



Electronic Access Conference

2002

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The Student Aid Lifecycle

Student Aid Awareness Application Processing System



Student Eligibility



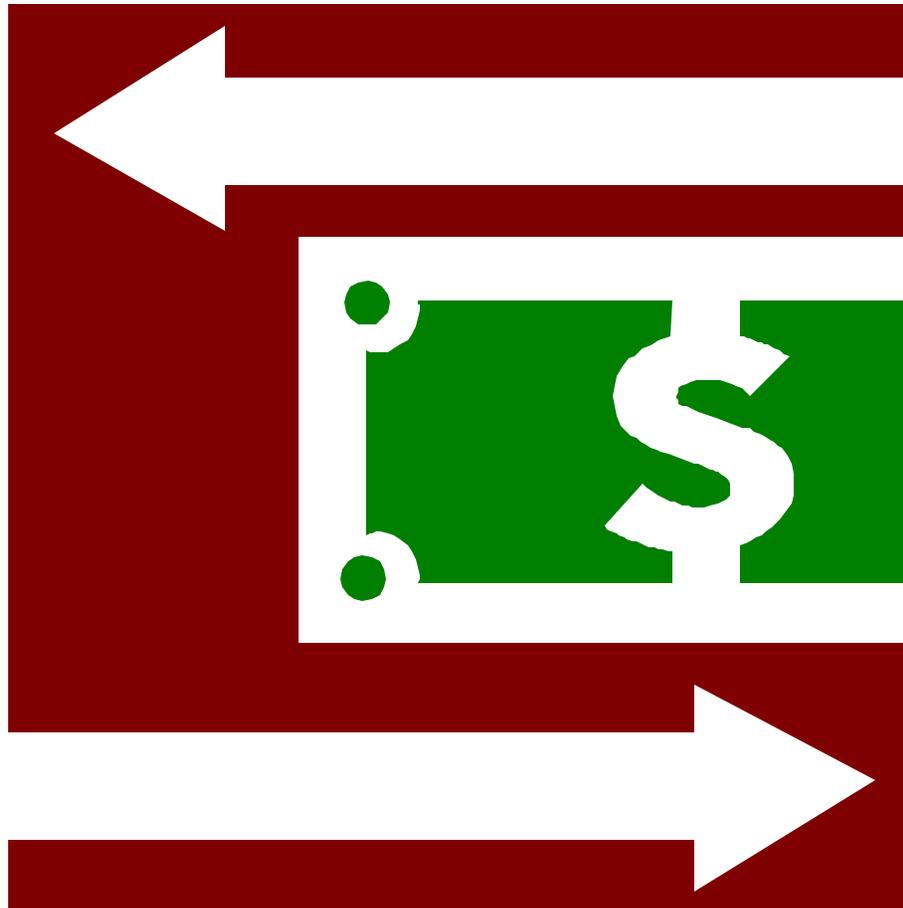
Disbursement and Cash Management



Repayment of Title IV Loans



Repayment of Title IV Loans



Presented by

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Management/
Repayment



Agenda

- Repayment Overview
- Examples – Repaying
- Examples – Defaulting
- Summary



