



SPRING CONFERENCE

Kansas City, Missouri

2003



Repayment and Recovery of Title IV Loans

Presented by

- Kristie Hansen
General Manager,
Financial Partners Channel
- Dan Hayward
Director, Student Channel
SCM/Repayment



Repayment and Recovery of Title IV Loans

This session will focus on current trends in student loan repayment. We will cover various topics, including the impact of interest capitalization, characteristics of delinquent and defaulted borrowers, and tools that are available for borrowers to avoid delinquency and for schools to avoid default.

Options available to borrowers include:

- Repay Plans
- Due Dates
- Deferments/Forbearances
- Forgiveness
- Consolidation

You can help us achieve success in Default Prevention.

Agenda

- Current Trends in Student Loan Repayment and Recovery
 - The Current Environment
 - The “Players”
- Measures of Success
 - Capitalization
 - Contact
- Characteristics of Delinquent and Defaulted Borrowers
- Options Available to Borrowers
 - During Repayment
 - After Default
- Summary

Current Trends - Our Current Environment

- The U.S. economy is currently in a period of great turmoil with high levels of unemployment.
- The costs of education continue to rise.
- Student and parent borrowers are experiencing significant debt burden (Title IV loans, private loans, credit cards and other debt).
- To address these issues:
 - Access to Title IV information/services continuously improved
 - Default aversion strategies are being implemented

Current Trends - Our Current Environment

- Repayment and Recovery is a long process but a lot of successful borrowers make it through the process.
- Cohort Default Rates are not the end of the process but serves as a checkpoint along the way.
- Contact with the borrower is the key to success.

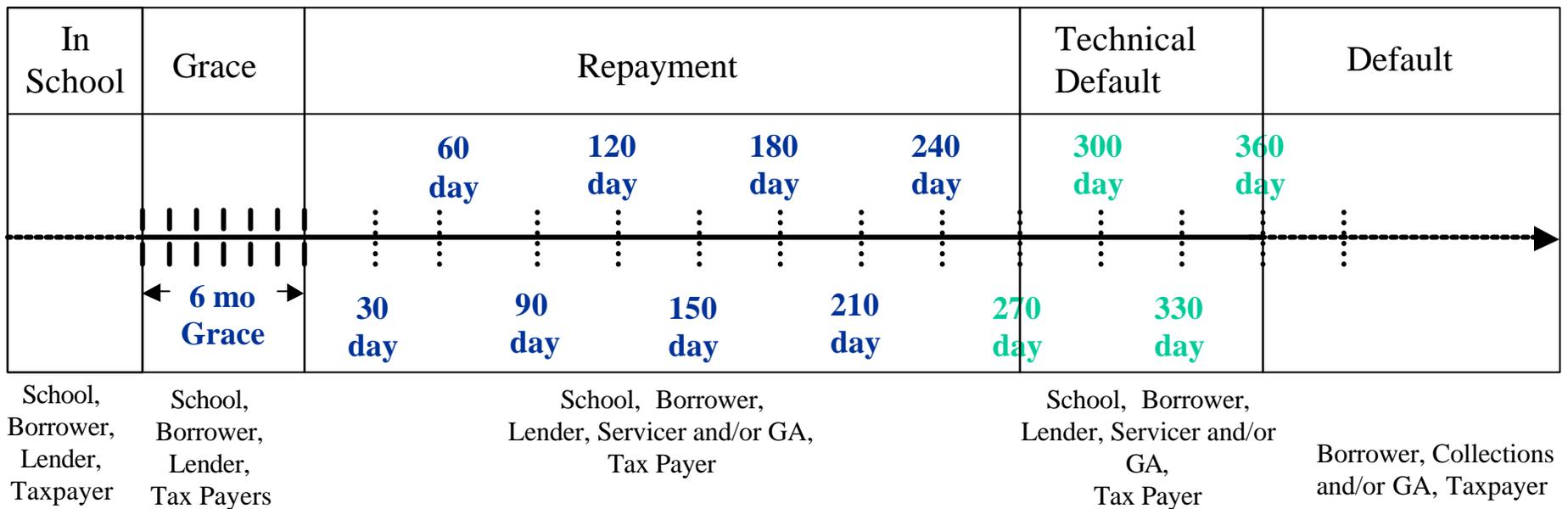
Current Trends – The Players

- Student and Parent Borrowers
- Schools
- Loan Holders & Servicers
 - Lender, Guarantors, Department of Education
- Collection Agencies (FSA and Private)
- Guaranty Agencies (GAs)
- FSA Ombudsman
- Department of Education
- U.S. Taxpayers

