



# NASFAA 2004

NATIONAL CONFERENCE • MINNEAPOLIS 7.18.04 - 7.21.04

*Helping Students Make it After All!*



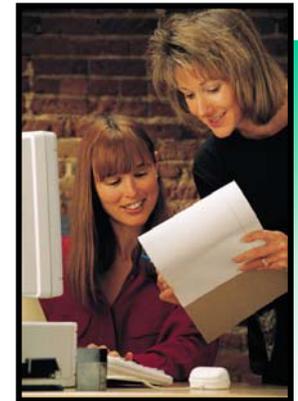


# Default Aversion



## Managing the Risk of Default

Ben Leborys  
Mark Walsh





# Agenda



**Portfolio Risk Management  
Title IV Programs**



**Default Prevention:  
The Basics and Beyond**



**Why is LSDA Working?**



**Questions**





# Portfolio Risk Management Title IV Programs

Ben LeBorys

FSA/Department of Education

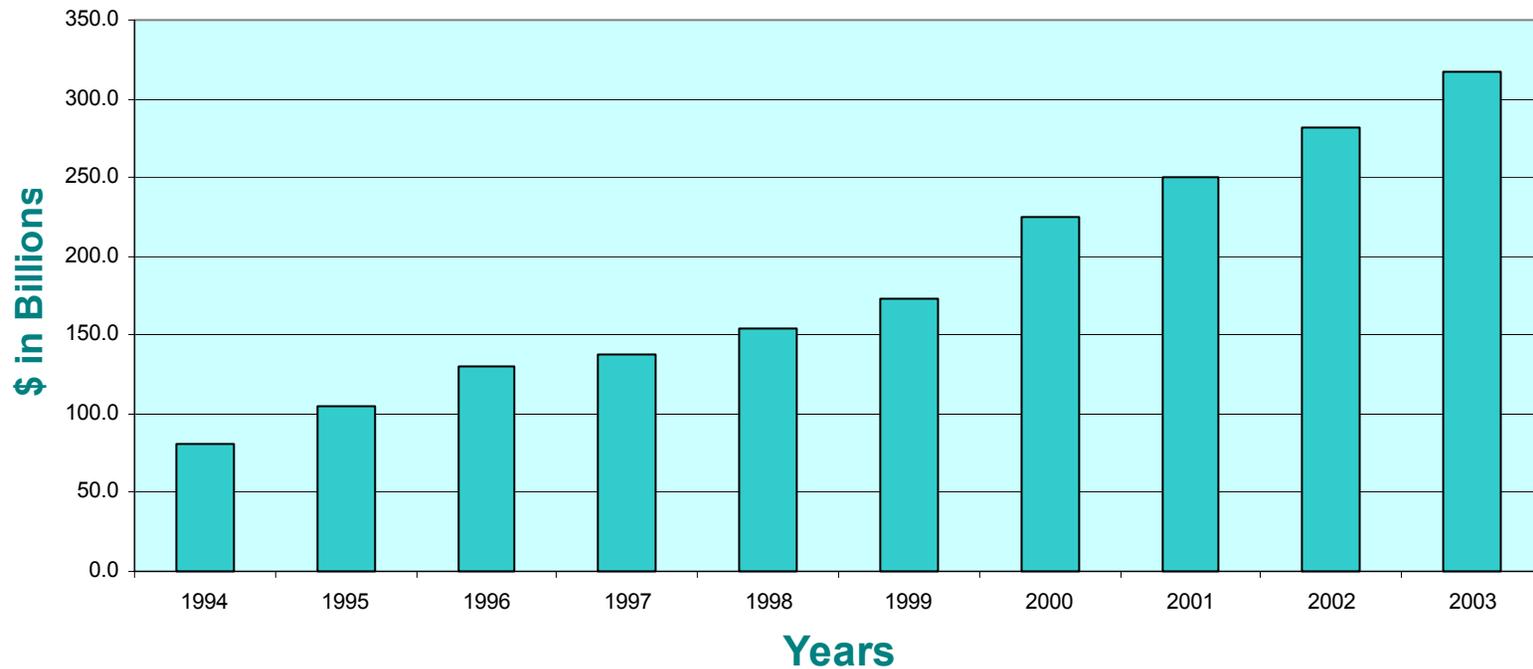


# Why is Risk Management Important?

- As of 9/30/03 the Department of Education owns or guarantees approximately \$319 billion in outstanding student loans.
- In the past five years we have experienced a growth of 65% in total new federal aid.
- There are approximately 23 million borrowers with student loans.
- Approximately 9% of the total outstanding principal balance is in default.



