loans

*Note: Federal Consolidation and Direct Consolidation Loans are not calculated directly in the cohort default rate calculation. However, the status of a consolidation loan may affect how the loan(s) that was paid off by the consolidation loans is included in the cohort default rate calculation.

It is always more cost effective to prevent defaults. The school may spend less of its resources trying to obtain payments from delinquent borrowers. And defaults cost the school in its participation in loan programs.

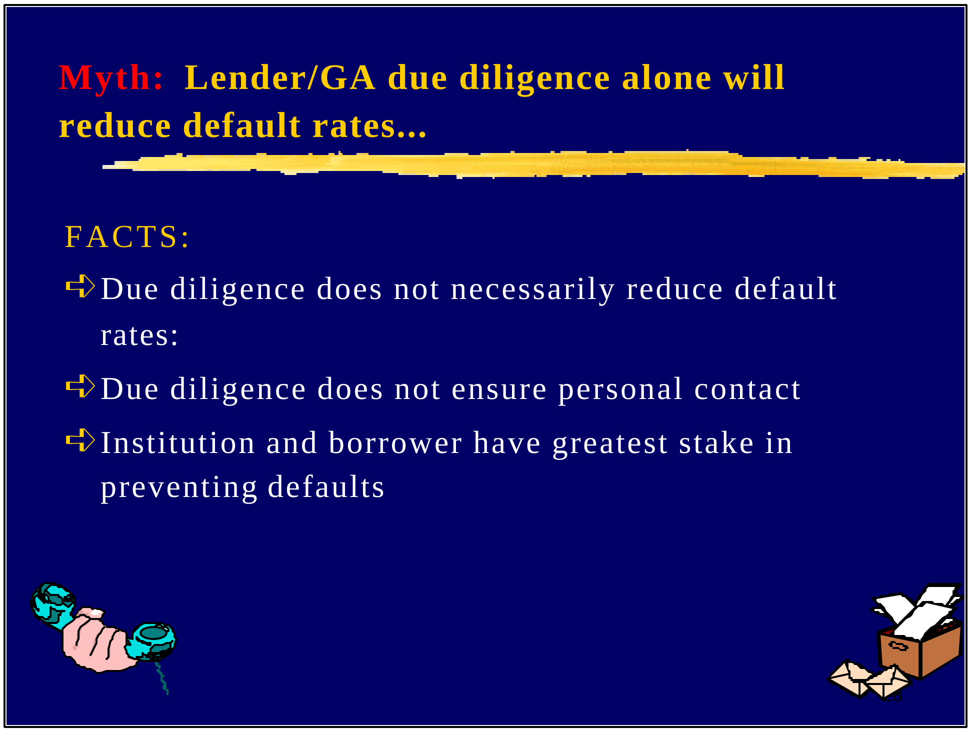
One of the key elements in a Quality Assurance plan is communication among school offices. The Default Prevention Specialist will develop effective communication links as Default Management measures are developed. These communication links can be effective in making the school a Quality Assurance school.

The Financial Aid Officers have very full platters. Counseling and packaging aid for students is more than a full time job. To give Default Management the attention it needs requires a Default Management Specialist devoted only to that function.

It is important that you monitor the performance of your Independent Third Party.

No one cares more about your default rates than you! (the school). Track progress regularly to ensure that goals and objectives

are being successfully met within specified time-frames. Write contracts that are performance-oriented.



Due Diligence is defined as:

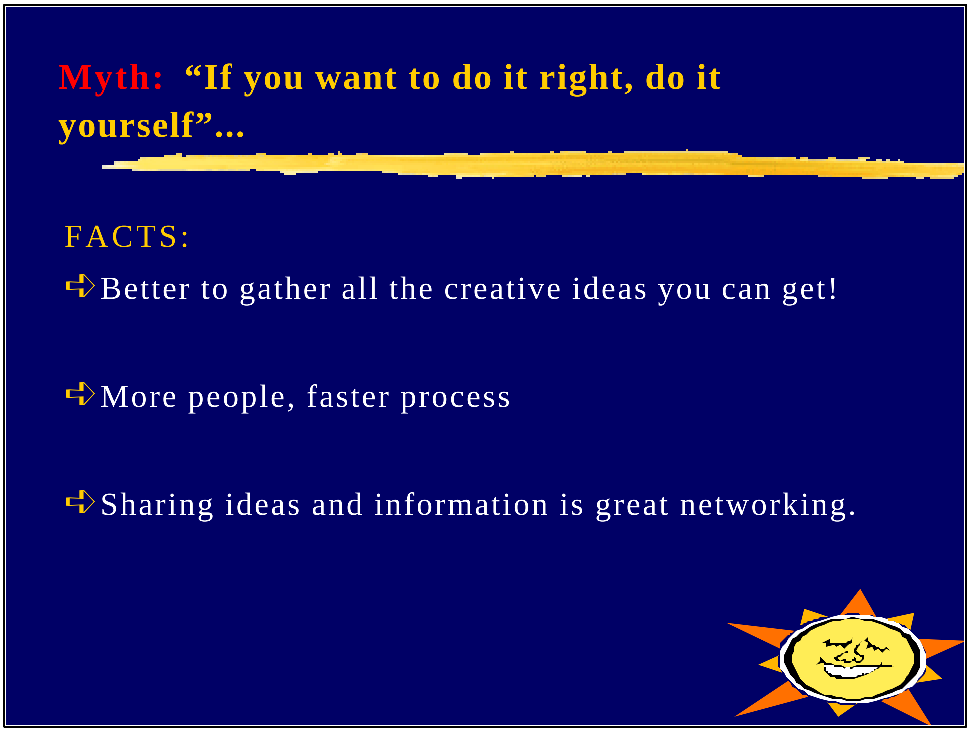
Full and timely disclosure to student borrowers of their rights and obligations, explained during entrance and exit interviews. Also the use of extensive, persistent, and forceful procedures for servicing and collecting student loans.

Lenders are required to send letters and attempt at least one telephone call to the borrowers are part of servicing a loan. The key word here is attempt.

The School and Borrower have the greatest stake in preventing defaults not the lender.

Schools should stay in contact with their borrowers for at least 2 years after they enter repayment to assist the students with questions or concerns which may help to prevent default.

More information regarding loan servicing can be found on pages 111-120 of the Official Cohort Default Rate Guide FY1997.



Someone in another office may have a great, creative idea that will make your Default Management plan and winner and will make you a hero.

Having help from your colleagues can really move that Default Management task along.

Sharing ideas with your colleagues is great networking. This is the kind of communication that will move you along toward being a Quality Assurance school.

Back to that communication thing - if your school begins having cohort default problems, it's better they hear from you before hearing from the Department. And if you manage to lower the cohort default rate, don't you want a nice little pat on the back and a big raise?

If you present a proposal to develop a Default Management plan, Senior Level Officials will most likely want to give you the go-ahead. And, if you present your proposal well, they may see the financial value to your proposal and provide the resources that you need to develop your plan.

If Senior Level Officials see the value of a Default Management Plan, they may have some creative suggestions to offer. (Strange as it may seem, they may have some good ideas!)

Default Management Division

- Phone: (202) 708-9396
- Email:OSFA_IPOS_Default_Management_Division@ed.gov

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Thank you for Attending...

ANY
QUESTIONS?