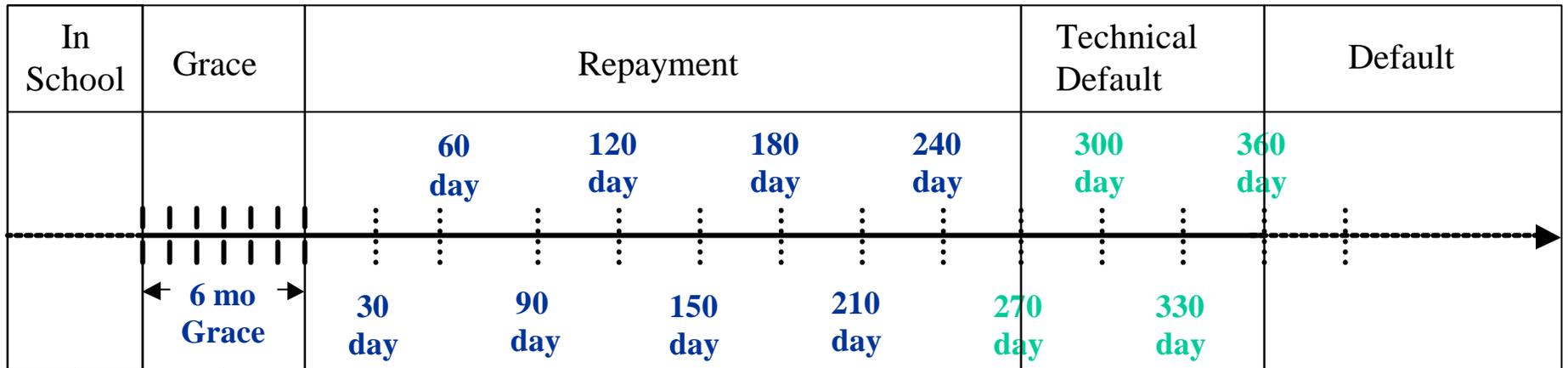
Title IV Loan Life

- In School – from origination and booking until graduation or drop below half time.
- In Grace – from end of school for 6 months
- Repayment – from point of leaving grace through successful repayment or discharge.
- Technical Default – from 270 days of delinquency through day 360 or until the loan is resolved (paid, Deferment/Forbearance, etc.)
- Default – from 270 days forward.

