


Managing Debt, Delinquency, and Default

KASFAA Fall Training
October 27, 2011

Agenda

- ▶ Overview of Cohort Default Rates
- ▶ Understanding Student Loan Debt
- ▶ Default Management Considerations
- ▶ Partners & Resources
- ▶ Questions, Comments, and Open Discussion



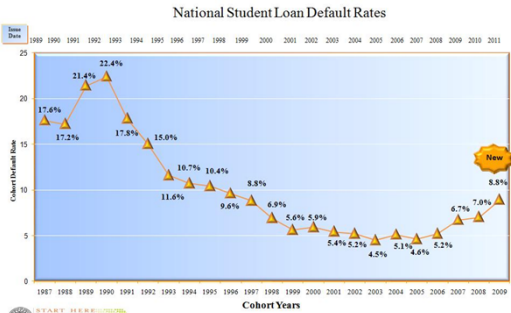
Overview of Cohort Default Rates

3-Year Cohort Default Rate (CDR) Formula

NUMERATOR: Number of borrowers in the denominator that defaulted before the end of the second fiscal year following the fiscal year in which the borrower entered repayment (e.g., defaulted in FY 2009 through FY 2011)

DENOMINATOR: Number of borrowers who entered repayment during the specified fiscal year (e.g., FY 2009)

Historical CDRs (1987-2009)



RMAFSA Default Rates

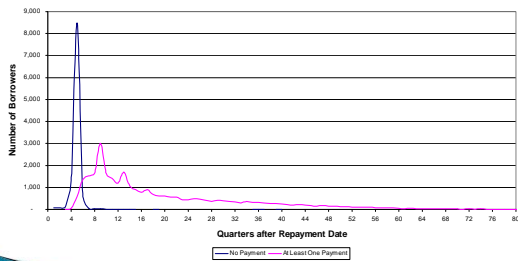
State	FY 2007	FY 2008	FY 2009
Colorado	8.6%	9.2%	11.7%
Kansas	6.5%	5.7%	6.8%
Montana	2.3%	1.8%	3.4%
Nebraska	3.9%	5.0%	5.6%
North Dakota	3.0%	2.9%	3.4%
South Dakota	3.8%	4.3%	6.5%
Utah	3.8%	4.3%	6.0%
Wyoming	6.1%	6.9%	10.1%

Current Market Conditions Affecting CDRs

- ▶ Change in the CDR formula
- ▶ Transition from FFELP to FDLP (ED servicing)
- ▶ Greater regulatory scrutiny
- ▶ New student borrower risk profile
- ▶ Deeply recessed economy

Timing of Defaults

Figure 7a: Timing of Defaults of All Borrowers



Understanding Student Loan Debt



Student Loan Debt

Undergraduate Students

- Average student loan debt for 4-year undergraduates was \$23,186
- Average student debt of those applying for federal student aid was \$24,651
- Over 86% of 4-year undergrad students applying for federal student aid borrowed money to attend college
 - 25% borrowed over \$30,500
 - 10% borrowed over \$44,600

Graduate students

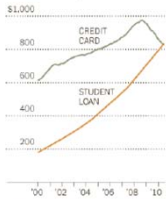
- Median incremental debt for:
 - Master's Degree: \$25,000
 - Doctoral Degree: \$52,000
 - Professional Degree: \$79,800

Source: www.finaid.org and <http://nces.ed.gov>
based on AY 2007-2008 data

Student Loan Debt

Student Loan Debt Continues to Grow

Total outstanding debt, in billions



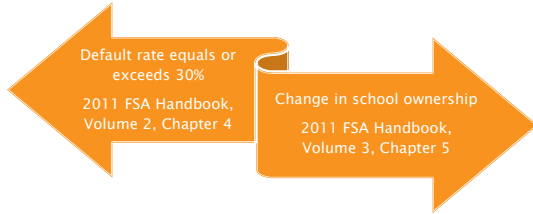
Student loan debt outpaced credit card debt for the first time last year and is likely to top a trillion dollars this year as more students go to college and a growing number borrow money to do so.

