Managing Loan Default: Making a Difference in 60 Minutes

Facing the Facts

Fact 1: The Three-Year CDR is Here

- 2014 is the first year institutions will be subject to sanctions for the FY 2011 3-year cohort default rate
  - Sanction threshold for loss of program eligibility becomes three consecutive years equal to or greater than 30%
Fact 2: Rates are Trending Upward

<table>
<thead>
<tr>
<th></th>
<th>FY 2008 Official Cohort Default Rate</th>
<th>FY 2009 Official Cohort Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source:</td>
<td>Department of Education</td>
<td>Department of Education</td>
</tr>
</tbody>
</table>

13.4%  →  14.7%

FY 2009 Official Cohort Default Rate
FY 2010 Official Cohort Default Rate

Source: Department of Education

Fact 2: Rates are Trending Upward

<table>
<thead>
<tr>
<th>Number of Schools</th>
<th>Borrower Default Rate (%)</th>
<th>Number of Borrowers Defaulted</th>
<th>Number of Borrowers Entered Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2 yrs</td>
<td>13.0%</td>
<td>250,661</td>
<td>1,922,773</td>
</tr>
<tr>
<td>2-3 yrs</td>
<td>20.9%</td>
<td>124,154</td>
<td>996,567</td>
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<tr>
<td>4 yrs(+)</td>
<td>20.9%</td>
<td>216,383</td>
<td>1,315,365</td>
</tr>
<tr>
<td>Private:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2 yrs</td>
<td>8.2%</td>
<td>1,315</td>
<td>4,928,320</td>
</tr>
<tr>
<td>2-3 yrs</td>
<td>16.5%</td>
<td>1,315</td>
<td>4,928,320</td>
</tr>
<tr>
<td>4 yrs(+)</td>
<td>16.5%</td>
<td>1,315</td>
<td>4,928,320</td>
</tr>
<tr>
<td>Proprietary:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2 yrs</td>
<td>8.2%</td>
<td>1,315</td>
<td>4,928,320</td>
</tr>
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</tr>
<tr>
<td>Foreign:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 2 yrs</td>
<td>8.2%</td>
<td>1,315</td>
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<td>4 yrs(+)</td>
<td>16.5%</td>
<td>1,315</td>
<td>4,928,320</td>
</tr>
<tr>
<td>Unclassified:</td>
<td></td>
<td>1</td>
<td>1</td>
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<tr>
<td>Total:</td>
<td></td>
<td>600,545</td>
<td>4,082,570</td>
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</tbody>
</table>

Source: Department of Education

Fact 3: Loan Default is Receiving National Attention

Student-Loan Default Rates Continue Steady Climb
Student-Loan Defaults Rise in U.S. as Borrowers Struggle
Surging Student-Loan Debt Is Crushing the System
Student-Loan Defaults Surge to Highest Level in Nearly Two Decades
Fact 4: More Default Prevention is Needed

Fact 5: You Have Work Overload

Make a Difference in 60 Minutes

• By allocating 60 minutes each month, you can help your borrowers decrease their chances of defaulting.
We Will Discuss

• How within 60 minutes you can:
  – Reach out to borrowers during their grace period
  – Promote income-driven repayment plans to mid-stage delinquent borrowers
  – Contact late-stage delinquent borrowers to inform them of their options to avoid default

Grace Period Outreach

What Happens During the Grace Period

• Federal loan servicers
  – Establish a relationship with the borrower
  – Send correspondence about repayment plans
  – Promote online capabilities through the web
  – Update and enhances borrower contact information
What Happens During the Grace Period

• Great Lakes sends correspondence to borrowers

  **Less Than Half-time Enrollment** correspondence
  • Received notification that enrollment status has changed
  • When they will have to make payments
  • Reminder to update their enrollment status and contact information
  • What to expect next

Estimate Your Payment correspondence

• When payments are due
• Importance of estimating their monthly payment amount
• Explore all repayment options
• Plan ahead if they encounter trouble

Get Ready for Payment correspondence

• Date on which grace period expires
• Selecting a repayment plan
• What to expect next (i.e. payment schedules)
What Happens During the Grace Period

- Great Lakes sends correspondence to borrowers
  - Exiting Grace correspondence
    - Payment due soon
    - List of actions for a smooth transition into repayment (i.e. enroll in Auto Pay, sign up an online account)
    - Select a payment plan
    - How on-time payments build good credit

Payment Schedule correspondence
- Explains and outlines repayment terms
- Repayment options

Borrowers and Their Grace Period

- Non-completers often do not even realize they are in grace
- Of the borrowers who defaulted, most did not receive their full 6-month grace period due to late or inaccurate enrollment reporting
Borrowers and Their Grace Period

• During the grace period, borrowers begin to develop financial habits that do not include their student loan payments

Outreach Campaigns During Grace

• Reaching out during grace to remind them of their imminent loan payment can be significant in helping them prepare for repayment

Outreach Campaigns During Grace

• Use letters, emails, and postcards to encourage, inform, and/or remind borrowers how to prepare for repayment
• Validate their contact information
Outreach Campaigns During Grace

• What borrowers need to know:
  – Sign up for online account access with their loan servicer
  – Create a budget to determine affordability
  – Review all available repayment plans
  – Use calculators to help them find the plan they can afford to pay and meet their goals

Outreach Campaigns During Grace

• What borrowers need to know:
  – The servicer will offer them a choice of repayment schedules during their grace period
  – If they do not select a schedule, the servicer will establish the standard repayment schedule

Outreach Campaigns During Grace

• What borrowers need to know:
  – They can change their plan
  – They can change their due date
  – If they have difficulty making a payment, they can postpone with a deferment or forbearance
  – Longer repayment periods will cost them more in interest
  – They should contact their servicer if they have difficulty making payments
Outreach Campaigns During Grace