Repayment Overview Our Current Environment

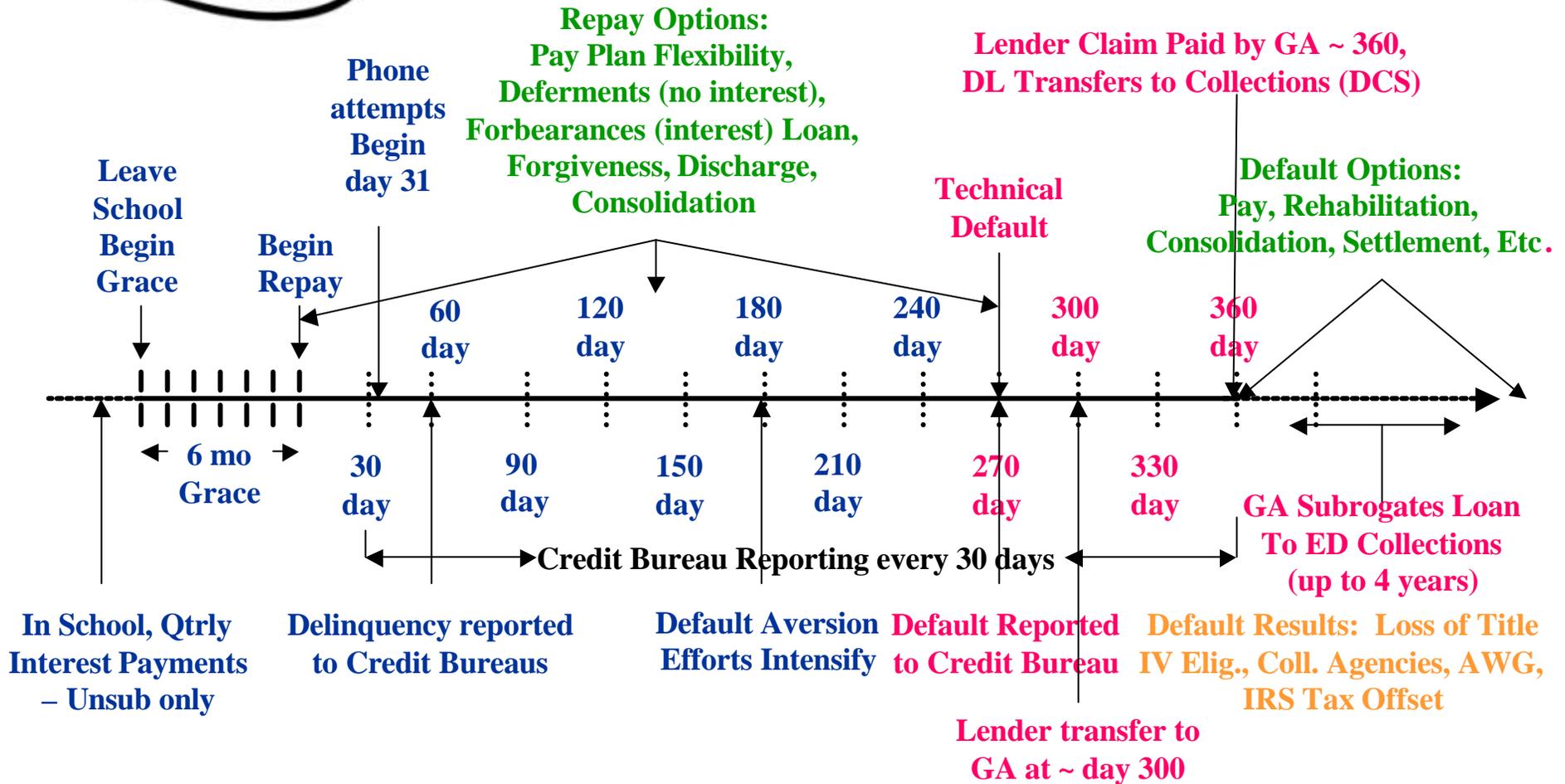
- The U.S. economy is currently in a period of great turmoil with high levels of unemployment.
- The costs of education continue to rise.
- Student and parent borrowers are experiencing significant debt burden (Title IV loans, private loans, credit cards and other debt).
- To address these issues:
 - Access to Title IV information/services continuously improved
 - Default aversion strategies are being implemented