Source: Fastweb.com THE NEW YORK TIMES

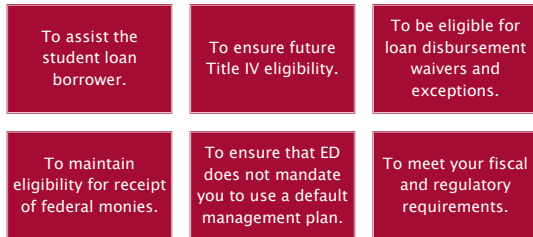
Default Management Considerations



Federal Requirement

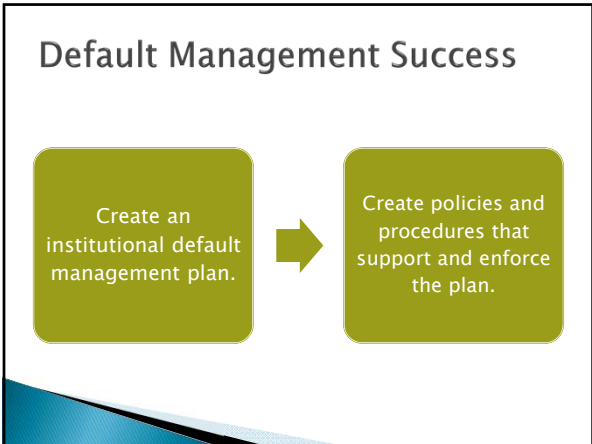


Beyond Federal Requirements



Why A Default Management Plan?

- ▶ Provides a prudent and useful policy to have for audit and program review purposes.
- ▶ Creates a blueprint for your office and your campus.
- ▶ Provides a statement of your commitment to helping your borrowers strive for good repayment habits.
- ▶ Helps to implement consistent procedures for all efforts related to timely collection of debt.
- ▶ Gives the structure to define how your policies and procedures support the overall mission of your institution.



Delinquency and Default

DELINQUENCY

- Failure to make payment(s) when due
- Reported to credit bureaus; affects borrowers history

CONSEQUENCES OF DEFAULT

- Collection agencies may take over adding to cost
- Lender can take legal action
- School can withhold records
- Federal defaults could include wage garnishment and withholding of federal tax refunds
- Student loans are rarely discharged in bankruptcy

Early Borrower Outreach

Students familiar with their debt obligation, payment options and consequences of default are more likely to be successful in repayment with lower instances of default.

- Communications are most effective at key transition points in the loan's lifecycle
- Provide helpful, relevant and easy to understand information and resources well before the borrower enters repayment

Default Prevention Techniques for Schools

- ▶ Counsel borrowers on repayment options tailored to their individual needs
- ▶ Attempt to contact targeted populations prior to entering repayment
- ▶ Work with your schools cohort management staff and servicers
- ▶ Use specialized strategies and counselors for late stage delinquency
- ▶ Send a series of letters and calls that exceed minimum regulatory requirements
- ▶ Practice skip-tracing activities to locate borrowers

Borrower Outreach Tips for Schools

- ▶ Communicate with student-borrowers by the means they feel most comfortable
- ▶ Offer “non-banking” hours of operation
- ▶ Launch alternate telephone number and/or personal reference campaigns
- ▶ Reduce text-laden letter content in direct and email communications

