



GASFAA

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Default Prevention Overview

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Section 1

Introduction



The Changing Landscape

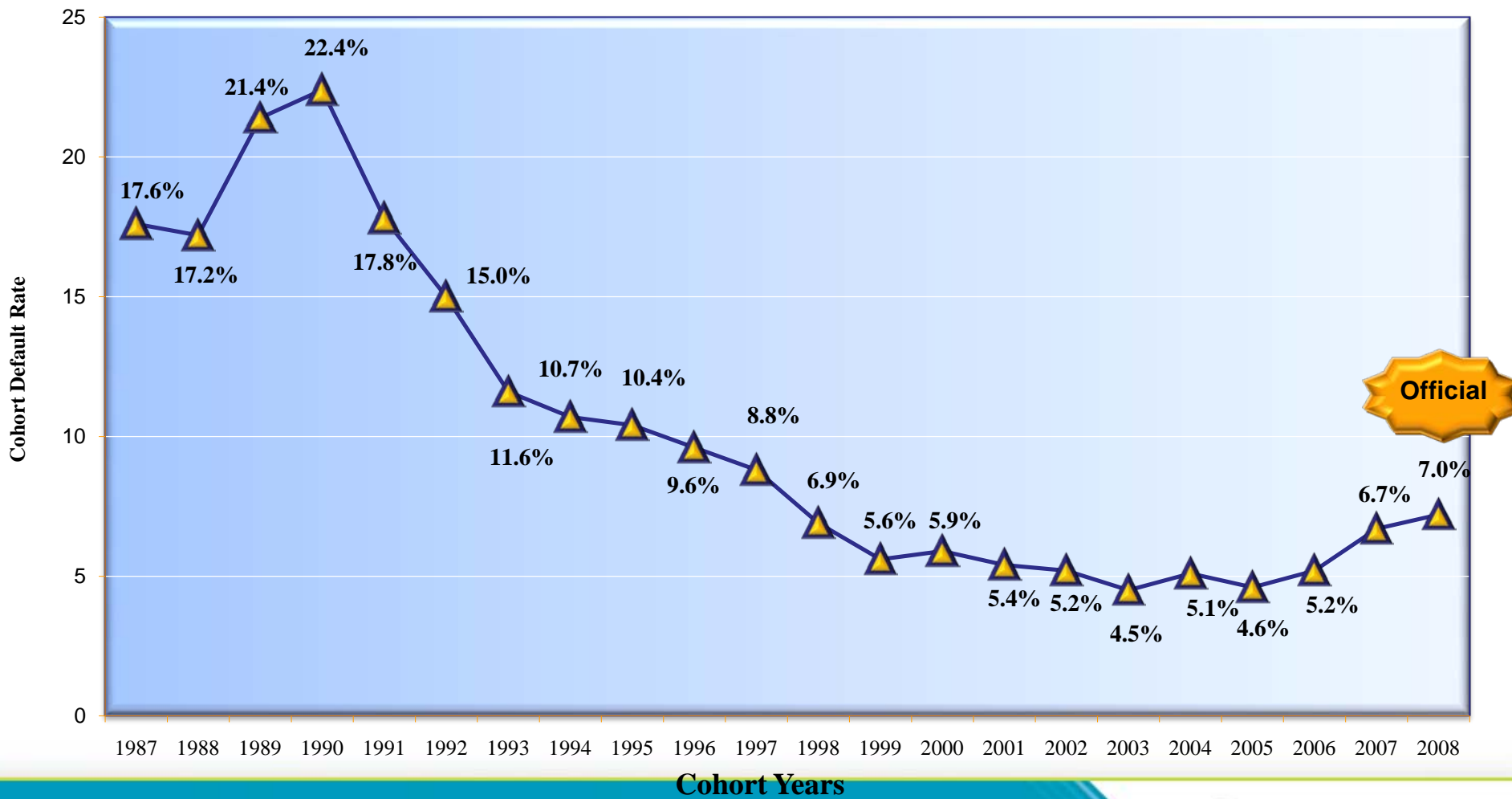
- Loan default increasing for most schools
- Educational costs continue to rise
- More students borrowing more money
- The combination of Stafford and private loans equal greater debt
- New CDR calculation/sanctions/requirements
- Recent transition to all Direct Loan Origination and Servicing
- Gainful Employment: A different standard?



National Cohort Default Rates

Issue Date

1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010





Data Shows Increasing Risk

CDR

08 Official = 7.0%

09 Draft = 8.9% (+27%)

Borrowers

08 Official = 238,853

09 Draft = 327,669 (+37%)

Dollars

08 Official = 1.533b

09 Draft = 2.427b (+30.4%)



Section 2

Default Rate Calculation



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)

Not public
No sanctions
No benefits

September
(OFFICIAL)

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.



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



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



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



Using the *Non-Average* Rate Formula

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

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



Using the *Average* Rate Formula

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

$$\begin{array}{r} \text{(N)} \quad \boxed{3 + 1 + 1} = \boxed{5} \\ \hline \text{(D)} \quad \boxed{20 + 17 + 10} = \boxed{47} \end{array} \times \boxed{100} = \boxed{10.6\%}$$

FY06 FY07 FY08

The sum of the three most recent cohort periods



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	

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

Released Sept 2011

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

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

Released Sept 2012



Section 3

Why Do Default Prevention?