## Growth of Title IV Programs





# What is Portfolio Risk Management?

- Risk Management is the continuous management of reducing exposure of loss from non-performing loans.
  - ✓ Manages through the life of the loan
  - ✓ Prevents a “scatter gun” approach to managing the portfolio, which leads to managing on demand
  - ✓ A focused vision and concentrated effort to managing default prevention and reducing the cost to the taxpayer

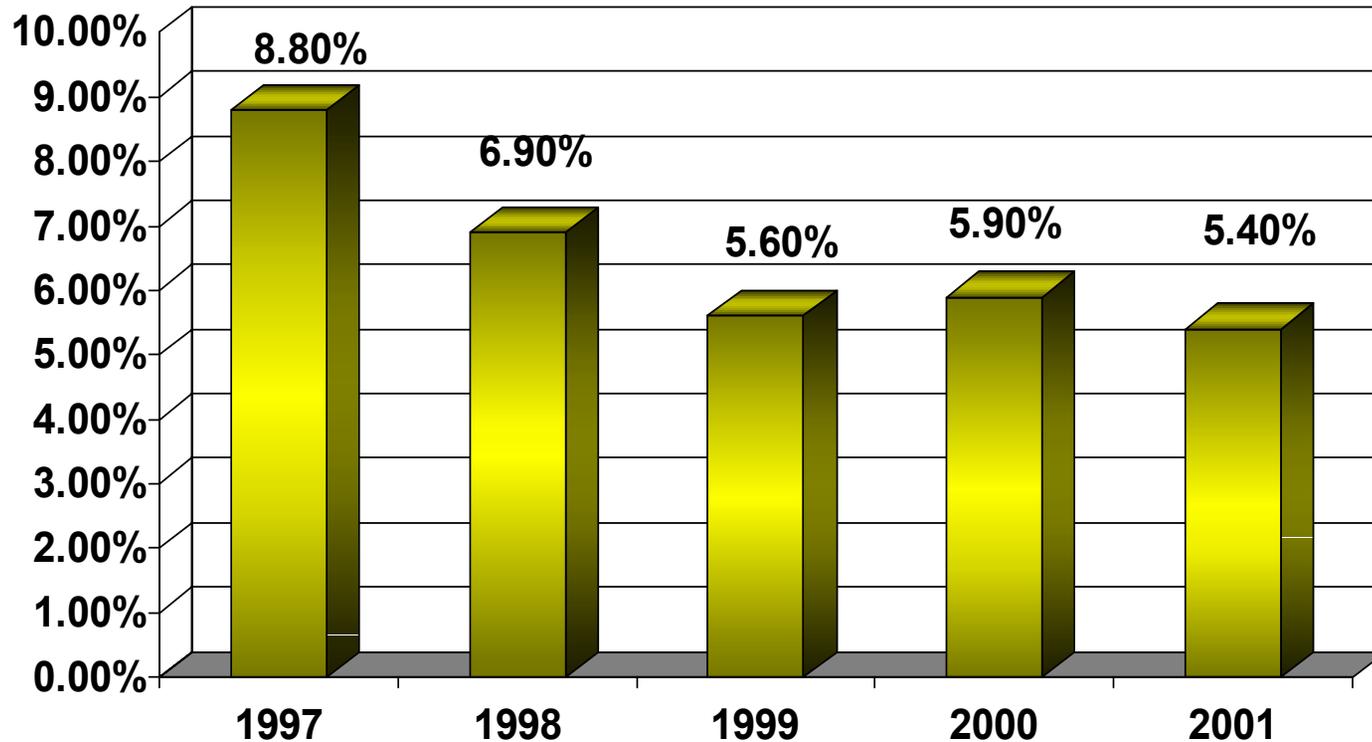


# A Focused Vision

- Transform data into information
  - ✓ Analyze borrower behavior
  - ✓ Identify significant patterns and trends of a delinquent borrower
  - ✓ Identify risk parameters
- Recommend tools that may reduce delinquency and avoid default
  - ✓ Repayment options tailored to the borrower
  - ✓ Expand eServices for loan programs which provide increased service opportunities to the borrower
  - ✓ Increased focus on due diligence to include risk factors of the borrower, large \$ balances, # of days delinquent



