

## Managing Loan Default: Making a Difference in 60 Minutes



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## Facing the Facts

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### 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%



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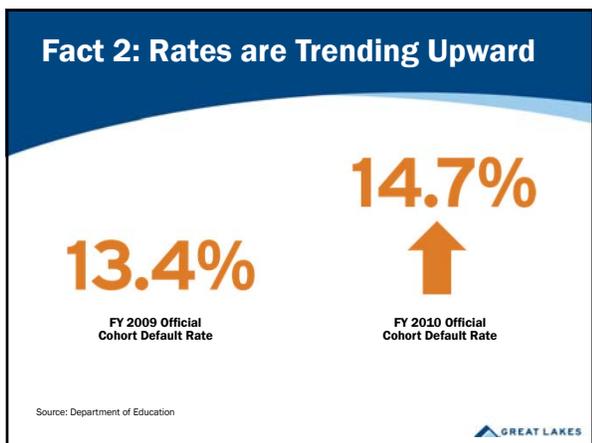
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### Fact 2: Rates are Trending Upward

	Number of Schools	Borrower Default Rate (%)	Number of Borrowers Defaulted	Number of Borrowers Entered Repayment
<b>Public</b>	<b>1,619</b>	<b>13.0%</b>	<b>250,661</b>	<b>1,922,773</b>
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
<b>Private</b>	<b>1,712</b>	<b>8.2%</b>	<b>72,347</b>	<b>879,269</b>
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
<b>Proprietary</b>	<b>2,187</b>	<b>21.8%</b>	<b>277,088</b>	<b>1,270,965</b>
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
<b>Foreign</b>	<b>432</b>	<b>4.6%</b>	<b>449</b>	<b>9,562</b>
<b>Unclassified</b>	<b>1</b>	<b>0.0%</b>	<b>0</b>	<b>1</b>
<b>Total</b>	<b>5,951</b>	<b>14.7%</b>	<b>600,545</b>	<b>4,082,570</b>

Source: Department of Education

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### 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**

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### Fact 4: More Default Prevention is Needed



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### Fact 5: You Have Work Overload



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### Make a Difference in 60 Minutes



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

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### 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



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### Grace Period Outreach

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### 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



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### 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



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### 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



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### 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)



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### 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



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### What Happens During the Grace Period

- Great Lakes sends correspondence to borrowers

**Payment Schedule** correspondence

- Explains and outlines repayment terms
- Repayment options



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### 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



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### Borrowers and Their Grace Period

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



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### 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



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### 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



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### 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



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### 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



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### 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



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### 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



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### 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



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### 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



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### 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



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### Grace Period Outreach



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



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### Connecting with Mid-Stage Delinquent Borrowers

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### 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>
  - 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



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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



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### 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



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### 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



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### 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



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### 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



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### 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



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## 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




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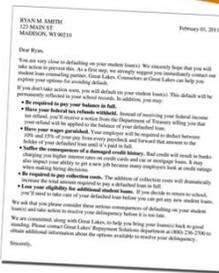
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## Delinquency Letter Tool

- 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





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## 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**




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### 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



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### 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



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### Conclusion and Resources

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## 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




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## Resources

- Cohort Default Rate Guide
  - <http://ifap.ed.gov/DefaultManagement/CDRGuideMaster.html>




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## Resources

### • NLSDS Reports

<b>DRC015</b>	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)
<b>DER001</b>	The Date Entered Repayment Report is a list of student borrowers who are scheduled to go into repayment during a specific date range.
<b>SCHDF2</b>	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
<b>SCHPR2</b>	The School Portfolio Report provides school users with information about all Direct or FFEL loans for a specified school.
<b>DELQ01</b>	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




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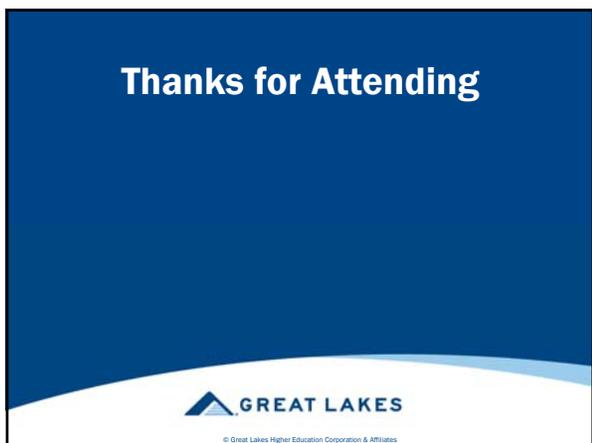
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