Delinquency Management and Default Prevention

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In This Webinar

Section 1: Cohort Default Rate Overview

Section 2: Why Do Default Prevention?
- The Consequences
- The Changes , Risks, and Challenges

Section 3: Default Prevention Strategies
- Traditional: Financial Aid Office Centered
- Non Traditional: A Student Success Focus

Section 4: How Does Servicing Help?

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Section 1

A Cohort Default Rate Overview

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Understanding Cohort Default Rates (CDRs) – A Quick Review

- CDR Definition
- The Cohort Periods
- The “current” formulas used for the Cohort Default Rate calculations
- When are CDRs Released?
- CDRs – a historical perspective

CDR Calculation

A cohort of borrowers who enter repayment on certain FFEL/DL loans during a given fiscal year and *default* before the end of the next fiscal year.

CDRs Are Released Twice A Year

February (DRAFT)	September (OFFICIAL)
Not public No sanctions No benefits	Public Sanctions apply Benefits apply

CDRs: The Formula

Numerator	Borrowers who entered repayment in one year, and defaulted in that year or the next.
Denominator	Borrowers who entered repayment during the one-year cohort period.

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CDRs – Denominator in Formula

- Determine Date Entered Repayment (DER)
  - Date of graduation, withdrawal, or less than half-time status
  - plus 181 days *(6 months + 1 day)* = DER
- Using the DER, determine the correct cohort year in which the student will be counted

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CDRs – Numerator in Formula

- Loan must be included in the denominator
- Determine default date (361 day of delinquency or Claim Paid Date [CPD])
- Determine if default date falls within cohort period

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CDRs: Applying the Formula

- Non-Average Rate
  - 30 or more borrowers in repayment
- Average Rate
  - less than 30 borrowers in repayment
  - 3 years of data

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Using the *Non-Average* Rate Formula

Calculation:
For a school with 30 or more borrowers entering repayment in a fiscal year

$$\frac{(N)\ 5}{(D)\ 225} \times 100 = 2.2\%$$

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Using the *Average* Rate Formula

Calculation: For a school with less than 30 borrowers entering repayment in a fiscal year

$$\frac{(N)\ 3 + 1 + 1}{(D)\ \underset{FY06}{20} + \underset{FY07}{17} + \underset{FY08}{10}} = \frac{5}{47} \times 100 = 10.6\%$$

The sum of the three most recent cohort periods

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2 to 3-Year CDR (a scenario)

Numerator = # of borrowers from the denominator who default within a FY

Denominator = # of borrowers who enter repayment within a FY

Year 1	Year 2
125	230
5,000	

$\frac{355}{5000}$ = .071 or **7.1%**

Released Sept 2011

Year 1	Year 2	Year 3
125	230	250
5,000		

$\frac{605}{5000}$ = .121 or **12.1%**

Released Sept 2012

Institutional CDR Calculations By CDR Year

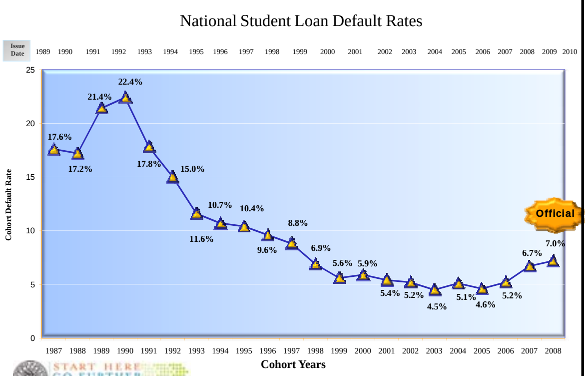
Table 1.
Remaining Publications of 2-year CDR

CDR	Denominator: Enter Repayment	Numerator Default	Publish 2-year rates	Rate used for Sanctions
FY 2009	10/1/08-9/30/09	10/1/08-9/30/10	September 2011	2-year rate
FY 2010	10/1/09-9/30/10	10/1/09-9/30/11	September 2012	2-year rate
FY 2011	10/1/10-9/30/11	10/1/10-9/30/12	September 2013	2-year rate

Institutional CDR Calculations By CDR Year

Table 2.
Publications of 3-year CDR

CDR	Denominator: # In Repayment	Numerator # In Default	Publish 3-year rates	Rate used for Sanctions
FY 2009	10/1/08-9/30/09	10/1/08-9/30/11	September 2012	N/A
FY 2010	10/1/09-9/30/10	10/1/09-9/30/12	September 2013	N/A
FY 2011	10/1/10-9/30/11	10/1/10-9/30/13	September 2014	3-Year rate
FY 2012	10/1/11-9/30/12	10/1/11-9/30/14	September 2015	3-Year rate
FY 2013	10/1/12-9/30/13	10/1/12-9/30/15	September 2016	3-Year rate
FY 2014	10/1/13-9/30/14	10/1/13-9/13/16	September 2017	3-Year-rate



Section 2

Why Do Default Prevention?

