

Managing Loan Default: Making a Difference in 60 Minutes




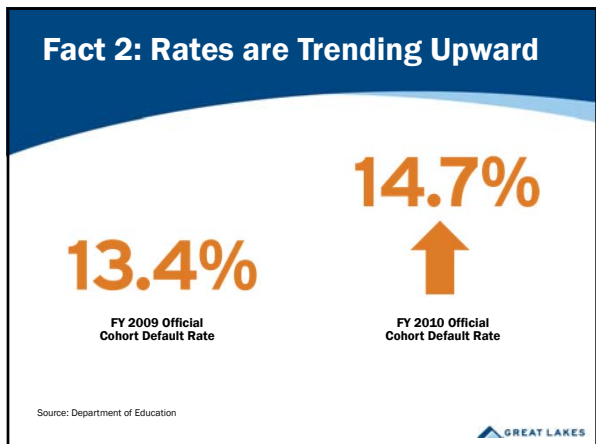


Facing the Facts

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

	Number of Schools	Borrower Default Rate (%)	Number of Borrowers Defaulted	Number of Borrowers Entered Repayment
Public	1,619	13.0%	250,661	1,922,773
Less than 2 yrs	139	16.5%	1,315	7,963
2-3 yrs	840	20.9%	125,764	599,467
4yrs(+)	640	9.3%	123,582	1,315,343
Private	1,712	8.2%	72,347	879,269
Less than 2 yrs	41	21.8%	1,097	5,020
2-3 yrs	168	14.2%	2,305	16,217
4yrs(+)	1,503	8.0%	68,945	858,032
Proprietary	2,187	21.8%	277,088	1,270,965
Less than 2 yrs	1,117	20.9%	34,811	165,921
2-3 yrs	743	21.4%	71,853	334,459
4yrs(+)	327	22.1%	170,424	770,585
Foreign	432	4.6%	449	9,562
Unclassified	1	0.0%	0	1
Total	5,951	14.7%	600,545	4,082,570

Source: Department of Education

GREAT LAKES

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

GREAT LAKES

Fact 4: More Default Prevention is Needed



GREAT LAKES

Fact 5: You Have Work Overload



GREAT LAKES

Make a Difference in 60 Minutes





- By allocating 60 minutes each month, you can help your borrowers decrease their chances of defaulting

GREAT LAKES

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




What Happens During the Grace Period

- Great Lakes sends correspondence to borrowers

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




What Happens During the Grace Period

- Great Lakes sends correspondence to borrowers

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




What Happens During the Grace Period

- Great Lakes sends correspondence to borrowers


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




Options for Mid-Stage Delinquent Borrowers

- Provide instructions to change to an income-driven repayment plan
 - Go online:
<https://studentloans.gov/myDirectLoan/index.action>
 - Sign in using your FAFSA PIN
 - Go here if you have forgotten your PIN
 - <http://www.pin.ed.gov/PINWebApp/pinindex.jsp>
 - Select Complete IBR/Pay As You Earn/ICR Repayment Plan Request
 - Follow directions to submit request




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

STANM SMITH
22 MADONNE
MILWAUKEE, WI 53210
February 01, 2011

Dear Ryan,


You are very close to defaulting on your student loans! We sincerely hope that you will still decide to proceed with the plan you signed up for. However, we strongly suggest you immediately contact our member loan counseling partner, Great Lakes. Counseling officials will contact you to help you resolve your options for providing default.

If you don't take action soon, you will default on your student loans! This default will be permanently reflected on your school records, in addition, you may:

- **Be required to pay your balance in full.**
- **Have your federal tax return withheld.** Amount of monetary your federal income tax return will be applied to the balance of your delinquent loan.
- **Have your wages garnished.** Your employer will be required to deduct between 10% and 15% of your pay from every paycheck and forward those amounts to the lender.
- **Reduce the marketplace of a damaged credit history.** Bad credit will result in banks charging you higher rates on credit cards and car or mortgage loans. It may also impact your ability to get a job because many employers look at credit ratings when making hiring decisions.
- **Be required to pay collection costs.** The address of collection costs will automatically increase the total amount owed to pay a delinquent loan in full.
- **Have your eligibility for additional federal loans.** If you decide to request to attend, we ask that you please consider these actions consequences of defaulting on your student loans. Contact our loan counseling partner before you do.

We are committed, along with Great Lakes, to help you bring your loans back to good standing. Please contact Great Lakes. Representatives include department at 800.226.2746 to obtain additional information about the options available to resolve your delinquency.

Sincerely,



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
 - Conducting 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

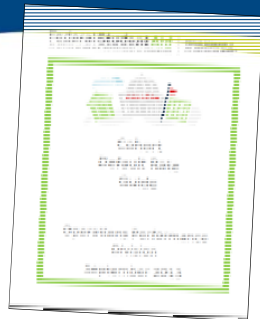
Don't Let Time be a Stumbling Block

- 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
 - <http://ifap.ed.gov/DefaultManagement/CDRGuideMaster.html>



Resources

• NLSDS Reports

DRC015	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 (DRC015) or 36 months (DRC015)
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
SCHPR2	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