Financial Literacy Tips for Schools

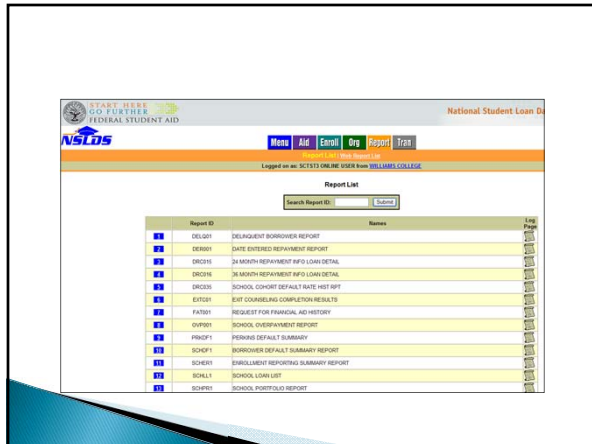
- ▶ Urge student-borrowers to exhibit responsible student loan borrowing—using the 1–2–3 approach
- ▶ Counsel students to be aware of the likely future earning power associated with their degree and program-of-study (and to borrow accordingly)
- ▶ Encourage student borrowers to access NSLDS www.nsls.ed.gov to locate the whereabouts (and loan amounts) of their federal student loans
- ▶ Advise them to request a free credit report annually www.AnnualCreditReport.com
- ▶ Require students to demonstrate financial literacy in a forum that your school deems appropriate
- ▶ Create videos and letter content on the subjects of money management and securing gainful employment

Understand Your Loan Portfolio

- ▶ Retrieve the NSLDS SCHPR1 School Portfolio Report on a monthly basis
- ▶ Segment your portfolio based on various attributes such as:
 - Skip-trace status
 - Account status and delinquency ranges
 - Separation reason
 - Account balance
- ▶ Identify student-borrowers who are “at-risk” of defaulting by close of the CDR evaluation period (September 30)

NSLDS Reports

- ▶ All reports available under the Reports tab
- ▶ Click on the [blue number](#)
- ▶ Complete the report parameters
- ▶ Select Extract or Report (where applicable)
- ▶ File layouts are on [IFAP/NSLDS Reference Materials-NSLDS Record Layouts](#)
- ▶ Delivered to SAIG Mailbox



Report – School Portfolio (SCHPR1)

- Report on the school’s current loan portfolio.
- ▶ Provides schools with loan status data about all Direct Loan and/or Federal Family Education Loan (FFEL) loans for the school code associated with the user’s ID.
- ▶ If school has merged, previous school codes are included.
- ▶ Shows current and original loan holder.

Report– School Portfolio (SCHPR1)

- ▶ School can track student’s loan activity
 - Current Status
 - Date entered repayment
 - Current balances
 - Delinquency Date
 - Original and current holder
 - Claim information on GA held loans
 - CDR Date of Default

Debt Management and Default Aversion Tips

- ▶ Promote principal-reducing payment options
- ▶ Suggest repayment options for student-borrowers who cannot afford monthly loan payment amount
- ▶ Promote electronic debit enrollment
- ▶ Offer loan consolidation for students with split-servicing
- ▶ Help the student borrower develop a “payment relationship” with their loan servicer
- ▶ Responsibly and judiciously recommend forbearance

Tips for Locating Your Students

- ▶ Verify demographic information during every student-borrower contact
- ▶ Call archived telephone numbers on file and contact personal references
- ▶ Use third-party data providers (Accurant, FirstData, etc.) to obtain the “freshest” demographic data associated with student borrower
- ▶ Use social media to locate and contact “hard-to-find” student borrowers

Federal Loan Repayment Plans

- ▶ Extended
 - Borrower is looking for a lower payment
- ▶ Graduated
 - Borrower is looking for short-term relief
- ▶ Income-Based (IBR)
 - Borrower is experiencing long-term financial hardship
- ▶ Income-Contingent (ICR) (ED Only)
 - Borrower is experiencing long-term financial hardship
- ▶ Income-Sensitive (ISR)
 - Borrower is experiencing a temporary financial hardship

Payment Relief on Federal Loans

- ▶ Grace
 - No payments required during this period
 - Time varies based on loan type
- ▶ Deferment
 - In-School
 - Economic Hardship
 - Military
- ▶ Forbearance
 - Be careful when you recommend because it adds expense; but
 - Can be very useful to help avoid delinquency and default

The Cost of Postponing Payments

Forbearance period	Capitalized interest	% increase in loan balance	% increase in life of loan interest	% increase in life of loan interest
3 months	\$171	1.7%	\$236	6.2%
6 months	\$345	3.4%	\$476	12.5%
1 year	\$702	7.0%	\$967	25.4%
3 years	\$2,256	22.6%	\$3,115	81.8%