The Changes, Risks and Challenges

Default Prevention
Why Do We Do It?

Because defaulted loans have significant consequences for:

- Taxpayers
- Borrowers
- Schools

The Consequences of Default
For the Taxpayer

- Default impacts the integrity of the student loan programs
- The loss of taxpayer dollars currently exceeds one billion dollars per year
- Recovering defaulted loans is costly to the Department of Education, and therefore to the taxpayers

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National – Dollars in Default

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
$647 Million ⇧	$801 Million ⇧	$915 Million ⇧	$1.183 Billion ⇧	$1.465 Billion ⇧	$1.533 Billion ⇧

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Source: DL / FFEL portfolio

The Dollars in Default

Volume of Dollars in Default:

- Although not currently used to measure schools, the Dollars in Default impact the integrity of the student loan

Remember:
Big schools +
Big volume =
Big Dollars in Default

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Default Recoveries

2009 Collection Facts

- FSA's Default Resolution Group and the guaranty agencies recovered $9 Billion
- Combined recovery rate = 19.24%
- Treasury Offset Program (seizing tax refunds) recovered $28.2 Billion
- Collection goes on forever - No statute of limitations exists on recovery attempts
- We never get it all back

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The Consequences of Default

For the Borrower

- Credit report damage (7-year minimum)
- Wage garnishment
- Seizure of federal and state tax refunds
- Seizure of portion of any federal payment
- Legal action in federal district court
- Title IV ineligible
- May lose state occupational license
- No mortgage loans
- May have difficulty obtaining car loans
- May be unable to rent an apartment
- May be turned down for jobs
- Collection costs

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National – Borrowers in Default

FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
115,568 ⬆	114,128 ⬆	161,951 ⬆	204,507 ⬆	231,659 ⬆	238,852 ⬆

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Source: DL/FFEL portfolio

The Consequences of Default
For the School

- The CDR is a measure of a school's administrative capability
- High CDRs can
  - Negatively reflect on school quality
  - Result in provisional certification
  - Result in loss of Title IV eligibility
  - Threaten access to private loan funds

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The Changing Landscape

- Loan default increasing for most schools
- Educational costs continue to rise
- More students borrowing more money
- The combination of Stafford and private loans equal greater debt
- Changes to CDR calculation accompanied by new sanctions and an enhanced benefit
- Transition to all-Direct loan Origination and Servicing

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CDRs and the Economy

- CDR default data is retrospective, so the economic impact on borrower repayment will be seen in future CDR calculations
- Borrowers are having difficulty repaying
- Higher unemployment and economic problems are occurring concurrent with the change from a 2-year to a 3-year CDR calculation
- More schools may face compliance difficulties due to CDRs in coming years

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The 3-Year CDR Calculation

- Expands the default tracking window from 2 years to 3 years
- Creates a transition period (FY09/10/11)
- Raises penalty threshold from 25% - 30%
  - New set of requirements for FY09,FY10...
  - Possible compliance issue beginning in September 2014 (FY 2011 CDR)
- Increases availability of "disbursement relief" from 10 to 15% (effective 10/01/11)

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3-Year CDR Corrective Actions

- First year at 30% or more
  - Default prevention plan and task force
  - Submit plan to FSA for review
- Second consecutive year at 30% or more
  - Review/revise default prevention plan
  - Submit revised plan to FSA
  - FSA may require additional steps to promote student loan repayment
- Third consecutive year at 30% or more
  - Loss of eligibility: Pell, ACG/SMART, FFEL/DL
  - School has appeal rights

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CDR Disbursement Waivers

- New threshold: Schools with a default rate less than 15% for the 3 most recent fiscal years
  - May disburse a single term loan in a single installment, and
  - Need not delay the first disbursement to a first-year undergraduate borrower until the borrower has completed the first 30 days of their program of study