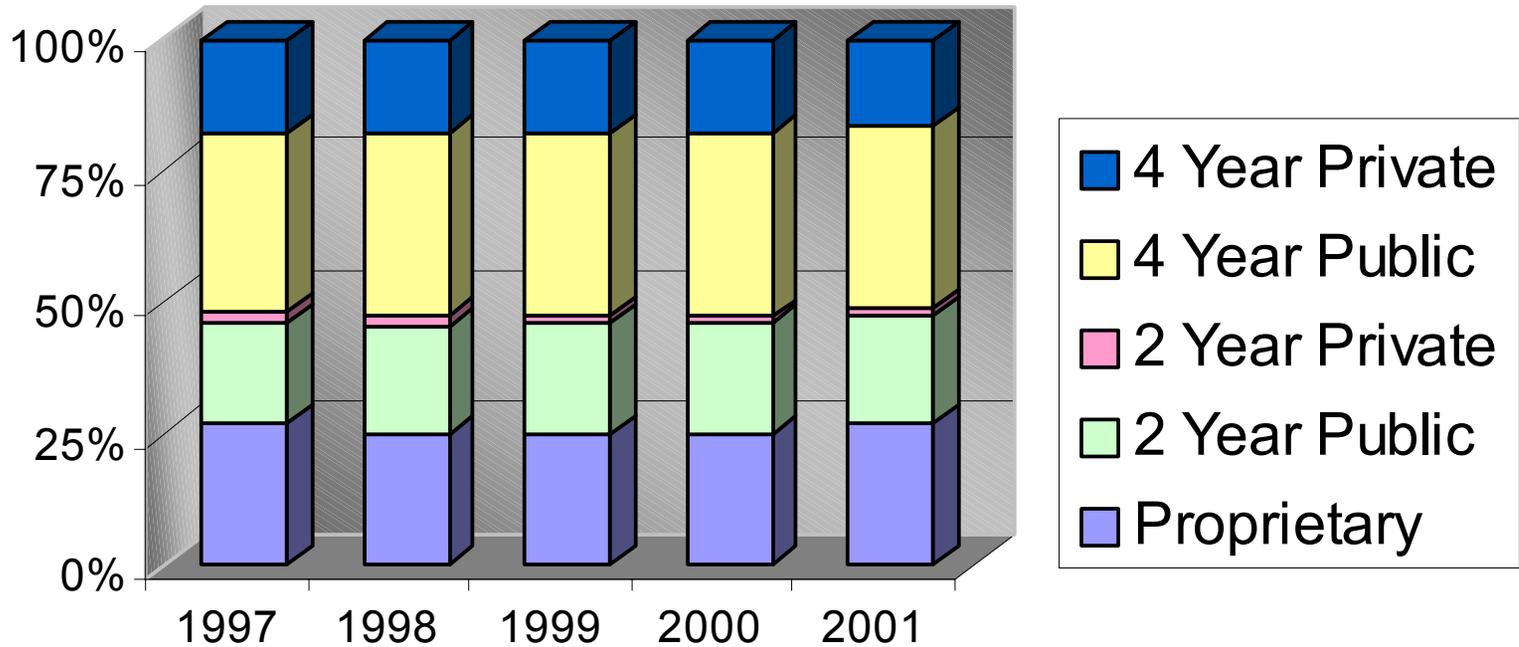
# Official Cohort Default Rates





# Makeup of Cohort Rate

Cohort Default Contribution by School Type





# Summary

- Portfolio Risk Management is a commitment by FSA/Department of Education to focus on reducing risk of a portfolio in excess of \$319 billion.
- Increased focus on default prevention rather than the previous focus of “default collector”.
- Coordination of efforts within FSA as well as partnerships with schools and the FFEL community are critical to the success of reducing risk.
- As a taxpayer you are a share/stakeholder in the federally insured student loan portfolio, each of you have a vested interest in insuring that “your” investment is managed well.



