



Session 14

Student Loan Delinquency Management

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Loan Program





What We'll Talk About:

- The Big Picture
- Reducing delinquent loans
 - Why should I get involved?
 - What should I do?
- Manage Delinquency and Mitigate Default
 - Examples of guarantor and school activity





Student Loan Basics

- Approximately \$400 billion in outstanding federal student loans
- Nearly 30 million borrowers
- More than 50% of the outstanding FFEL and DL balance is in consolidation
- The average outstanding loan balance in consolidation is \$18,240





Composition of the Outstanding Loan Portfolio

Combined Title IV Loans

Type of Loans	Number of loans	% to Total	Total Principal & Interest	% to Total
Stafford Sub.	39,048,155	49.1%	\$107,325,080,770	26.7%
Stafford Unsub.	22,036,060	27.7%	\$75,908,037,857	18.9%
Consolidation	10,432,719	13.1%	\$190,301,070,660	47.4%
PLUS	2,978,623	3.7%	\$16,245,320,583	4.0%
SLS	803,898	1.0%	\$3,321,484,742	0.8%
Refinanced	56	0.0%	\$205,809	0.0%
FISL	324,974	0.4%	\$274,390,715	0.1%
Perkins	3,867,933	4.9%	\$8,461,713,993	2.1%
Total	79,492,418	100.0%	\$401,837,305,129	100.0%

Average per Consolidated Loan \$ **18,241**
Average per Non-Consolidated Loan \$ **3,063**



Composition of the Outstanding Loan Portfolio

FFELP Loans

Non-defaulted

Type of Loans	Number of loans	% to Total	Total Principal & Interest	% to Total
Stafford Sub.	24,953,347	50.2%	\$ 65,789,040,209	24.1%
Stafford Unsub.	15,405,457	31.0%	\$ 53,731,132,895	19.7%
Consolidation	7,123,780	14.3%	\$ 141,896,541,085	52.0%
PLUS	1,984,025	4.0%	\$ 10,605,833,577	3.9%
SLS	203,078	0.4%	\$ 624,594,911	0.2%
Refinanced	20	0.0%	\$ 60,842	0.0%
Total	49,669,707	100.0%	\$ 272,647,203,519	100.0%

Average per Consolidated Loan \$ 19,919
Average per Non-Consolidated Loan \$ 3,073





Composition of the Outstanding Loan Portfolio

Direct Loans

Non-defaulted

Type of Loans	Number of loans	% to Total	Total Principal & Interest	% to Total
Stafford Sub.	8,367,739	48.8%	\$ 24,198,134,843	28.0%
Stafford Unsub.	5,265,757	30.7%	\$ 17,742,313,004	20.5%
Plus	803,704	4.7%	\$ 4,663,194,125	5.4%
Consolidation	2,719,901	15.9%	\$ 39,930,285,841	46.1%
Total	17,157,101	100.0%	\$ 86,533,927,813	100.00%

Average per Consolidated Loan \$ 14,681

Average per Non-Consolidated Loan \$ 3,228

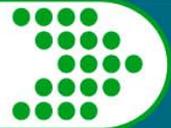




The Primary Players in Repayment

- Borrower
- School
- Lender/Service
- Department of ED
- Guaranty Agency





Things Happen During Repayment

- Borrower pays off loan in 10 years or less with no “hiccups”
- Borrower has a few “hiccups” and uses forbearance or deferment entitlements
- Borrower has more “hiccups,” becomes delinquent and eventually defaults
- Borrower never intended to repay and defaults





Example: Payoff In 10 Years Or Less

- Student borrowed \$18,000 while in school
- Selected standard repayment option
- Monthly payments are X \$\$\$ for 120 months
- Total paid by borrower is \$19,450

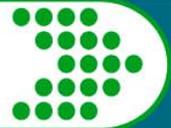




Negative Impact

- Borrower – None
- School – None
- Lender/Service – None
- Department of ED – None
- Guaranty Agency - None





Example: Borrower Has a Few “Hiccups”

- Borrower is laid off from his/her job and receives a 24-month deferment
- Borrower receives discretionary/administrative forbearance for 12 months to prevent default
- Borrower finally pays off loan in 13 years and pays X \$\$\$, including capitalized interest, for a total payoff of \$23,750