Effective for loans first disbursed on or after October 1, 2011

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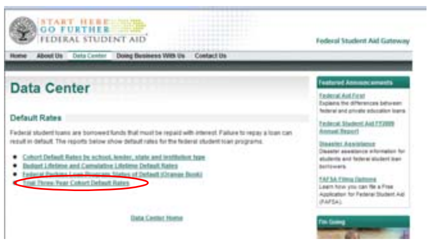
"Trial" 3-Year Rates Released

http://federalstudentaid.ed.gov/datacenter/cohort.html



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Section 3

Default Prevention Strategies

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Why Schools Should Participate

- Although our servicers work diligently to encourage repayment, schools can play a critical role and their contribution will yield improved results
- What is your motivation to help?
  - Protect loan program integrity?
  - Fewer default dollars/taxpayer savings?
  - Improve your school's default rate?
  - Save students from the consequences of default?

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School-Based Default Prevention

- Form a Default Prevention Team
- Set measurable goals
- Develop or adopt a default prevention plan
- Utilize traditional financial aid office-based default prevention strategies
- Utilize non-traditional student success-based default prevention strategies
- Best option is for schools to use a combination of these two approaches

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Default Prevention Team

- Team members should include
  - Senior school official
  - Representatives from various offices (Admissions, Registrar, Academics, etc)
  - Student representative
- Regularly scheduled meetings
  - Provide agenda/minutes, discussion of agreed upon assignments
  - Training about default and prevention
- Evaluate progress and adjust the plan
- Celebrate and promote your successes

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Default Prevention Plan

- Success is achieved when solid plans are developed and executed
- A plan pulls together people and resources toward a common goal
- The plan provides for consistency
- ED Default Management sample plan in Dear Colleague Letter GEN-05-14 issued September 2005
- Revise and adjust the plan as needed to maximize your success

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Default Prevention Team

Draw on the collective experience and wisdom of the team members to identify your default risks and devise and implement strategies to address them.

Help students choose the right program and then provide the necessary support structure which leads to program completion and employment.

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"Traditional" Approach

- Primarily involves the financial aid office
- Focus is on helping borrowers to develop a healthy relationship *with their loans* to include:
  - Understanding loan repayment
  - Financial literacy program
  - Updating enrollment status changes
  - Engaging at-risk borrowers

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FSA's Entrance / Exit Counseling

Entrance Counseling
www.StudentLoans.gov

Exit Counseling
www.NSLDS.ed.gov

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Entrance Loan Counseling

Provide information which includes:
- Job opportunities & salary information
- Estimated monthly loan payment
- Providing loan servicer contact info
- Obtaining good borrower contact info
- “Self-help” via NSLDS for Students
- Counsel students against returning to school simply to avoid entering repayment on existing loans

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FSA Exit Counseling

- New site for FSA Exit Counseling
- Integrated into www.nslds.ed.gov
  - Current student site for aid detail
  - Student uses PIN to access
  - Calculators available for repayment types
  - Links to loan holder sites
  - Available in English and Spanish
- Schools download reports from NSLDS to verify exit counseling completion

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NSLDS For Students

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Financial Literacy

- Correlation exists between increased financial literacy and decreased defaults
- Schools can play an important role
- Can you make it part of your curriculum?
- Some schools offer literacy classes for credit
- There are many free resources available
  - Federal, non-profits, lenders, guarantors
- Consider on-line financial literacy programs
- Can you enhance what you are doing now?

Federal Financial Literacy Info

FDIC FEDERAL DEPOSIT INSURANCE CORPORATION
Money Smart - A Financial Education Program

U.S. Federal Reserve System

UNITED STATES DEPARTMENT OF THE TREASURY

mymoney.gov

CONSUMER.gov

Financial Literacy Resources

- Lenders and Guarantors
- Counseling Resources
- Jump$tart Coalition For Personal Financial Literacy
  - http://www.jumpstart.org/
- Mapping Your Future
  - http://www.mapping-your-future.org
- National Endowment for Financial Education
  - http://www.nefe.org/tabid/183/default.aspx

Credit Cards

- Statistics show many students become over-extended with multiple cards and this contributes to loan default
- Caution students about direct solicitations offering thousands of dollars in credit
- Encourage students to use credit cards for emergencies and avoid unnecessary borrowing
- Schools might consider taking advantage of credit card company financial literacy training programs

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Leveraging the Grace Period

- Servicers use the grace period to prepare borrowers for successful repayment.
- If schools delay in submitting timely and accurate NSLDS enrollment changes it may increase default risk. Servicers may be less able to identify, contact and prepare these borrowers for repayment.
- Default Prevention strategy - Don't delay! Send enrollment changes to NSLDS immediately.