Changes, Risks, 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



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



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



CDRs and the Economy

- CDR are retrospective: the economic impact on borrower repayment will be seen the 09/10/11 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



Your School Should Participate in Default Prevention

- FSA's 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?



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)



2-Year CDR Monitored

Cohort Year	Years Monitored	Official Rates Published	2 year Sanctions
2007	2007, 2008	2009	Yes at 25%
2008	2008, 2009	2010	Yes at 25%
2009	2009, 2010	2011	Yes at 25%
2010	2010, 2011	2012	Yes at 25%
2011	2011, 2012	2013	Yes at 25%



3-Year CDR Monitored

Cohort Year	Years Monitored	Official Rates Published	3 year Sanctions
2009	2009, 2010, 2011	2012	No (will receive 3-year calculation, but no sanction applies.)
2010	2010, 2011, 2012	2013	No (will receive 3-year calculation, but no sanction applies.)
2011	2011, 2012, 2013	2014	Yes at 30%
2012	2012, 2013, 2014	2015	Yes at 30%



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



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



“Trial” 3-Year Rates Released

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

The screenshot shows the Federal Student Aid Gateway website. At the top left is the logo with the text "START HERE GO FURTHER FEDERAL STUDENT AID". To the right is the text "Federal Student Aid Gateway". Below this is a navigation bar with links for "Home", "About Us", "Data Center", "Doing Business With Us", and "Contact Us". The "Data Center" link is highlighted. The main content area is titled "Data Center" and has a sub-section "Default Rates". Below this, a paragraph explains that federal student loans are borrowed funds that must be repaid with interest, and failure to repay can result in default. A list of links follows, with "Trial Three-Year Cohort Default Rates" circled in red. To the right, there is a "Featured Announcements" section with links for "Federal Aid First", "Federal Student Aid FY2009 Annual Report", "Disaster Assistance", and "FAFSA Filing Options". At the bottom right, there is a section titled "I'm Going" with a small image below it.

**START HERE
GO FURTHER
FEDERAL STUDENT AID**

Federal Student Aid Gateway

Home About Us **Data Center** Doing Business With Us Contact Us

Data Center

Default Rates

Federal student loans are borrowed funds that must be repaid with interest. Failure to repay a loan can result in default. The reports below show default rates for the federal student loan programs.

- [Cohort Default Rates by school, lender, state and institution type](#)
- [Budget Lifetime and Cumulative Lifetime Default Rates](#)
- [Federal Perkins Loan Program Status of Default \(Orange Book\)](#)
- [Trial Three-Year Cohort Default Rates](#)

[Data Center Home](#)

Featured Announcements

[Federal Aid First](#)
Explains the differences between federal and private education loans.

[Federal Student Aid FY2009 Annual Report](#)

[Disaster Assistance](#)
Disaster assistance information for students and federal student loan borrowers.

[FAFSA Filing Options](#)
Learn how you can file a Free Application for Federal Student Aid (FAFSA).

I'm Going



Section 4

Changes in Loan Servicing



Our New Servicing Partners

- Transition to all-Direct Loan origination
- DL Schools will have new servicing partners
- Former FFELP schools will have new default prevention partners for DL, PUT and Conduit loans
- Default prevention tools/services may be different from contractor to contractor
 - Contract promotes competition
- Get to know new servicers
- New Delinquency Report from NSLDS



Role of New Servicing Partners

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.





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



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



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



Get to know your Federal Loan Servicers:



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





Get to know your Federal Loan Servicers:

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.nelnet.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



Get to know the 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





New: Not for Profit Servicers

Additional Servicers are being added over the next 2-3 years.

Some will operate independently, some in the background attached to current servicers.

Stay tuned.



Section 5

Default Prevention Basics Plans and Strategies



Default Prevention Basics: Key Concepts

1. Good Hygiene: Things that work in all circumstances, i.e., useful contact information, increase educational and employment outcomes, cultivate in-school borrower/servicer relationship.
2. Identify and address pockets of existing risk: who is defaulting and why; create tailored/timely interventions.
3. Include in your plan activities consistent with 1 and 2 above.
4. Your plan does not have to be exhaustive. It just has to be effective.



Default Prevention Basics

The ultimate expression of default prevention:

The right student in the right program with the right support services, delivered at the right time, leading to program completion...and a job.

Most other activities are after-the-fact clean-up.



Default Prevention Basics

Creating a Plan: The Goal

- Reducing default risk in your school's portfolio.
- Establish effective practices that will 'outlive' current staff.
- It can be done!



Involuntary Plans

34 CFR 668.14(b)(15)

1. Schools participating in the Direct Loan programs for the first time,
2. Schools participating in the Direct Loan program that have undergone a change of ownership that resulted in a change in control , are...
3. Required to have a DP plan
 1. Create your own
 2. Adopt the Department's Sample Plan



Involuntary Plans

34 CFR 668.217

- New cohort default rate regulation requires that schools which achieve a cohort default rate equal to or greater than 30% are must develop a default prevention plan.
- Specific elements required...more details later.