Repayment/Recovery Cycle



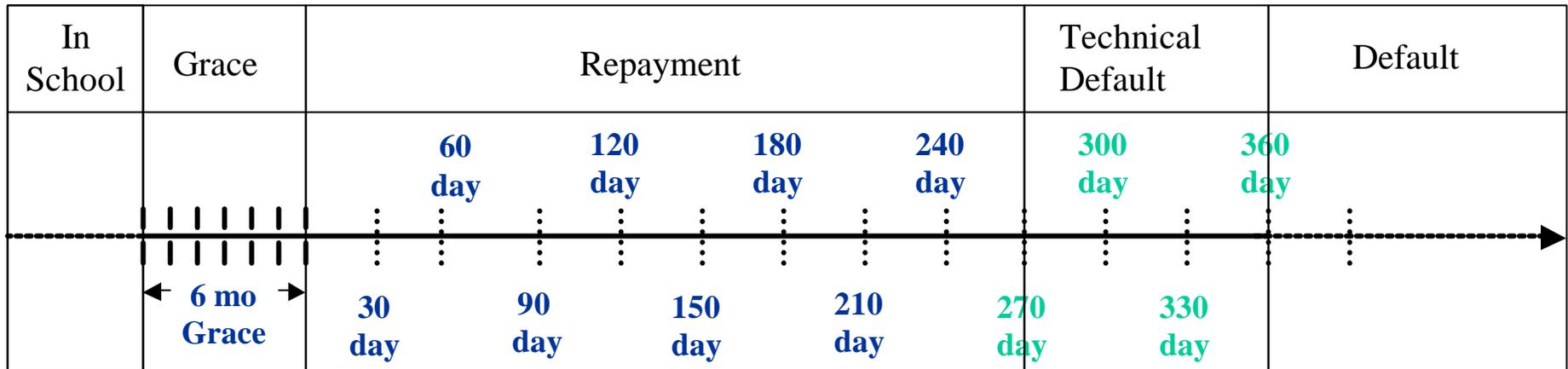
Repayment/Recovery Cycle



Exit Counseling (Web Sites + Personal Counseling) and Separation Communications
 Pay Plan Selection to Choose Most Appropriate Plan (Default is Standard)
 Loan Consolidation of Multiple Loans
 Get Current Address, Telephone and Cell Phone Numbers, eMail Address and Language Preference
 Interest Paid on Subsidized Portion of Stafford Loans

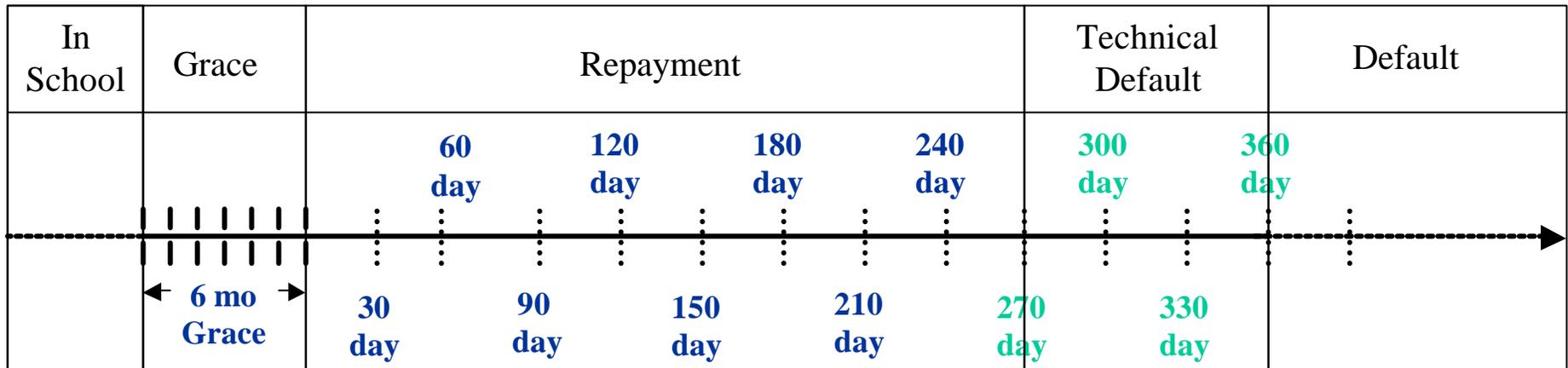
Entrance Counseling, Welcome Letters/Disbursement Disclosures
 Interest Paid on Subsidized Portion of Stafford Loans
 Prepay Interest on Unsubsidized Portion of Loans to Avoid Interest Capitalization

Repayment/Recovery Cycle



Timely Reporting of Change in Enrollment Status is Critical
 Borrower Counseling
 Exercise Options – Pay Plan, Due Date, EDA, Def/Forb, etc.
 Automated Payment Option Marketing
 Web Self-Service
 Loan Consolidation and Fixed Interest Rate
 Maintain Current Contact Information

Repayment/Recovery Cycle



Make Payment to Bring the Loan Current, Rehabilitate Loan (12 on-time payments)
 Obtain Deferment or Forbearance to Temporarily Suspend Repayment (but Capitalize Interest),
 Consolidate Loans to Lower Total Payments Including ICR/Income Sensitive Loans, Default

If We Can Contact the Borrower, We Will Have a Solution for Their Problem.

Problems: Ruined Credit, Collection Agencies, Wage Garnishment, Treasury Offset,
 Bankruptcy, Possible Impact on Employment/Licensing, etc.