# Default Prevention: The Basics and Beyond

Mark C. Walsh

Regional Lead, School Relations  
Branch FSA/Department of  
Education



# Understanding the Basics

- Cohort Default Rates
- Data Accuracy
- Default Management Plans
- Default Management Teams
- Establishing Goals



# Cohort Default Rate (CDR)

## Definition:

***A cohort default rate is the percentage of borrowers entering repayment on loans in a fiscal year and subsequently defaulting (or meeting other conditions) in that same fiscal year or the next fiscal year.***



# What is a Cohort Year?

## **FY 2003**

**(N) October 1, 2002 – September 30, 2004**

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**(D) October 1, 2002- September 30, 2003**

## **FY 2004**

**(N) October 1, 2003 – September 30, 2005**

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**(D) October 1, 2003 – September 30, 2004**



## Electronic Cohort Default Rates - eCDR

- Draft and Official CDRs now delivered via SAIG to domestic schools – no more hard copy notification packages
- Enroll or change who is designated to receive your school's cohort default rate info at [www.sfawebenroll.ed.gov](http://www.sfawebenroll.ed.gov)



# Draft CDR

- Usually released in February of each year
- Not public
- No sanctions
- All schools may challenge



# Official CDR

- Usually released in September of each year
- Public
- Sanctions apply
- Limited adjustment or appeal rights available



# 2002 “Draft” Cohort Default Dates

- Released February 17, 2004
  - Domestic schools received their draft rates electronically via their SAIG mailbox.
  - Foreign schools received their draft rates via the U.S. Postal Service.
  
- If you have any questions, please send an email to: [fsa.schools.default.management@ed.gov](mailto:fsa.schools.default.management@ed.gov) or call the Default Management hotline at (202) 377-4259.



# “Draft” Cohort Default Rates

- April 7 = postmark date for submission of inaccurate data challenges for 2002
- Missed the deadline? Do data clean-up anyway and still affect your official CDR
- Help can be found in the CDR Guide in Chapter 4.1



# Default Prevention Myth

“My school has a very low rate, so we do not need to work on Default Prevention.”

Three reasons why you should:

- Low rate + high volume = Big Dollars!
- Customer service
- Taxpayer



# Default Prevention Plan

- Success is achieved when solid plans are developed and executed
- Plan pulls together people and resources toward a common goal
- ED Default Management sample plan in Dear Colleague Letter GEN-01-08 issued June 2001
- Revise the plan as needed



# Set Default Reduction Goals

## Use FSA's Unique School Report

- How does your CDR compare with:
  - National Cohort Default Rate?
  - Schools of the same size and type?
  - Schools in the same ED Region?
  - Schools in your state?
  - Your previous CDR?



# Default Prevention Team

- Team members should include
  - senior school official
  - representative from key offices
  - student representative
- Meet regularly
- Evaluate progress
- Celebrate and promote your successes



# Beyond the Basics

- FSA Resources
- National Default Prevention Listserv
- NSLDS and Default Prevention
- Contact with borrowers
- Borrower education



# FSA Resources

- **The Cohort Default Rate Guide**

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

- **FSA Assessments**

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



## National Default Prevention Listserv

- Created October 30, 2003
- Hosted by Rutgers University
- Forum for all participants involved in financial aid to exchange ideas
- Regular postings by FSA



## National Default Prevention Listserv

To subscribe send a message to:

[LISTSERV@EMAIL.RUTGERS.EDU](mailto:LISTSERV@EMAIL.RUTGERS.EDU)

with the following command in the body:

SUBSCRIBE

DEFAULT\_PREVENTION@EMAIL.RUTGERS.EDU

Your Name



# NSLDS Reports



Menu

Aid

Enroll

Org

Report

Tran

Support



Report List

Logged on as: JIM NEILL from [Department of Education Region 0](#)

## Report List

Search Report ID:

Submit

	Report ID	Names	Log Page
<a href="#">1</a>	DER001	DATE ENTERED REPAYMENT REPORT	
<a href="#">2</a>	DRC015	SCHOOL REPAYMENT INFO LOAN DETAIL	
<a href="#">3</a>	DRC035	SCHOOL COHORT DEFAULT RATE HIST RPT	
<a href="#">4</a>	FAT001	REQUEST FOR FINANCIAL AID HISTORY	
<a href="#">5</a>	OVP001	SCHOOL OVERPAYMENT REPORT	
<a href="#">6</a>	SCHDF1	BORROWER DEFAULT SUMMARY REPORT	
<a href="#">7</a>	SCHER1	ENROLLMENT REPORTING SUMMARY REPORT	
<a href="#">8</a>	SCH01A	EXIT COUNSELING BY SSN	
<a href="#">9</a>	SCH01B	EXIT COUNSELING	
<a href="#">10</a>	SCH07B	TRANSFER MONITORING SUMMARY REPORT	