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Servicer Repayment Counseling

During the Grace Period the Loan Servicer

- Establishes a relationship with the borrower
- Ensures the correct repayment status
- Discusses the appropriate repayment plan
- Promotes self-service through the Web
  - Change repayment dates, update profile,
  - Apply for deferments and forbearance
- Updates and enhances borrower contact information
- Discusses consolidation options

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Engaging At-Risk Borrowers

School engagement can help reduce risk at any stage of the repayment cycle

Questions:
- Who are my at-risk borrowers?
  - Learning to identify risk factors
- When should I intervene, and how?
  - Right strategy, right time….

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Engaging At-Risk Borrowers

Who are my At-Risk Borrowers? (continued)
- Determine, using available data, which students have defaulted in the past. Look for patterns or trends.
- At what point are you most likely to be able to contact and influence these particular borrowers?
  - In School?
  - In Grace?
  - In Repayment?

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Engaging At-Risk Borrowers *Example:* While In School

Target at-risk borrowers with early/extra loan counseling, financial literacy training, and collect additional contact information

Which at-risk borrowers?
- Students on academic probation
- Students who have expressed intention to withdraw
- Students from programs over-represented among defaulters

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Engaging At-Risk Borrowers Example: While In Grace

Steps to take:
- Validate contact information
- Prepare borrower for repayment
- Provide employment counseling
- Re-enrollment assistance
- Transfer assistance

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Engaging At-Risk Borrowers Example: While In Repayment

Targeted Assistance
Reach out to at-risk borrowers and facilitate the critical contact with the loan servicer to prevent default

- Early in Repayment: Target borrowers who did not complete
- Late in Repayment: Target borrowers who are 240+ days delinquent

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What You Need to Get Started

- A list of delinquent borrowers in your current cohort
  - Request Delinquency Reports from servicers

    OR
  - Request the new NSLDS Tracking Report: Delinquent Borrower Report (DEL Q01) for PUT, Conduit and Direct Loans
- Borrower contact information
- Your servicer can help you get started

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2 Key Defaulter Characteristics

By examining large populations of defaulted borrowers FSA determined that the majority had ***contact issues***:

- Half had bad telephone numbers
- Most defaulters were not successfully contacted by phone during the 360-day collection effort leading up to default

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Ensure Borrowers Can Be Found

- Schools should create a separate form to collect additional borrower contact information
  - Goal is to supplement what is obtained via the MPN
  - Collect info during Admissions process
  - Inform borrowers that you may verify this info (to improve accuracy) and spot check if time permits

Important Note: Although you may collect this information, you must not make a borrower's receipt of aid contingent upon providing it.

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Borrower Contact Sheet

Should include:

- All of the borrower's email addresses
- Contact information for siblings, parents, grandparents, etc., including email and cell phone numbers
- Ask borrower for the one phone number through which he/she can **always** be reached
- Identify all social networking sites where borrower has an account

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No/Low-Cost Methods For Locating Delinquent Borrowers

- Student email addresses (free)
- Perkins Loan information (free)
- Registrar and Alumni Offices (free)
- Collect Cell phone numbers (free)
- Social Networking:
  Facebook (free) MySpace (free)
- Data-mining/skip-tracing services (cost)

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Tips For Success

- Telephone calls are most effective
- Use a light touch – remember you are calling to help, not to collect
- Mailing handwritten notes can be successful
- Letters and email may be used with varying degrees of success

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If You Decide to Send a Letter

- First, get the borrower to open it!
  - It should not look like a bill
  - Hand-address regular envelopes
  - Consider colored envelopes or paper
  - Use a stamp – not a postage meter
  - Personalize the letter – sign it
  - Postcards can also be effective

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NSLDS Reports for Schools

- Reports for Data Accuracy
  - Date Entered Repayment Report
  - School Repayment Info Loan Detail
  - School Cohort Default Rate History
  - Enrollment Reporting Summary
- Reports for Default Prevention
  - Date Entered Repayment Report
  - Borrower Default Summary
  - Exit Counseling
  - Delinquent Borrower Report *(New!)*

Private Loans

Borrowers should exhaust federal student loan eligibility before using them!