Solutions: Win a Lottery and Pay Off Loan, Arrange Compromise Payoff, Make Satisfactory Repayment
 Arrangements, Rehabilitate Loans through 12 On-time Payments, Consolidate Loans (including Forced
 ICR Program)

The Problem of Interest Capitalization – Scenario 1

- Over 4 years, borrower receives \$18,000 of Unsubsidized TIV loans (For illustration, assume interest rate remains constant)
- Borrower graduates and chooses Standard repayment option
- Capitalize \$1,857 interest (3.46%) at Grace End
- 120 monthly payments of \$202 (for illustration, assume 4.06% for life)
- Total paid by borrower is \$24,240
 - \$18,000 principal and \$6,240 in cap and regular interest
 - Prepaying could reduce number of payments and reduce the total costs
 - Various incentives could reduce total costs

The Problem of Interest Capitalization – Scenario 2

- Same 4 years, same \$18,000 Unsubsidized (same assumptions)
- Borrower graduates and chooses Standard repayment
- Capitalize \$1,857 interest (3.46%) at Grace End
- Discretionary/administrative forbearance for 2 months to clear delinquency - Cap \$132 interest (4.06%)
- Unemployment Deferment for 24 months. \$1,623 Interest (4.06%) capped deferment end - Gets good job and repays loans
- 120 monthly payments of \$220 (assume 4.06% for life)
- Borrower pays \$3,612 over the life of the loan in capitalized interest
- Total paid by borrower is \$26,400 - \$18,000 principal and \$8,400 in cap and regular interest