**Date Entered  
Repayment  
Report**



# NSLDS for Students

The screenshot shows a Microsoft Internet Explorer browser window titled "NSLDS Student Access - Microsoft Internet Explorer provided by US Department of Education". The address bar displays "http://www.nsls.ed.gov". The website content includes a header with the Department of Education logo, the text "NSLDS STUDENT ACCESS NATIONAL STUDENT LOAN DATA SYSTEM", and a graduation cap icon. A vertical navigation menu on the left lists: "FAQ's", "Browser Information/Setup", "Financial Aid Review", "Glossary of Terms", "Contact Us", "Links", and "ED HOME". The main content area features a collage of images: a student in a graduation cap, a stack of books, and a person using a computer mouse. The taskbar at the bottom shows the Start button, several open applications (Inbox - Microsoft Outlook, NSLDS Student Access..., Microsoft PowerPoint - [P...]), and the system tray with the time 8:06 AM.



# NSLDS for Students

- Loan information for students and parents is available 24/7:
  - Date of loan
  - How much they borrowed
  - Loan balance
  - Interest rate and amount accumulated
  - Loan status codes (in repayment, paid in full, or in default)



# Contact With Borrowers

- Communicate while in school
- Pursue those who leave without notice
- Communicate during their grace period
  - Let students keep their e-mail for 2 years
- Identify and contact delinquent borrowers



# Borrower Education

- Lenders and Guarantors
- Jump\$tart Coalition For Personal Financial Literacy  
<http://www.jumpstart.org/>
- Mapping Your Future  
<http://www.mapping-your-future.org>
- Local Credit Counseling Resources



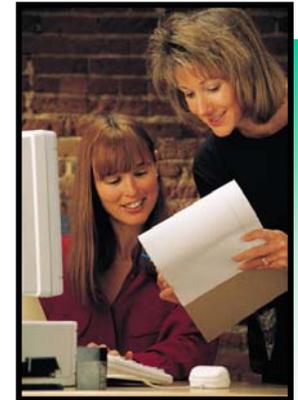
# Why Is LSDA Working?