• Most importantly: let them know that they have options
  – Most borrowers who default are:
    • On the standard repayment plan
    • Never obtain a deferment or forbearance

Outreach Campaigns During Grace

• Sending letters:
  – Make them stand out
    • Colored envelopes
    • School’s logo or mascot
  – Highlight what you want them to know most in **bold** or *color*
  – Encourage them to contact their servicer if they have questions

Outreach Campaigns During Grace

• Sending emails:
  – Utilize school’s email address
  – Use creative subject line to get the borrower’s attention
  – Keep it precise, yet informative
  – Avoid including personally identifiable information
Outreach Campaigns During Grace

- Sending postcards:
  - Use to serve as a reminder
  - Keep it simple yet informative
  - Utilize creativity
  - Ask for a call back; don’t mention the word “loan”
  - Avoid including personally identifiable information

Grace Period Outreach

What types of information do you (or can you) include in your grace period correspondence?

Connecting with Mid-Stage Delinquent Borrowers
**Mid-Stage Delinquent Borrowers**

- Borrowers who are more than 150 days delinquent but less than 270
- Early intervention by the lender or servicer has not been successful
- Monthly payments are often not affordable but they are unaware of their options
- Delinquency is damaging their credit history

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**Options for Mid-Stage Delinquent Borrowers**

- Provide instructions to change to an income-driven repayment plan
  - Go online: [https://studentloans.gov/myDirectLoan/index.action](https://studentloans.gov/myDirectLoan/index.action)
  - Sign in using your FAFSA PIN
    - Go here if you have forgotten your PIN
  - Select Complete IBR/Pay As You Earn/ICR Repayment Plan Request
  - Follow directions to submit request

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**Options for Mid-Stage Delinquent Borrowers**

- Income-based repayment
  - Direct and FFEL loan borrowers (excludes Parent PLUS)
  - Payments will be capped at 15% of discretionary income
  - Remaining balance after 25 years of repayment will be forgiven
Options for Mid-Stage Delinquent Borrowers

• Pay As You Earn
  – Direct borrowers only (excludes Parent PLUS)
  – Must meet new borrower definition
    • No outstanding DL or FFEL balance as of 10/1/2007, or no outstanding balance on the date a borrower receives a new loan after 10/1/07; – AND –
    • Receives a disbursement of a DL on/after 10/1/2011
      – OR –
    • Receives a Direct Consolidation loan based on application received on/after 10/1/2011

Options for Mid-Stage Delinquent Borrowers

• Pay As You Earn
  – Payments will be capped at 10% of discretionary income
  – Remaining balance after 20 years of repayment will be forgiven

Options for Mid-Stage Delinquent Borrowers

• Income-contingent repayment
  – Direct borrowers only (excludes Parent PLUS loans unless included in a Direct Consolidation loan after 7/1/06)
  – Borrowers do not have to demonstrate a partial financial hardship
  – Remaining balance after 25 years of repayment will be forgiven
Helping Late-Stage Delinquent Borrowers Avoid Default

Late-Stage Delinquent Borrowers

- Greater than 271 days delinquent
- Most have never responded to their lender or servicer
- Often are avoiding other creditors
- More willing to communicate with their school than their lender/servicer

What They Need to Know

- Time is running out
- Consequences of default
  - Federal tax refund withheld
  - Wages garnished
  - Collection costs assessed
  - Damaged credit history
- There are options to help them avoid default
Communicating With Your Borrowers

• Use Great Lakes Delinquency Letter Tool
  – Creates letters that you can print
  – Easy-to-use
  – Can use with window envelopes or create mailing labels
  – Details how borrowers can resolve their delinquency

Delinquency Letter Tool

• Free for schools to use
  – Need Great Lakes user ID and password
• Can request on-demand or receive by subscription
• Delinquent borrower data is updated weekly
• Can add school contact information

Make Your Letters Stand Out

• Sign letters by hand
• Hand write envelopes
• Use stamps
• Get creative with the envelopes
  – Colors
  – Special messages (i.e. “Savings Inside”)

Get Them to Open the Letter
Responding to Your Borrowers

• When borrowers call help them by:
  – Stressing they have options
  – Conducing a three-way call to their servicer
    – OR –
  – Encouraging them to call their servicer

Late-State Delinquency Initiative

• Technical default occurs at day 270 of delinquency but...the borrower can be saved from default until day 360 (for Direct Loans)
• Participating in late-stage delinquency is essential to helping them avoid default

Conclusion and Resources
Don't Let Time be a Stumbling Block

• You can implement default prevention strategies, even if your time is limited
• By allocating 60 minutes a month, you can:
  – Help prepare borrowers for repayment
  – Share income-driven repayment plan information to borrowers who may need a lower monthly payment
  – Save late-stage delinquent borrowers from default

Resources

• Cohort Default Rate Guide

Resources

• NLSDS Reports
  - DR0015: Repayment Loan Info Detail Report provides the current repayment status of certain borrowers in the FFEL and Direct Loan programs who attended a school during a specific period, either 24 months (DR0015) or 36 months (DR0016).
  - DER001: The Date Entered Repayment Report is a list of student borrowers who are scheduled to go into repayment during a specific date range.
  - SCHDF2: The Borrower Default Summary Report provides a list of loans that currently have a default loan status and a loan status date that falls within the requested range.
  - SCHPF2: The School Portfolio Report provides school users with information about all Direct or FFEL loans for a specified school.
  - DELQ01: The Delinquent Borrower Report provides school users a report of borrowers who have been reported as delinquent in making loan payments to one of the federal loan servicers.
Thanks for Attending