Negative Impact

- Borrower
 - Increased cost due to capitalized interest on forbearance (ED pays on deferment)
 - Longer obligation
- School
 - None
- Lender/Serviceer
 - Additional servicing costs





Negative Impact (continued)

- Department of ED
 - Additional interest paid during deferment on FFEL loan
 - Periods of non-earning asset if a Direct Loan
- Guaranty Agency
 - None





Example: More “Hiccups” Becomes Delinquent And Eventually Defaults

- Borrower is laid off his/her job, receives a deferment for 24 months
- Borrower receives discretionary/administrative forbearance for 12 months to prevent default
- Borrower becomes a “rolling” delinquent payer
- Borrower eventually defaults





Negative Impact

- Borrower
 - Increased cost due to capitalized interest on forbearance (ED pays on deferment)
 - Adversely impacts credit
- School
 - None





Negative Impact (continued)

- Lender/Serviceicer
 - Additional servicing costs due to extended period of loan and due diligence activity
 - Loss of “risk share” (FFEL)
- Department of ED
 - Increased costs: payment of claim (FFEL)
 - Loss of interest income (Direct Loan)
 - Collections costs
- Guaranty Agency
 - Increased costs due to collection activity
 - Loss of “risk share”





Example: Borrower Never Makes Payment and Defaults

- Borrower becomes a “rolling” delinquent payer
- Borrower eventually defaults





Negative Impact

- Borrower
 - Increased cost due to capitalized interest
 - Adversely impacts credit
- School
 - Increases CDR





Negative Impact (continued)

- Lender/Servicer
 - Due diligence servicing costs
 - Loss of “risk share” (FFEL)
- Department of ED
 - Increased costs: payment of claim (FFEL)
 - Loss of interest income (Direct Loans)
 - Collection costs
- Guaranty Agency
 - Increased servicing and collection costs
 - Loss of “risk share”





Comparisons

- 1989-1990: 21% of undergraduates received Title IV financial aid
- 2003-2004: 46% of undergraduates received Title IV financial aid





Comparisons

Average Defaulted Loan as of 9/30/03:

\$3,830

Average Defaulted Loan as of 9/30/04:

\$3,940

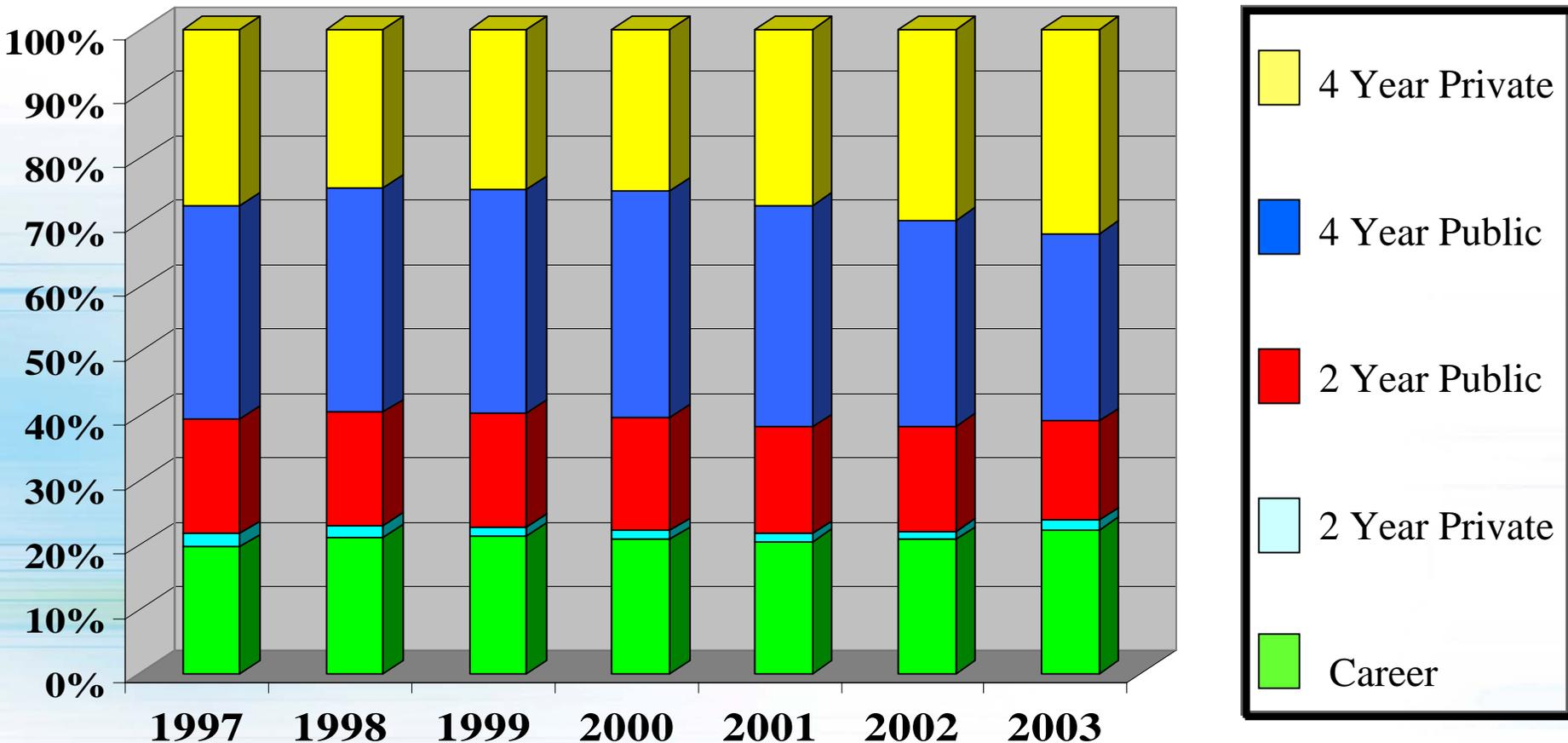
Average Defaulted Loan as of 9/12/05:

\$4,130





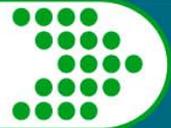
Cohort Default Contribution by School Type



Represents Direct Loan & FFEL Portfolio



START HERE
GO FURTHER
FEDERAL STUDENT AID



Defaulter Characteristics

- 84% did not receive their full 6 month grace period due to late enrollment notification
- 71% withdrew without completing studies
- 56% had bad phone numbers
- 83% were not successfully contacted by phone during the 360-day collection effort during delinquency

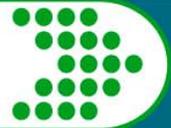




Delinquency Management: Should I Be Concerned?

- All schools contribute to the problem
 - It's not just about CDR
 - Dollars and Accounts
- Unnecessary costs to:
 - Borrowers
 - Schools
 - Servicers
 - Department of ED
 - Guaranty Agency





I'd Like To Help

Step #1

Determine borrowers at risk to default

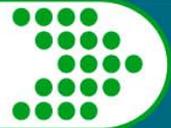
Step #2

Choose a strategy

Step #3

Implement it





What Schools Can Do

Take advantage of the opportunities to minimize delinquent borrowers at three stages:

- #1 While borrower is enrolled
- #2 Before borrower leaves school
- #3 After borrower is gone





1st Opportunity: While Borrower Is Enrolled

- Entrance Counseling
- Borrower Education
- Financial Literacy
- Rights and Responsibilities

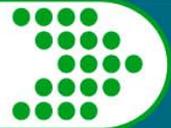




1st Opportunity: While Borrower Is Enrolled

- Can you identify your potential defaulters?
- Is the student in the right program?
- Does your program support student success?
- Where can you provide a helping hand?
- Identify your student success allies





2nd Opportunity: Before Borrower Leaves School

- Exit Counseling
- For those who leave early
 - Find out why they left and use this information!
 - Collect updated contact numbers and addresses so you can reach them later





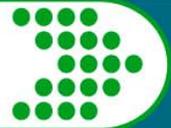
2nd Opportunity: Before Borrower Leaves School (continued)

- Promptly update the enrollment change

Important Note:

- Most defaulters do not receive their full grace period
 - Why not?
 - Why is this important?
 - What is the solution?

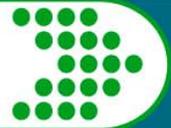




3rd Opportunity: After The Borrower Is Gone

- Borrowers in Late Stage Delinquency
 - Who are these borrowers?
 - My lender was unsuccessful – How can I make a difference?
 - Late Stage Delinquency Assistance (LSDA) Why and how does it work?