- Typically based on factors such as the school attended and credit score
- Have variable interest rates with no cap
- No loan limits or restriction on fees
- Repayment begins immediately
- Fewer borrower protections
- May adversely impact ability to repay federal loans

"Non-Traditional" Approach

- Focus is on helping borrowers to develop a healthy relationship *with their education (student success solutions)* and include:
  - Increasing program completion rates
  - Decreasing program completion time
  - Helping non-completers find a job
- Successful students become successful borrowers!
- Leverage existing efforts to increase retention and graduation rates

Borrowers Who Do Not Complete

Historically, the majority of borrowers who default withdrew from school without completing their academic program.

While different measures of success exist, this is an important indicator that students who fail to complete have a higher risk of loan default.

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Borrowers Who Do Not Complete

- Did not achieve academic credential
- May have reduced earning power
- May not benefit from school job placement
- Have one or more loans to repay
- May not receive exit counseling
- May not respond to communication attempts by their loan servicer
- May lose part or all of their grace period if they fail to notify the financial aid office and NSLDS is not updated timely and accurately

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Characteristics: Students At Risk

- Finances/Need
- Relationship Issues
- Physical & mental health challenges
- Dependent-care
- Transportation
- Housing
- Transition difficulties
- Poor study habits
- Under-prepared, basic skill needs
- Language barriers
- Feel unwelcome, no "campus connection"
- First generation: No role models or family support

Schools may have unique factors which must be identified and considered

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Example: Late Registration

- Has student missed classes?
- Does a late start indicate poor or no preparation?
- Do your late registration policies increase or decrease default risk?

Late Registration

	Sun	Mon	Tue	Wed	Thu	Fri	Sat
August		20	First Day of Classes	22	23	24	25
	26	27	28	29	30	31	1
September	2	Labor Day 3	4	5	6	7	8
	9	Last Day to Register	11	12	13	14	15

Student Misses 7 Classes

Late Registration

- If you are going to register students well after classes have begun
  - Recognize that they may be at higher risk of default
  - Follow-up with them to ensure they are catching up/keeping up
  - Follow-up with instructors: Late registrants may require extra attention
  - Develop a school-wide student success plan to meet the needs of late registrants

Identifying Students in Trouble

- Does your school have an "early warning" system?
  - Take attendance?
  - Issue mid-term grades which provide clues as to whether or not student will persist?
  - Alerts from faculty members, student support staff: who has missed classes? failed tests? had adjustment challenges?
- Don't allow academic or social problems to become default risk

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Helping Students in Trouble

- Reach out immediately!
- Help them remain in school
- If they've already left, help them to return
  - May involve help to overcome obstacles
- If they will not return, help them to understand their repayment obligations – some think they don't owe anything because they left
- Learn what you can about their experiences and use this information to help other students stay in school

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Promoting Student Success

Explore the unique connections between loan default and student success at your school.

Identify the allies at your school: enrollment management, student success, academic affairs and student support services. Your goals are the same and your efforts should be in alignment.

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Take Home Message

- The rate, number of borrowers, and dollars in default are increasing
- The recession and the new 3-year CDR calculation have caused rates to increase
- You should
  - Examine your CDR history
  - Investigate and identify the sources of default risk on your campus
  - Use this information to create measurable steps to reduce default risk

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Section 4

How Does Servicing Help?

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There may be rest stops, roadblocks or even detours – but we are determined to keep borrowers on the right road.

How do we do that?

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To help ensure a successful repayment experience for the borrower, we have servicers that provide interactive tools, loan calculators and counseling aids for use during all points in the loan life cycle. These tools enable students and parents to access data, information, calculators and customer service representatives.

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Federal Loan Servicers

As of July 2010, the Department has five federal loan servicers.

Our federal loan servicers are:

- Direct Loan Servicing Center (ACS)
- FedLoan Servicing (PHEAA)
- Great Lakes Educational Loan Servicers, Inc.
- Nelnet
- Sallie Mae

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Borrower and School Services

Our Servicers:

- Educate and inform borrowers as to the tools and options available to assist them in the management of their student loans
- Offer multiple repayment options tailored to borrower preferences (i.e. Online payments, ACH, check, etc.)
- Provide self-service tools for borrowers and options for receiving bills and/or correspondence electronically
- Offer dedicated services to schools to help manage cohort default rates

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Default Prevention Activities

When borrowers take a 

in the repayment process, we make every effort to get them back on the "right road".