Cohort Default Rates of $\geq 30\%$?

The regulation requires that schools:

1. Establish a default prevention team
2. Conduct an analysis to determine source of default risk
3. Create measureable interventions/steps
4. Create a default prevention plan
5. Send plan to FSA for review

We suggest 1-4 as a framework for all schools....



Implicit in the new regulation:

Understand who is at risk of default, and why, and formulate default prevention strategies based upon that information.

1. Create statistical basis for taking action.
2. Increases likelihood that you will aim at the right problems.
3. Suggests targeted possible interventions in school, grace and repayment.



Voluntary Plans

- Schools may wish to create a voluntary default prevention plan to promote loan repayment and reduce default risk within the school's loan portfolio.
- There are no specific requirements for the development of such a voluntary plan although the Department strongly recommends that school elect to follow the steps outlined in 34 CFR 668.217, as well as some or all of the non-regulatory 'best practice' measures described later in this session.



Some historical information:

- more than 70% of borrowers who default did not complete their educational program
 - Student success
- More than 90% of borrowers who default have not had one conversation with their loan servicer
 - Successful contact

If you were creating a default prevention strategy, how might you use these two bits of information?



Default Prevention Basics

Necessary:

Understand Who is Defaulting and Why



Default Prevention Basics

Drilling down: Two sub-goals

1. Promoting a healthy relationship between the borrower and his/her loan
2. Promoting a healthy relationship between borrower and his/her education
....how to do this?



Default Prevention Basics

“Traditional” Approach

Develop a healthy relationship *with their loans* to include:

- Understanding loan repayment
- Teaching financial literacy (Mapping, Jumpstart, NEFE...)
- Updating enrollment status changes (registrar)
- Maintain useful contact information
- Reaching out when help is needed
- Cultivate relationship with Servicer early
- Typically a FA office function



Default Prevention Basics

“Student Success” Approach

Develop a healthy relationship *with their educational program* to include:

- Identifying academic/other problems early

- Improving program completion

- Reducing time to completion

- Strong connection between educational programs and available jobs

- Assisting drops to find employment

Successful students tend to become successful borrowers.



Strongly Recommended

- Include both traditional and student success element.
- Know why you are including various elements and strategies in your plan.
- Choose only things that actually add value, that work. Otherwise you are wasting time and money.



Default Prevention Basics

Promoting Student Success

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

Data collection:

- Info from current students
- Info from former students
- Talk with enrollment mgt. staff



Default Prevention Basics

Engaging At-Risk Borrowers

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

Questions to Ask (and answer):

Who are my at-risk borrowers?

When should I intervene, and how?

Learn to identify risk factors. Right strategy, at the right time.



Default Prevention Basics

Engaging At-Risk Borrowers

Who are my at-risk borrowers? (continued)

- Using available data, determine 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?



Engaging At-Risk Borrowers

Example: While In School

Target at-risk borrowers with student success support, and/or traditional interventions, i.e. early/extra loan counseling, financial literacy training, and collect additional contact information, require on-going contact (monthly?) with loan servicer

Examples:

Students on academic probation

Students who have expressed intention
to withdraw

Students enrolled in programs disproportionately represented among
defaulters



Engaging At-Risk Borrowers In **Grace**

Examples:

Help to establish contact with loan servicer

Validate contact information

Prepare borrower for repayment

Provide employment counseling

Re-enrollment assistance

Transfer assistance



Engaging At-Risk Borrowers In **Repayment**

Examples: 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



A Few Things You Should Always Do

1. Help enrollment management team understand that their work to increase student success constitutes default prevention. Make them part of your team.
1. Understand who is defaulting and why, and find one or two opportunities to intervene while borrowers are still enrolled. Use student success and traditional strategies.
2. Add a financial literacy course and make it mandatory for all students. Use a pre/post test to make sure students have learned something.
3. Make an institutional decision to collect and maintain effective borrower contact information, using it early in delinquency for those who dropped out and late in delinquency with those with whom your servicer has failed.



Remember....

The right student admitted to the right program, with the right academic and student support services delivered at the right time, leading to program completion and employment...in addition to the utilization of appropriate and effective 'traditional' strategies...that's default prevention!



Excellent Default Prevention Resource

Look & Listen

FSA Default Prevention Webinar

<http://ifap.ed.gov/dpcletters/ANN1102.html>



Help is Available

FSA Default Management Division

Telephone: 202-377-4259

Email: fsa.schools.default.management@ed.gov

The Cohort Default Rate Guide ** just updated

<http://www.ifap.ed.gov/drmaterials/finalcdrg.html>

New: Default Prevention Web Page at IFAP (Right side IFAP Main Page)

ifap.ed.gov

FSA Assessments ** just updated

<http://ifap.ed.gov/qamodule/DefaultManagement/DefaultManagement.html>

Sample Plan: revised version coming this fall



Default Prevention Contacts

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Portfolio Performance Management

(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