

Managing Loan Default: Making a Difference in 60 Minutes



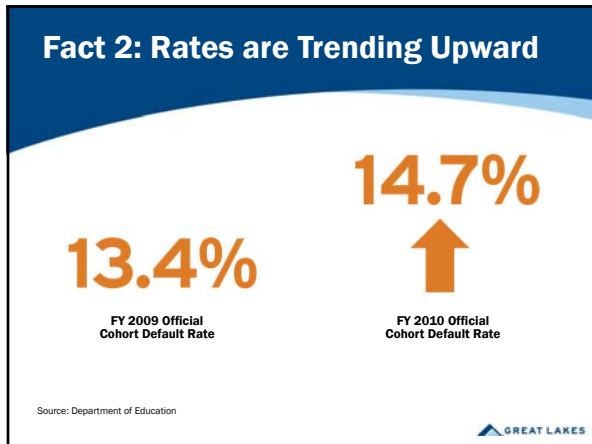


Facing the Facts

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

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



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





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

GREAT LAKES


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

GREAT LAKES


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

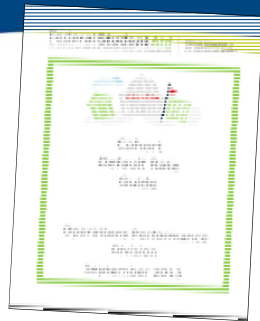
Don't Let Time be a Stumbling Block

- 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