- Call center phones borrowers when they are most likely to be home
- Have the ability to apply a forbearance over the phone
- Interactive Web site
  - Helps borrowers identify the best delinquency resolution option

Default Prevention Activities

Our Servicers:

- Exceed the minimum regulatory due diligence requirements
- Provide outbound targeted calling campaigns along with inbound call center representatives to help borrowers become current
- Utilize electronic communication methods such as email to keep borrowers informed about account status
- Work in partnership with the school community to assist borrowers in the later states of delinquency

Default Management Activities

Time is running out … But we still haven't given up! 

There are default reduction efforts targeted to borrowers who are between 270 and 360 days delinquent. These efforts include partnering with schools to assist with reaching those borrowers at greatest risk to avoid defaulting on college loans.

More information on our delinquency prevention activities can be found on IFAP

Default Management Practices

- Default management results will be published frequently and provide transparency in student loan servicing among each servicer
- Servicers will partner with financial literacy advocacy groups to educate borrowers and assist schools
- Each servicer is encouraged to continually improve and compete with one another to deliver the best results for borrowers, schools, and FSA

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Resources

Cohort Default Rate

- The Cohort Default Rate Guide
  http://www.ifap.ed.gov/drmaterials/finalcdrg.html

Delinquency and Default Management

- Electronic Announcement – Delinquency Prevention Activities
  http://www.ifap.ed.gov/eannouncements/060310LoanServicingyInfoDelinqPreventAct.html

Assessments

- FSA Assessments
  http:ifap.ed.gov/qamodule/DefaultManagement/DefaultManagement.html

General Servicing Information

- Electronic Announcement – Loan Servicing Information
  http://www.ifap.ed.gov/eannouncements/032610LoanServicingInfoFedOwn.html

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Resources - Federal Loan Servicers

Direct Loan Servicing Center
NSLDS Servicer Code: 00100

NSLDS Name: Direct Loan Servicing Center
Borrower Phone: 800-848-0979
Web: www.dl.ed.gov
School Phone: 888-877-7658
Web: www.dl.ed.gov/schools

FedLoan Servicing (PHEAA)
NSLDS Servicer Code: 700579

NSLDS Name: Dept of ED/ FedLoan Servicing (PHEAA)
Borrower Phone: 800-699-2908
Web: www.myfedloan.org
School Phone: 800-655-3813
Web: www.myfedloan.org

Great Lakes Educational Loan Services
NSLDS Servicer Code: 700581

NSLDS Name: Dept of ED/ Great Lakes
Borrower Phone: 800-236-4300
Web: www.mygreatlakes.org
School Phone: 888-686-6919
Web: www.mygreatlakes.org

Nelnet
NSLDS Servicer Code: 700580

NSLDS Name: Dept of ED / Nelnet
Borrower Phone: 888-486-4722
Web: www.nelnet.com
School Phone: 866-463-5638
Web: www.nelnetloanservicing.com

Sallie Mae
NSLDS Servicer Code: 700578

NSLDS Name: Dept of ED / Sallie Mae
Borrower Phone: 800-722-1300
Web: www.salliemae.com
School Phone: 888-272-4665
Web: www.opennet.salliemae.com

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Session

Additional Resource

Operations Performance Management Service Group
(CDR calculations and data challenges)
Main Line: 202-377-4258
Hotline: 202-377-4259
Email: fsa.schools.default.management@ed.gov
Web: ifap.ed.gov/DefaultManagement/DefaultManagement.html

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Mark Your Calendars

FSA Conference in Orlando, FL
November 30 – December 3, 2010

Sessions of Interest – Loan Servicing
#3. The Essentials of Direct Loan Servicing
#5. Schools' Best Practices in Default & Delinquency Management
#10. Loan Repayment and Forgiveness Plans

Federal Loan Servicers Information Sessions
Come and hear of the unique services each of our federal loan servicers offer!

- ACS – Tuesday, Nov. 30th 4:45 pm – 6:00 pm
- FedLoan Servicing (PHEAA) – Wednesday, Dec. 1st 7:30 am – 8:45 am
- Great Lakes – Wednesday, Dec. 1st 4:45 pm – 6:00 pm
- Nelnet – Thursday, Dec. 2nd 7:30 am – 8:45 am
- Sallie Mae – Thursday, Dec 2nd 4:45 pm – 6:00 pm

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Our Contact Information

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