Student Perspective: Repayment/Recovery Cycle

In School	Grace	Repayment					Technical Default		Default
		30 Day	90 Day	150 Day	210 Day	270 Days	330 Days		
	6 months grace	60 Day	120 Day	180 Day	240 Day		300 Days	360 Days	

Options: 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.

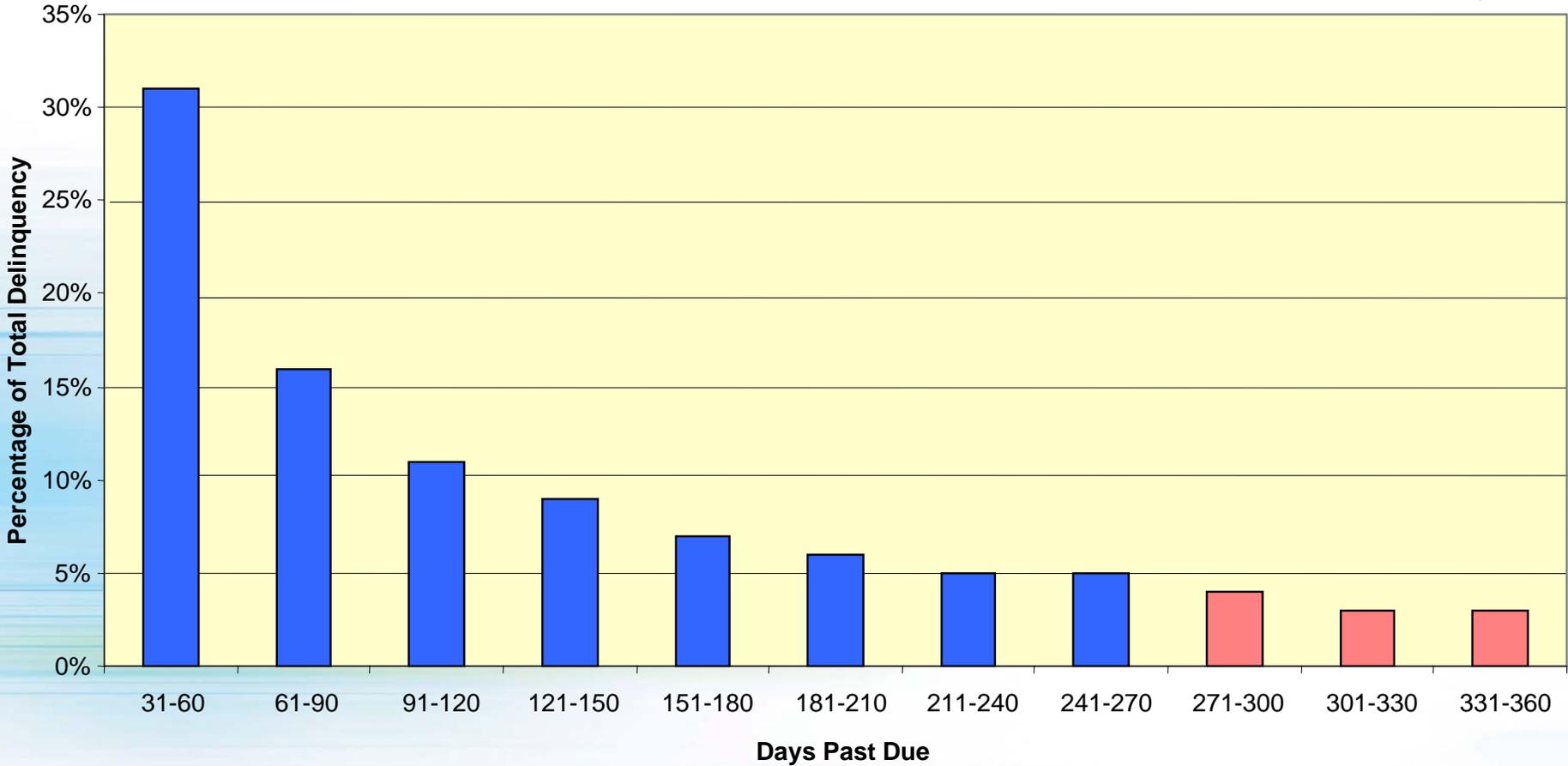
Solutions: Win a Lottery and Pay Off Loan, Arrange Compromise Payoff, Make Satisfactory Repayment Arrangementsr, Rehabilitate Loans through 12 On-time Payments, Consolidate Loans