LATE STAGE DELINQUENCY ASSISTANCE

Ben LeBorys

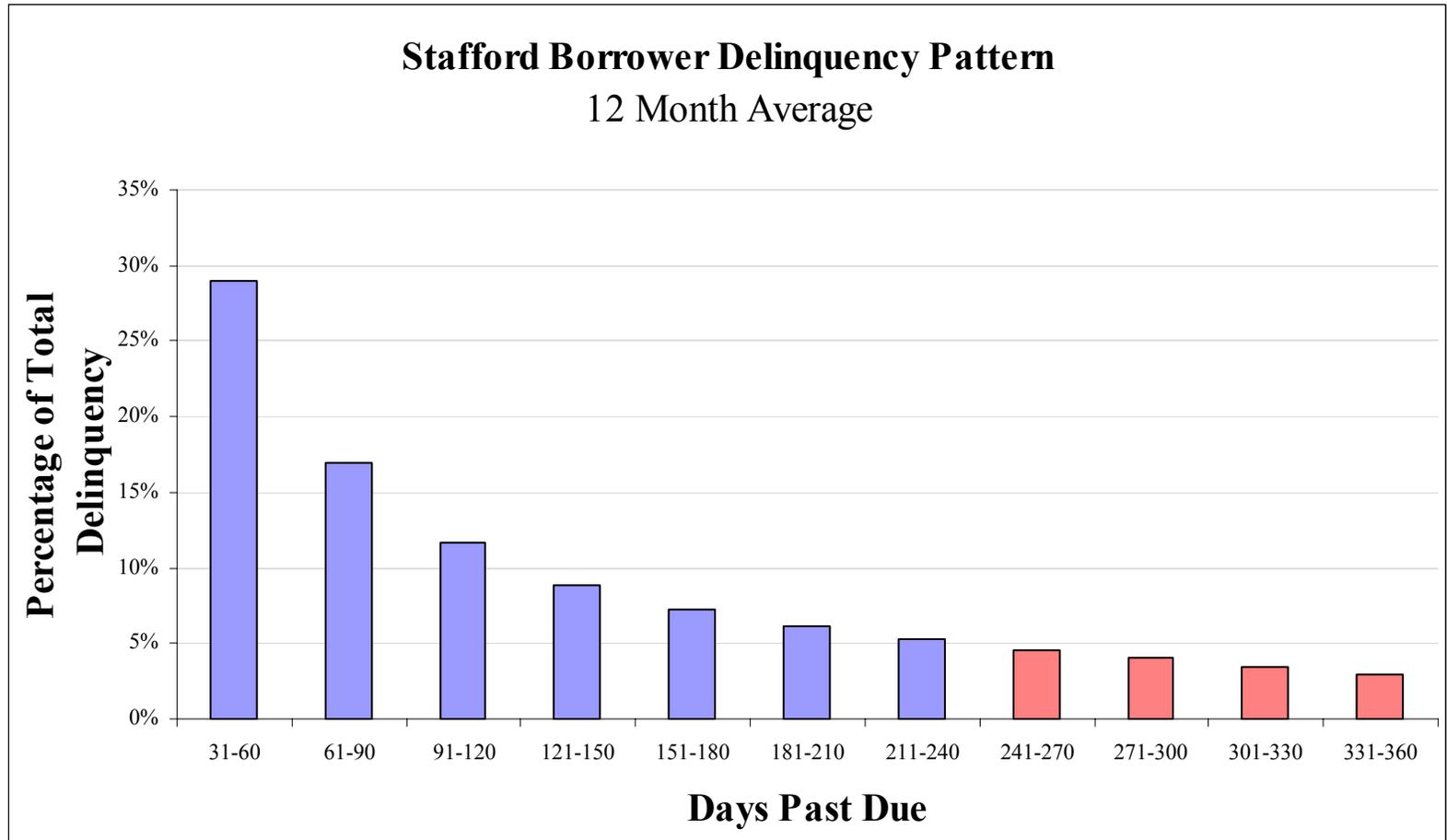
Quality Management

Borrower Services





# Borrower Delinquency Pattern





# Defaulter Characteristics

- 84% do not receive the advantage of the full 6 month grace period as a result of late enrollment notification
- 71% have withdrawn from school and did not complete studies
- 43% have had bad telephone numbers at the time of default
- 58% have not successfully been contacted by telephone during the 360 day collection effort during delinquency

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*12 month average of Stafford borrowers - all cohort years*



# Selected **LSDA** Participants

School	Total Delinquent Borrowers September 2003
Technology Institute	598
University	1,977
University	553
College	617
University	669
College	618
University	1,104
State University	2,670
State University	1,097
State University	1,589
State University	705
Community College	732
University	899
<u>State University</u>	<u>671</u>
<b>Total</b>	<b>14,499</b>



# LSDA Minimal Workload

School	Total Delinquent Borrowers	Total LSDA Borrowers <sup>1</sup>	Percentage of Borrowers to Help Each Month	Borrowers to Help Each Week
Technology Institute	598	30	1%	2
University	1,977	123	2%	8
University	553	35	2%	2
College	617	73	3%	5
University	669	32	1%	2
College	618	30	1%	2
University	1,104	56	1%	4
State University	2,670	169	2%	11
State University	1,097	100	2%	6
State University	1,589	77	1%	5
State University	705	27	1%	2
Community College	732	54	2%	3
University	899	57	2%	4
<u>State University</u>	<u>671</u>	<u>36</u>	<u>1%</u>	<u>2</u>
<b>Total</b>	<b>14,499</b>	<b>899</b>	<b>2%</b>	<b>56</b>

<sup>1</sup> Loans that were 240 or more days past due on October 1st 2003



# Tools: **NEW!** LSDA Report

Home | Direct Loan Servicing Resources | Student Account Info | School Reports | Versión en español | Logout

**FSA** FEDERAL STUDENT AID

DIRECT LOAN SERVICING'S ONLINE SCHOOL SITE

Entrance Counseling | Exit Counseling | **Delinquency Reports** | Portfolio Reports | Report Subscription | Help with this Report

School Campus code: G01434

## Delinquency Reports

 **Borrower History Report**  
The Borrower History Report displays the history of delinquency for selected borrower(s).

 **Summary Report**  
The Summary Report provides a count of the Stafford and In-School Consolidation borrowers delinquent at the end of the month for the selected Reporting Period(s).