Source: Finaid.org

Federal Loan Repayment and Forgiveness Programs

Federal loan service commitment programs allow borrowers to pay down loans in exchange for service following graduation

- ▶ Some offer tax incentives
- ▶ Programs are currently available through various state and federal programs, and the armed forces
- ▶ **NEW!** Loan Forgiveness for Public Service Employees – For Direct Loans

Private Loan Repayment

- ▶ Private loans are unsubsidized for life of loan
- ▶ Private loans usually have a separation/grace period before borrower is required to make principal and interest payments
- ▶ Forbearance may be available – consult loan servicer
- ▶ Repayment terms vary
- ▶ May offer a choice of repayment plans

*Check promissory note(s) for details

Paying Loans Off Early

- ▶ Borrowers can always **prepay** federal student loans without penalty; most private student loans can also be prepaid without penalty (*borrowers should check with their lender*)
- ▶ Be aware of the relative cost and make payments towards **private loans and/or unsubsidized loans** that have the **highest rates and/or most frequent capitalization**. This should save more money over time
- ▶ Unless otherwise noted, loan payments typically are applied first toward late fees, then interest, and finally principal

Tips for Managing Student Loans

- ▶ Borrowers need to understand their student loan portfolio
 - Know what types of loans they have and how much they owe
 - Know their lenders and servicers
 - Know what their interest rate is and what their monthly payments will be
 - Know what borrower benefits are available
- ▶ Borrowers should:
 - Understand interest capitalization and its impact
 - Know grace, deferment and forbearance options
 - Know federal loan repayment plan options
 - Avoid delinquency and default
 - Keep good records
 - Know the resources available to them

Keep Good Records – A Student’s “To Do” List

- ▶ Get all loan documents together: Keep them on file!
 - Promissory notes
 - Disclosure statements
 - Award letters
 - Exit interview information
- ▶ Open and READ student loan mail
- ▶ Bookmark loan servicers’ websites
- ▶ Notify loan servicer of name and address changes
- ▶ Document calls to servicer: Date/time of call, obtain the name of the person who handled the call
- ▶ Keep important numbers available

Implementation

- ▶ Involve all key offices and stakeholders on campus.
- ▶ Distribute and communicate about policy and procedures prior to implementation.
 - Roles and responsibilities are defined and expectations clearly communicated across campus.
- ▶ Ensure that processes and procedures support the plan.
 - Ask for feedback periodically and revise as appropriate.
- ▶ Can be implemented at any time—there is no better time than today.

Partners & Resources



NASFAA's Policies & Procedures Tools



A Few Reminders

- ▶ Early education with the student loan borrower.
- ▶ Continued information and education as long as the student is enrolled.
- ▶ Early skip-trace efforts.
- ▶ Active involvement with students that have withdrawn or are delinquent.
- ▶ Use of policies that mandate collection of information.
- ▶ Collection of additional information from the student loan borrower by the school.
- ▶ Stay informed about what your partners are doing -and actively partner with them.
- ▶ Choose partners whose mission is aligned with yours.

Plan With Your Partners

- ▶ Find out what your lenders, servicers, and guaranty agencies are doing in terms of student loan borrower education and default management.
- ▶ Each entity has regulatory requirements—it varies a great deal in terms of what is required and also the effort that each puts forth.
- ▶ School can coordinate it's activities with those of their partners.
- ▶ Find out what types of “scripting” your partners use with the borrower for: telephone calls, letters, messages, etc.—it varies greatly.

Use Resources To Help

- ▶ There are many resources available to assist you as you determine which strategies will work best with your borrowers and your institution.
 - Department of Education
 - Guarantors
 - Servicers
 - Other third-party organizations
- ▶ Don't forget about your campus partners.
 - Institutional Research
 - Alumni Office
 - Career Office

Questions, Comments, & Open Discussion



The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated. Nothing in this presentation constitutes or is designed to constitute legal advice.