The Problem of Interest Capitalization

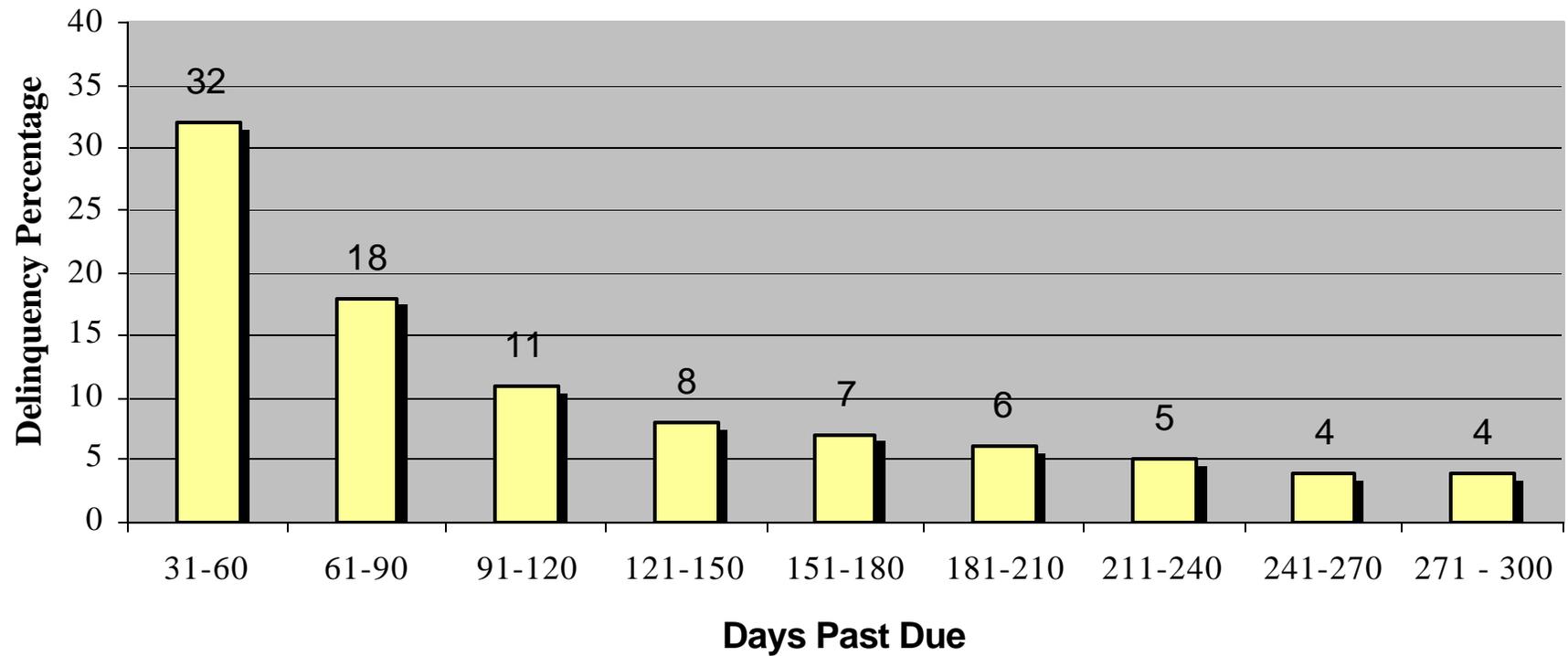
Borrower 1

- Capitalize interest:
 - \$1,857 at Grace End
- 120 mo. payments of \$202
- Borrower pays
 - \$ 18,000 principal
 - \$ 3,612 in cap and regular interest
- Total Paid = \$24,200

Borrower 2