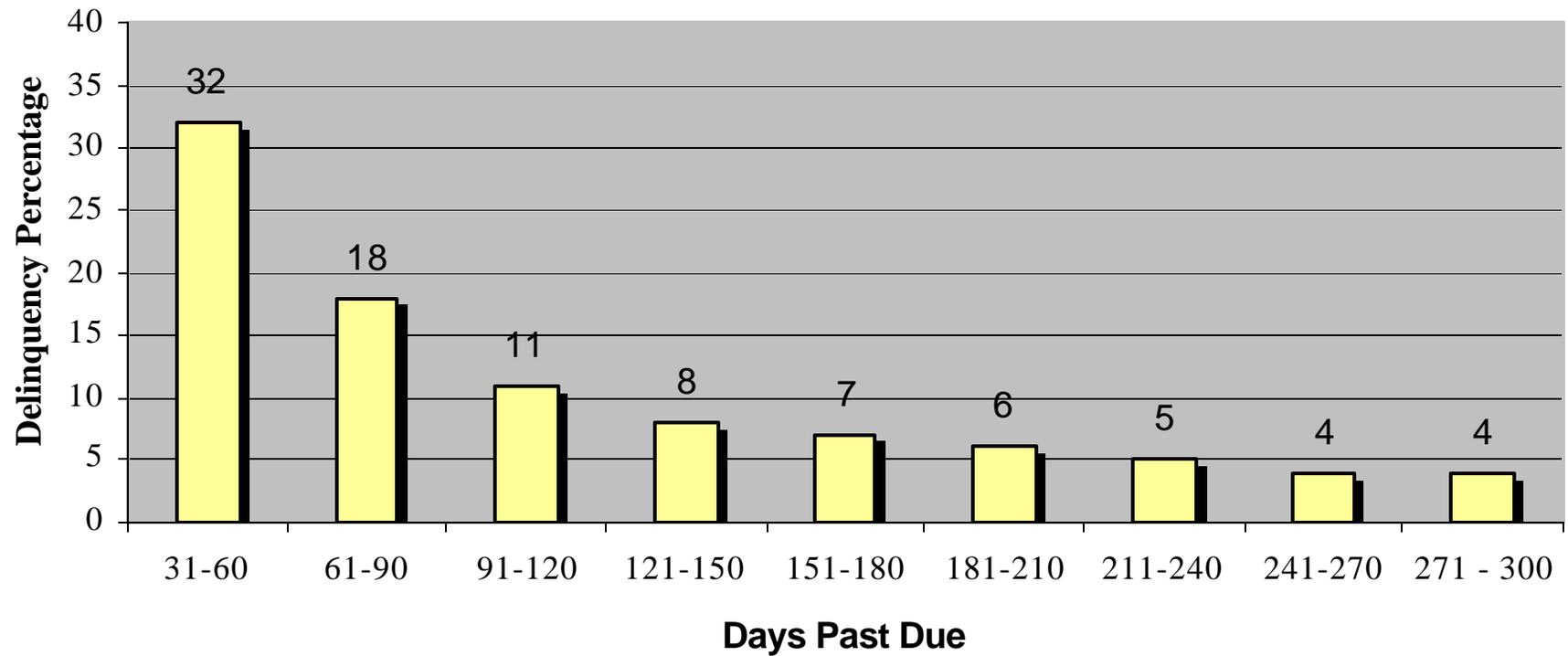
Title IV Participants

- Student and Parent Borrowers
- Schools
- Loan Holders & Servicers
 - Lender, Guarantors, Department of Education
- Collection Agencies (FSA and Private)
- Guaranty Agencies (GAs)
- FSA Ombudsman
- Department of Education
- U.S. Taxpayers