 **Detail Report**  
The Detail Delinquency Report contains a list of students that attended your institution with Direct Loans from the Department of Education that are currently in Delinquent Status.

 **Late Stage Delinquency Assistance (LSDA) Report**  
The Late Stage Delinquency Assistance(LSDA) report contains a list of students that attended your institution with Direct Loans from the Dept of Education and are currently over 240 days delinquent, which can affect your school's cohort default rate.

*NEW!*

*If you have a question regarding the information presented on this page, please [Email Us](#)*

| SFA School Portal | Web Site Help | General Information | Contact Us |

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**NEW!**

## Late Stage Delinquency Assistance (LSDA) Report

The Late Stage Delinquency Assistance Report provides the most recent report of borrowers from your institution that are between 241 and 360 days delinquent and that can affect your cohort default rate.

Home | Direct Loan Servicing Resources | Student Account Info | School Reports | Versión en español | Logout

**FSA** FEDERAL STUDENT AID

Entrance Counseling | Exit Counseling | **Delinquency Reports** | Portfolio Reports | Report Subscription | Help with this Report

School Campus code: GXXXXX

### Delinquency Reports

#### Late Stage Delinquency Assistance (LSDA) Report

Reporting Period  
August 2003

Social Security Number	Borrower Name	Home Address	Phone Numbers	Cohort Default Year	Separation Date	Days Delinquent	Original Loan Amount
001-11-1111	STUDENT, SAMUEL S	123 MAIN ST MYTOWN, NV 12345	W - Unknown H - Unknown	2002	03/31/2002	344	\$ 2,750.00
111-22-2222	CAMPUS, CHRIS C	333 CENTRAL DR HOMETOWN, NH 88888	W - Unknown H - Unknown	2003	03/31/2002	327	\$ 5,250.00
001-22-2222	AMERICA, AARON A	456 NEW YORK AVE HOME, IA 23456	W - Unknown H - (555) 123-1234	2003	05/12/2002	312	\$ 31,000.00
111-22-7777	COUNSELOR, CARY C	333 NEW HAMPSHIRE AVE HOMETOWN, LA 88888	W - Unknown H - (555) 123-9999	2003	05/12/2002	290	\$ 2,625.00
001-55-5555	SEMESTER, SYLVESTER S	88 UTAH HOME CAPITAL ROAD BOLT CITY, UT 56789	W - Unknown H - (555) 123-4567	2003	05/12/2002	255	\$ 10,125.00
111-22-8888	SESSION, SUSAN	345 NORTH HOLLYWOOD UTICA, NY 55555	W - Unknown H - Unknown	2003	05/12/2002	241	\$ 12,313.00



# Tools: **LSDA** User's Guide

**Describes how to implement **LSDA** process**

**Section I - Introduction**

**Section II - Late Stage Delinquency Assistance Initiative**

**Section III - WEB Tools Guide**

**Section IV - Ideas and Tips**

***This guide is available from your School Services Representative.***



# LSDA Tools

- **Direct Loan Web Site**
  - ✓ **Flexibility**
  - ✓ **Identify unique borrower populations**
  
- **Direct Loan Servicing Center Assistance**
  - ✓ **LSDA User Guide and tips**
  - ✓ **3-way calls with delinquent borrowers**
  - ✓ **Numbers and Hours**
    - School Services: 1-888-877-7658**
    - M-F 8:00 a.m. - 8:30 p.m. EST.**
    - Loan Counseling : 1-800-848-0981**
    - Available for “off hours” M-F 8:30 p.m. - Midnight**
    - p.m. & Sat. 8:00 a.m. - 5:30 p.m. EST.**