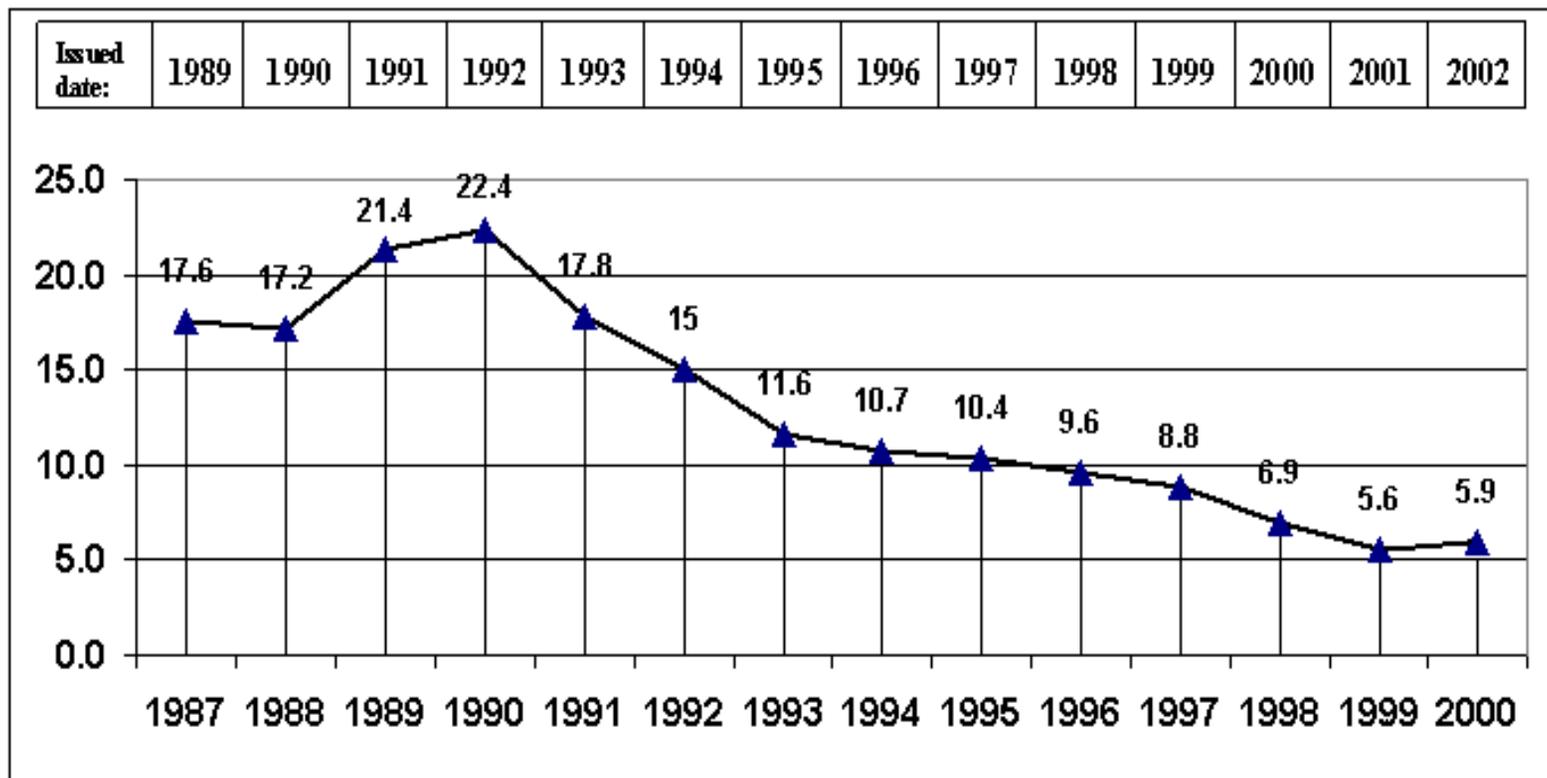
- Capitalize interest:
 - \$1,857 at Grace End
 - \$132 at Disc/Admin Forb end
 - \$1,623 at Unemployment Def end
- 120 mo. payment is \$220
- Borrower pays
 - \$ 18,000 principal
 - \$ 8,400 in cap and regular interest
- Total Paid = \$26,400