Repayment Cycle

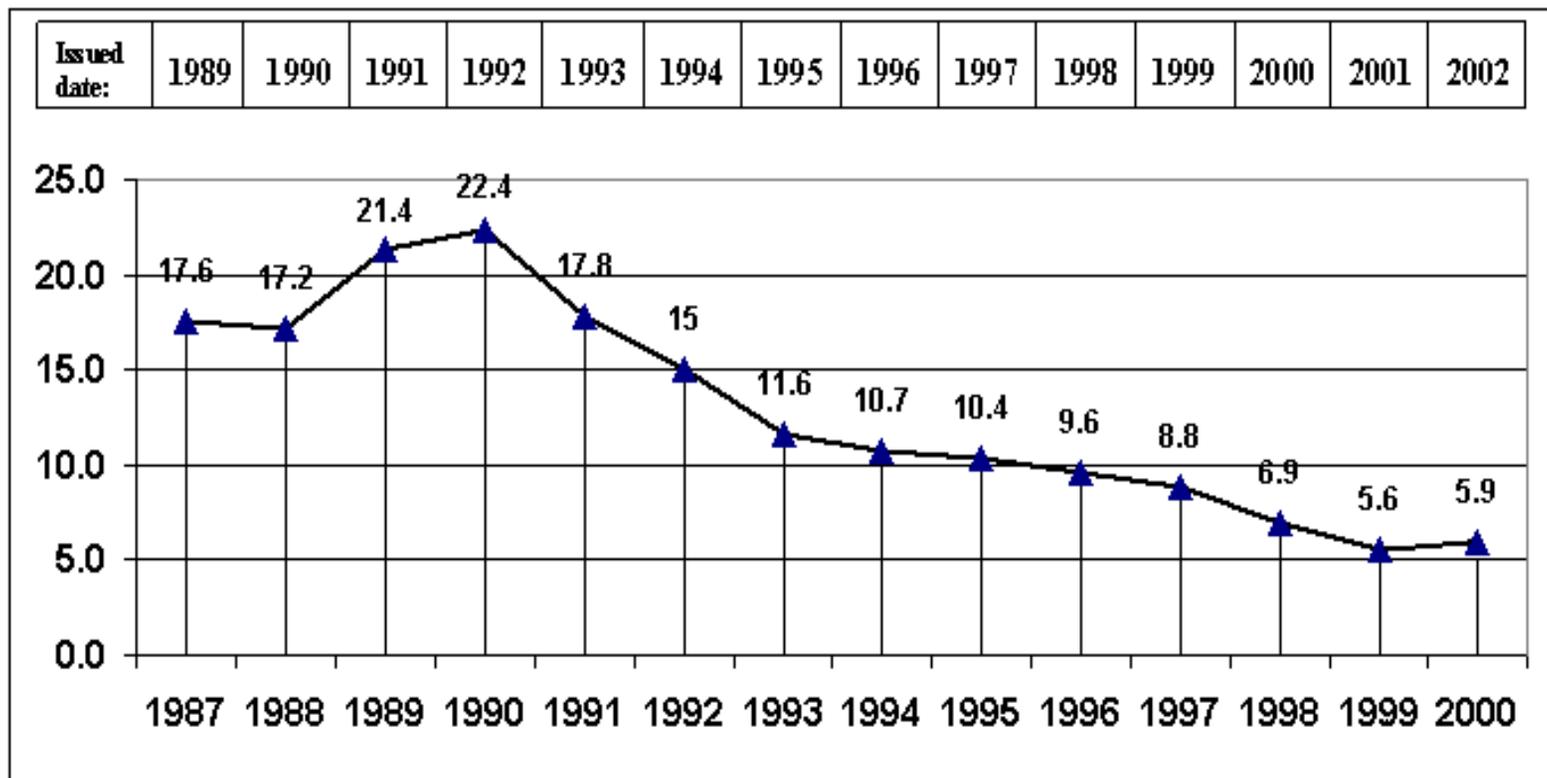


Borrower Delinquency Trend



Cohort Default Rate

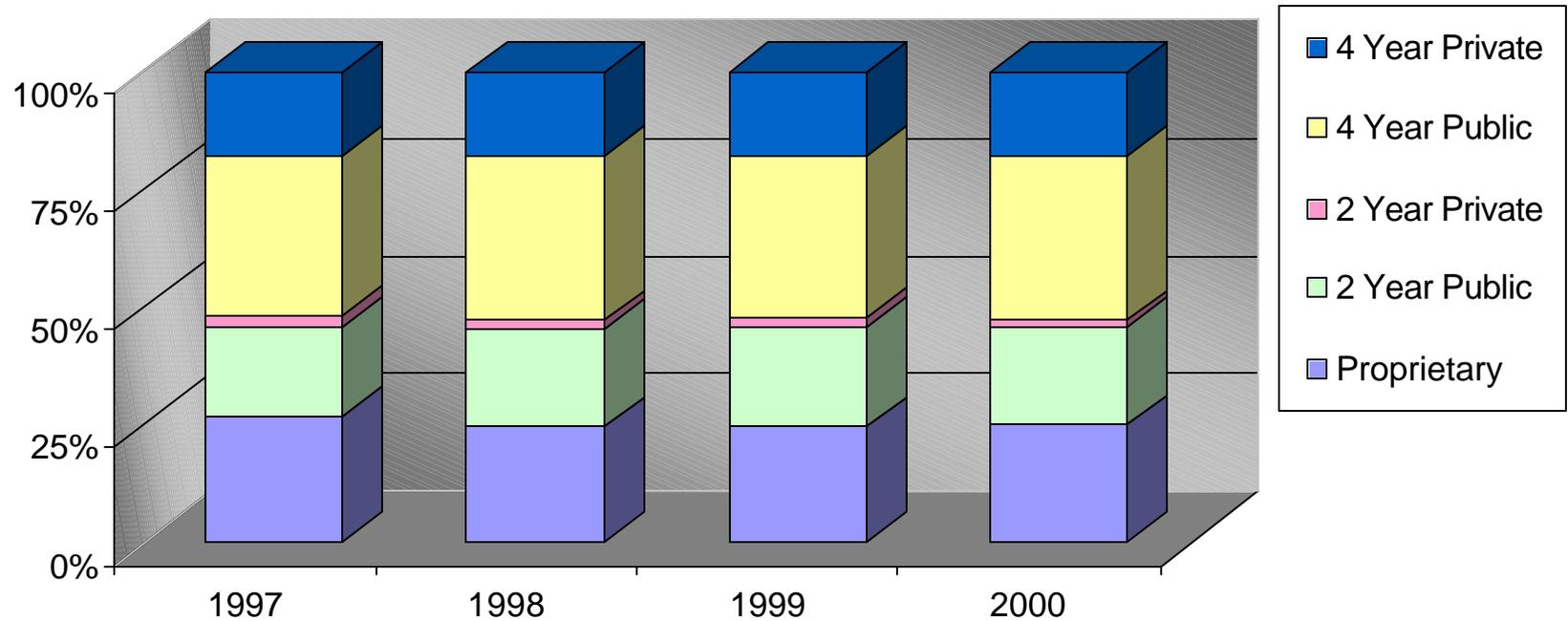
National Student Loan Default Rates



<http://www.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html>

Default Statistics (DL)

Cohort Default Contribution by School Type





Characteristics of Default Population (DL)

- 76% have withdrawn from school and did not complete their studies
- 85% do not get the advantage of “aging through” their full 6 month grace as the result of late enrollment notification
- 40% have bad telephone numbers
- 57% have been unable to contact the borrower by telephone during the 12 months of collection effort (call screening, cell phones, etc.)



Successful Repayment Scenarios



Possible Repayment Scenarios

- Borrower receives \$18,000
 - disbursed over 4 years
 - all Unsub Title IV loans

- Borrower separates from school

- Chooses Standard Repayment option

- For illustration purposes, assume interest rate remains constant





Scenario 1

*Borrower pays off loan in 10 years
(or less) with no “hiccups”*

- Capitalize \$1,857 interest (3.46%) at Grace End
- 120 monthly payments of \$202
(for illustration, assume 4.06% for life)
- Total paid by borrower is \$24,240
 - \$18,000 principal and \$6,240 in cap and regular interest
 - Prepaying could reduce the number of payments and reduce the total costs
 - Various incentives could reduce total costs

Scenario 1 Impacts

							
Student or Parent Borrower	School	Loan Holder	Collection Agency	GA's	Ombuds -man	Dept ED	US Taxpayer
Successful	Success	Success	Not Involved	Not Involved	Not Involved	Program Successful	Success
\$18,000 principal and \$6,240 interest	A happy alumnus	Performing Loan					No negative impact on program costs



Scenario 2

Borrower has “hiccups,” uses forbearance or deferment entitlement, then pays off loan.

- Capitalize \$1,857 interest (3.46%) at Grace End
- Discretionary/administrative forbearance for 2 months to clear delinquency - Cap \$132 interest (4.06%)
- Can't find job. Unemployment Deferment for 24 months. \$1,623 Interest (4.06%) capped deferment end - Gets good job and repays loans
- Monthly payment is \$220 for 120 months
- Borrower pays \$3,612 over the life of the loan in capitalized interest
- Total paid by borrower is \$26,400
 - \$18,000 principal and \$8,400 in cap and regular interest
 - Prepaying could reduce the number of payments and total costs
 - Various incentives could reduce total costs