# Why is LSDA Working ?

## Late **S**tage **D**elinquency **A**ssistance

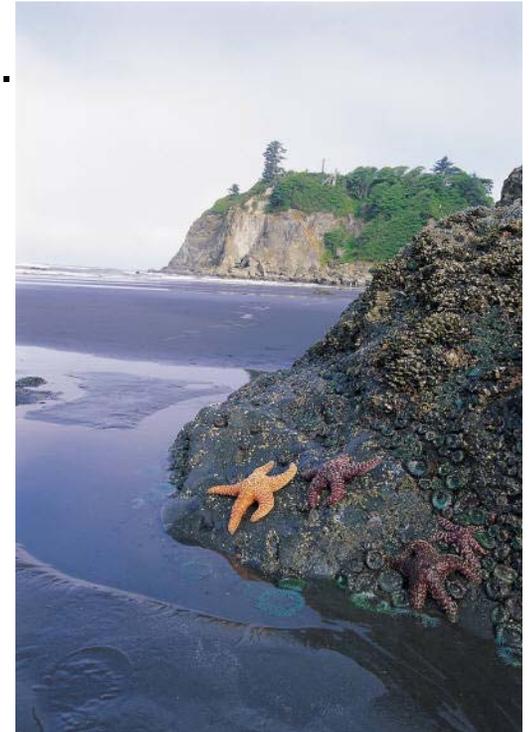
- Schools feel it is the right thing to do
- Schools feel that it is very doable
- Students respond well to schools
- It doesn't take a lot of resources
- The results are dramatic





# Tips for Success

- Use a light touch – remember you are there to help, not to collect.
- Call at different times of the day – more people are home in the evening and you can call from home using a calling card.
- Mailing handwritten notes has been successful.
- Use contact information from the Web, student Email addresses, Perkins Loan info, Registrar's Office, Alumni Office, etc.
- Send out information on repayment options, deferments and forbearance.
- Connect the student with the Service Center in a three-way call.
- Be creative! You can make a difference.





# Testimonials

- ***“I just wanted to drop you a note of thanks and appreciation for your help with my direct student loan. It had become a sore issue that I found difficult to face, being that I had no answers regarding payment. I was not aware of deferment options regarding unemployment, just those associated with schooling. Thanks again for your help and persistence.”***

**~Student**



- ***“I’m glad you cared enough to contact me and not give up on me when I had just about given up on myself.”***

**~ Student**



- ***“Borrowers are grateful that someone is willing to work with them and help them get through the critical point. A lot of the borrowers do not realize the seriousness of defaulting and the options that are available.”***

**~Margaret Pearson, San Antonio College/Career Centers**





# Effective Implementation

Plan

Schedule

Tips from others

Make it someone's responsibility





# LSDA Results are *Dramatic!*

School	Delinquent Borrowers	LSDA Borrowers <sup>1</sup>	Rescued Borrowers	<i>Percent Rescued</i>
Technology Institute	598	30	21	<i>70%</i>
University	1,977	123	56	<i>46%</i>
University	553	35	15	<i>43%</i>
College	617	73	31	<i>42%</i>
University	669	32	13	<i>41%</i>
College	618	30	10	<i>33%</i>
University	1,104	56	18	<i>32%</i>
State University	2,670	169	54	<i>32%</i>
State University	1,097	100	31	<i>31%</i>
State University	1,589	77	23	<i>30%</i>
State University	705	27	8	<i>30%</i>
Community College	732	54	16	<i>30%</i>
University	899	57	16	<i>28%</i>
<u>State University</u>	<u>671</u>	<u>36</u>	<u>9</u>	<u><i>25%</i></u>
<b>Total</b>	<b>14,499</b>	<b>899</b>	<b>321</b>	<b><i>36%</i></b>

<sup>1</sup> Loans that were 240 or more days past due on October 1st 2003



# What is Next ?

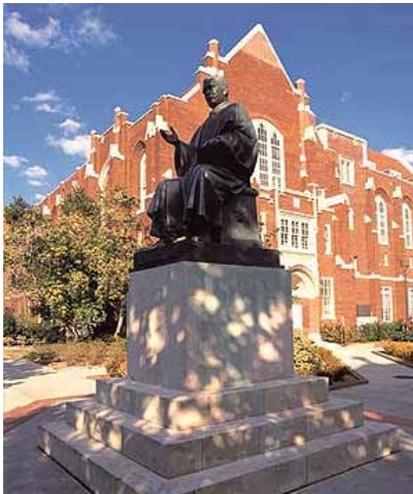
## **Early** Stage Delinquency Prevention Something to think about!

- Report student separations timely
- Consider outreach to dropouts
- Counsel potential dropouts earlier in the process





# Questions and Comments



## Contact Us:

▶ Mark Walsh

[mark.walsh@ed.gov](mailto:mark.walsh@ed.gov)

▶ Ben LeBorys

[ben.leborys@ed.gov](mailto:ben.leborys@ed.gov)



# Thank You