Borrower Delinquency Trend

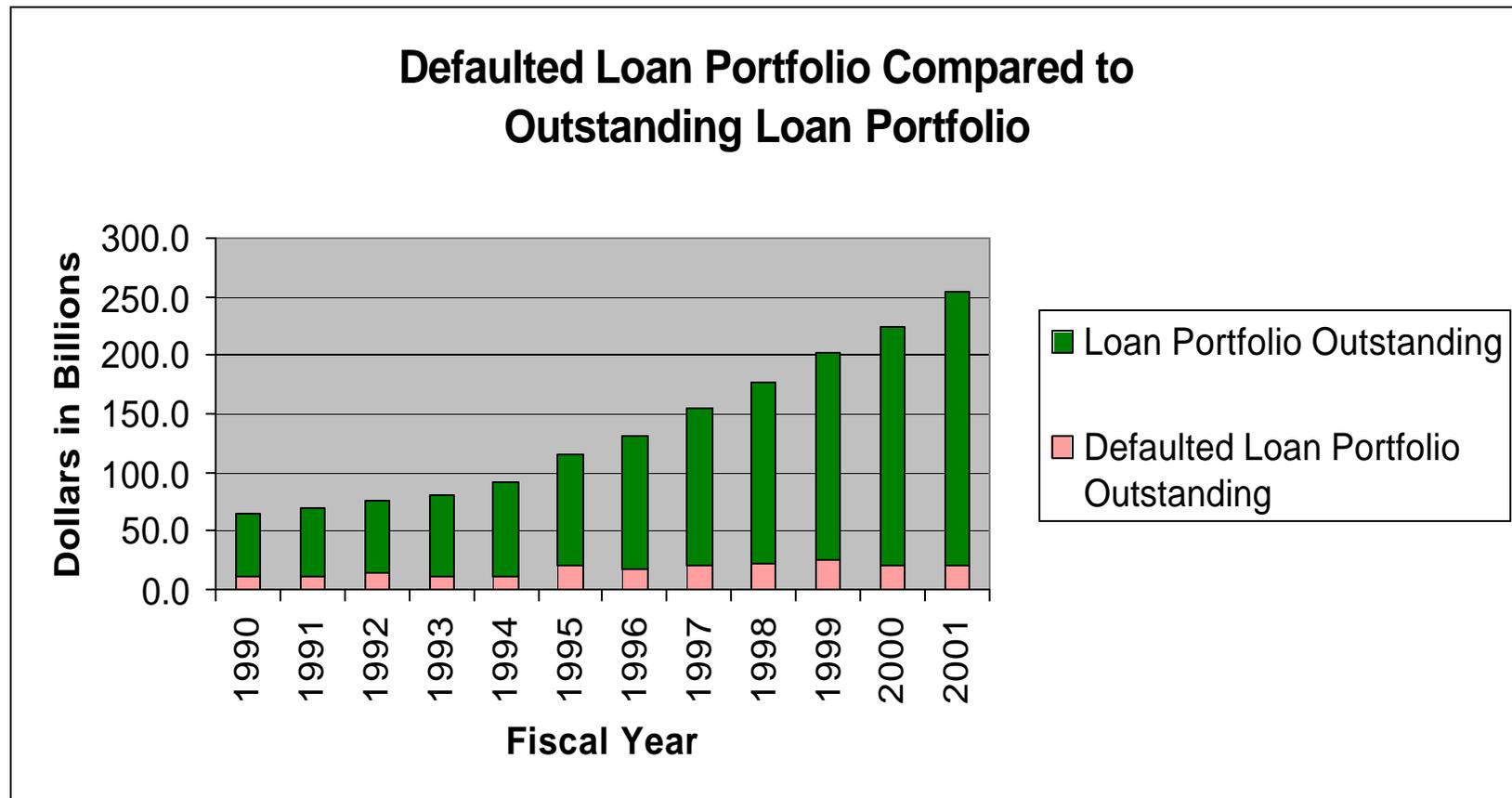


Cohort Default Rates

National Student Loan Default Rates

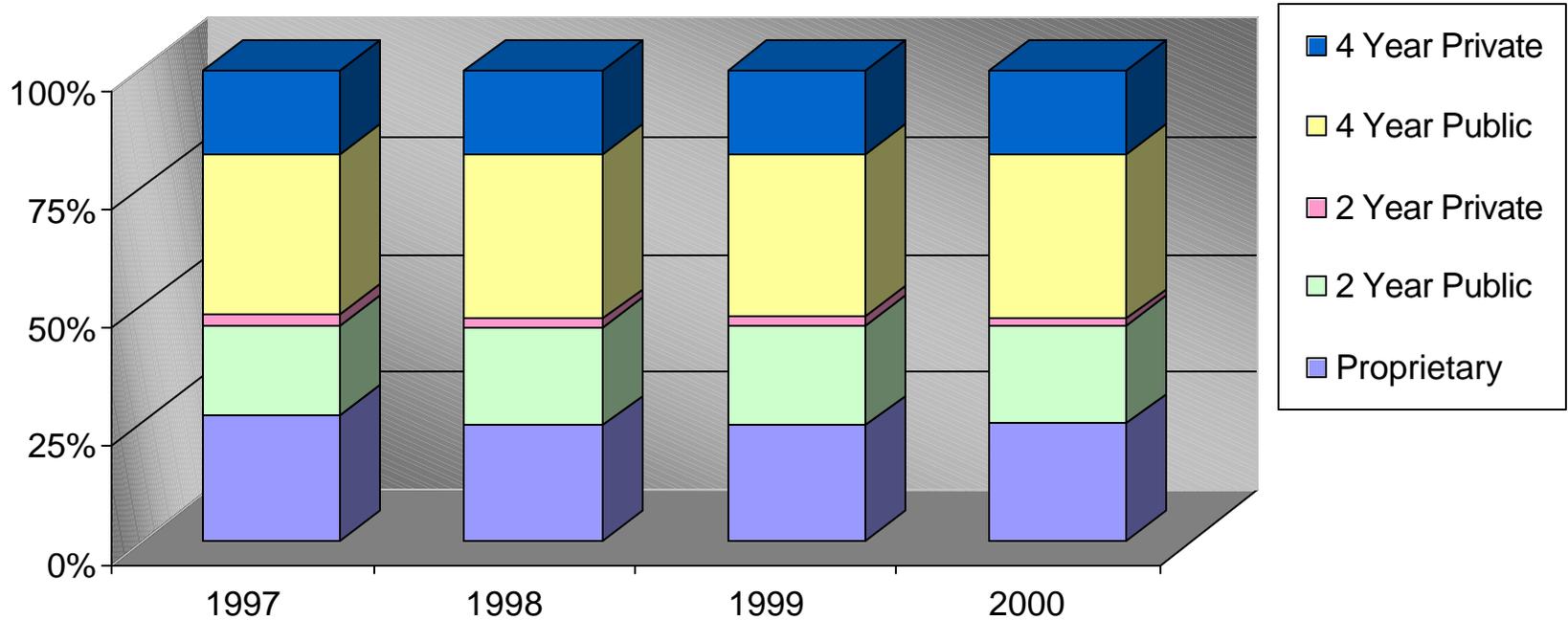


A Different Look at Defaults



Default Statistics (DL)

Cohort Default Contribution by
School Type



Common Characteristics of Default Population (DL)

- 76% have withdrawn from school and did not complete their studies
- 85% do not get the advantage of “aging through” their full 6 month grace as the result of late enrollment notification
- 40% have bad telephone numbers
- 57% have been unable to contact the borrower by telephone during the 12 months of collection effort (call screening, cell phones, etc.)