Borrower Delinquency Pattern

Stafford Borrower Delinquency Pattern

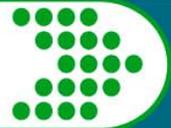
12 Month Average



Represents Direct Loan Portfolio Only



START HERE
GO FURTHER
FEDERAL STUDENT AID



Manage Delinquency and Mitigate Default

**With resources and online tools
from your partners**

Bill Kohl

Vice President, Operations

National Student Loan Program

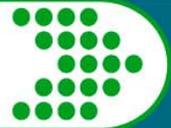




Today's Topics

- Borrower Education
- Delinquency and Default Tools
- Additional Tools
- How Can Schools Help?
- Guarantor Partner Assistance





Borrower Education

- The work begins here...
- Help students manage their money and control debt with personal finance
- Interactive tools students can use to manage money
- Guarantor's resources





Borrower Education (continued)

Online student-friendly information...

- Budgeting
 - CNN Money, Mapping Your Future
- Career Planning
 - Job Gusher, Monster Trak
- Credit Bureau information
 - Experian, Trans Union, Equifax
- Money management
 - Bankrate, Federal Reserve
- Borrower Education Online Tools (see handout)

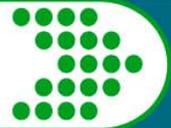




Interactive Courses

- Credit and Debt
 - Provides information on budgeting, credit, and student loans
- At the Bank
 - Helps students understand how banks and bank accounts work
- Home Finance
 - Teaches fundamentals of finding, renting, and owning a home



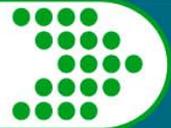


Delinquency and Default Tools

Online tools help borrowers manage loans and understand options

- Cancellations, Deferments, Forbearances, Forgiveness, and Consolidation
 - Dept of ED, Guarantor's websites
- Knowing where your loans are
 - NSLDS, Clearinghouse
- Understanding repayment plans and options
 - Mapping Your Future, Dept of ED, GA's
- Delinquency/Default Online Tools (see handout)





Additional Tools

- Loan summary
- Exit loan counseling
- Grace programs

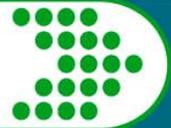




How Can Schools Help?

- Default Aversion Assistance Report
 - Identifies delinquent borrowers
 - Letter generation
 - Updated frequently
 - Work borrowers you choose
 - Phone calling tips





Guarantor Partner Assistance

- Default Aversion Assistance
 - Request filed between 60 – 120 days
- Continue to work until resolved or default claim filed
- Default prevention activities include
 - Phone attempts
 - Letters





NSLP Phone Attempts

- Current phone attempts
 - 3 attempts = 2 – week average
 - 5 attempts = 3 – week average
 - 30 attempts = 25 week average
- Borrower with good phone number
 - Averages 1.75 attempts per week
- Spanish-speaking representatives

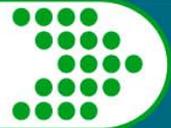




Skip Tracing

- Directory assistance
- Internet services
- School inquiries
- References and contacts

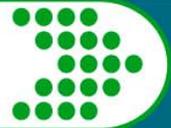




Special Phone Campaigns

- Large balance loans
- Cohort default borrowers
- Late-stage delinquency





Letters

- One every month for seven months
- More assertive and stress urgency of their actions
- Letters in English and Spanish

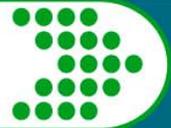




Default Rescue Program

- Focus on borrowers who have a default claim filed
- “Last chance” to avoid the consequences of default
- Partner with lenders to help with last minute processing





Successes

- 53% of borrowers contacted are resolved
- School's cohort default rate positively affected
- Saves ED and taxpayers \$\$\$
- Borrowers kept out of default
- Lenders, GAs, avoid loss
- Win, Win!

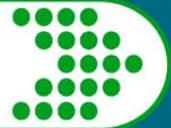




Summary

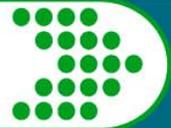
- Education
- Retention
- Communication
- Restoration





Questions?





Thank you!

We appreciate your feedback and comments.

We can be reached at:

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