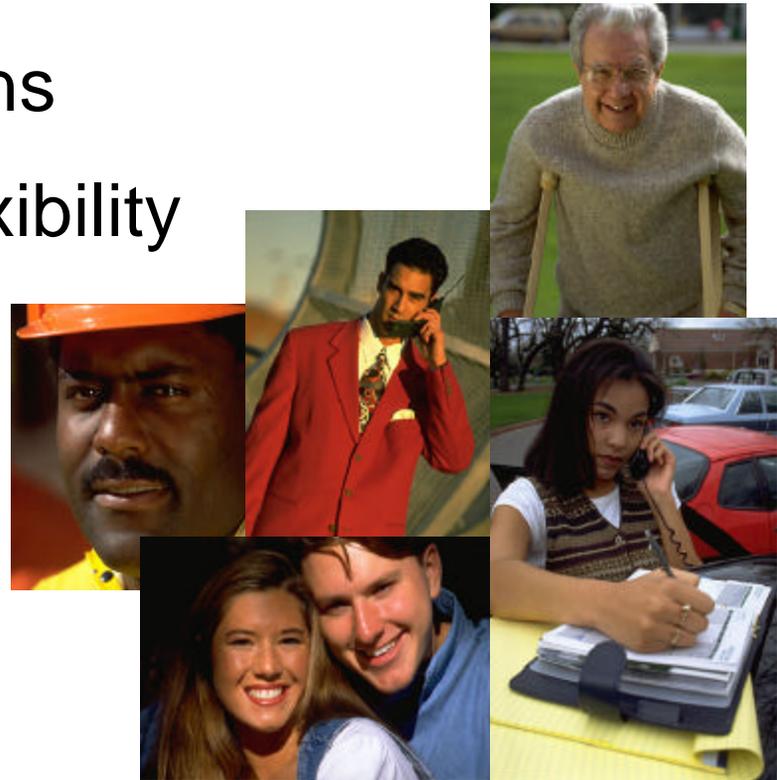
Electronic Servicing - Start to Finish

- Web-based functionality provides “anytime, anywhere” access to Title IV information to enhance repayment.
- Online Counseling
 - Credit and debt counseling
 - Entrance and exit counseling
 - Budget calculators
- Online Account Management for Borrower (receive bills/correspondence, payments and prepayments, track loans, manage pay plans and dates, etc.)
- Online Management for Schools (delinquency reporting, credit checks, etc.)



Tools for Borrowers

- Repayment Plan Options
- Payment Due Date Flexibility
- Entitlements
 - Deferments
 - Forbearances
 - Forgiveness
- Loan Consolidation
- Electronic Payments (EDA, ACH, Bill Pay Services)



Tools for Loan Holders

- Skip Tracing
- Entrance/Exit Counseling materials
- Borrower Contacts (collection calls)
- Electronic Servicing (ease of use, access)
- School Delinquency Support
- Credit Bureau Reporting
- NSLDS



In Summary...

- Need the right payment options to match debt level and ability to pay
- Need to consider all debt (including credit card, alternative loans and Title IV loans)
- The borrower needs to understand that they do have **OPTIONS**
- We're all in this together and working hard for our borrowers to achieve successful repayment of their student loan debt!



Contact Information

Kristie Hansen, General Manager
Financial Partner Channel
kristie.hansen@ed.gov
(202) 377-3301

Dan Hayward, Director
Student Channel
SCM/Repayment
dan.hayward@ed.gov
(202) 377-3207

A large, stylized graphic with the text "THANK YOU!" in a bold, purple, bubbly font. The text is set against a yellow oval background with a purple outline and a grey shadow effect.

**THANK
YOU!**

Questions and Answers



SPRING CONFERENCE

Kansas City, Missouri

2003