Scenario 2 Impacts

							
<i>Student or Parent Borrower</i>	<i>School</i>	<i>Loan Holder</i>	<i>Collection Agency</i>	<i>GA's</i>	<i>Ombuds -man</i>	<i>Dept ED</i>	<i>US Taxpayer</i>
Successful Higher loan costs (cap and accrued interest) Longer repayment term	Success No Negative Impact	Success Longer servicing time Slightly higher costs	Not Involved	No Negative Impact	Not Involved	Program Successful but at a slightly higher cost Longer repayment term	Successful Minimal negative impact on program costs



Defaulted Loans Scenarios



Scenario 3

Borrower has “hiccups”, becomes delinquent, defaults and proactively rehabs or consolidates loans

- Capitalize \$1,857 interest (3.46%) at Grace End
- 10 month discretionary/administrative forbearance prevents default - \$662 cap interest (forbearance)
- Becomes a “rolling” delinquent payer
- Borrower reaches technical default (270 days)
 - In FFEL Reported to Credit Bureaus as “defaulted”
 - Lender files claim with and transfers to GA
 - GA continues to attempt collections
 - GA pays claim
 - \$\$\$ interest capped and collection fees added
 - Borrower owes \$26,225 (\$18,000 principal, \$4,125 cap interest, \$4,100 collection fees)



Scenario 3

Borrower has “hiccups”, becomes delinquent, defaults and proactively rehabs or consolidates loans

- In DL, borrower reaches technical default (270 days)
 - Reported to Credit Bureaus as “defaulted”
 - Performs additional Default Aversion activities to day 360
 - Transfers to ED’s Collections on day 361
 - \$\$\$\$ capped at default
- Borrower owes \$22,125 (\$18,000 principal, \$4,125 cap interest)
- Impacts to borrower:
 - Loss of Title IV eligibility, collection fees (18.5%), bad credit, collection calls
 - Wage garnishment (AWG), treasury offset (TOP), National Directory of New Hires (NDNH), etc.
- Borrower rehabilitates or consolidates the loan
- Enters and completes repay
- Regain Title IV eligibility

Scenario 3 Impacts

							
Student or Parent Borrower	School	Loan Holder	Collection Agency	GA's	Ombudsman	Dept ED	US Taxpayer
<p>High costs (cap/ accrued interest, collection fees)</p> <p>Negative credit data (ability to buy car, home, etc.)</p>	<p>Possible Higher CDR</p>	<p>Higher costs</p> <p>More collection costs prior to default</p> <p>If FFEL, reduced guaranty insurance when default (98%)</p>	<p>May be active in collection of defaulted loan</p>	<p>Pays lender</p> <p>Increased collection activity and costs</p> <p>ED reimburses GA for funds to lender at ~ 95%</p>	<p>Possible requests for assistance</p>	<p>Successful but much higher collection activity and costs</p>	<p>Cost of Student Aid Program increases</p>



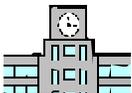
Scenario 4

Borrower never intended to repay and defaults

- Capitalize \$1,857 interest (3.46%) at Grace End
- Borrower makes no payment - becomes delinquent
- Borrower technically defaults at 270
- Borrower transferred from Lender to a GA (FFEL) – Cap interest \$806
- At 360 days, DL sends ED's Collections
- Borrower never repays the loan
- At up to 4 years, GA subrogates to ED's Collections if no Pay
- Impact to borrower:
 - Additional interest accruals
 - Wage garnishment (AWG), treasury offset (TOP), National Directory of New Hires (NDNH)
 - Impact on professional licenses, no federal jobs, etc.
- We WILL get the money!

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Scenario 4 Impacts

							
<i>Student or Parent Borrower</i>	<i>School</i>	<i>Loan Holder</i>	<i>Collection Agency</i>	<i>GA's</i>	<i>Ombudsman</i>	<i>Dept ED</i>	<i>US Taxpayer</i>
<p>High costs (cap/ accrued interest, collection fees)</p> <p>Negative credit data (ability to buy car, home, etc.)</p>	<p>Higher CDR</p>	<p>Higher costs</p> <p>More pre-default collection costs If FFEL, reduced guaranty insurance when default (98%)</p>	<p>Active in collection of defaulted loan</p>	<p>Pays lender</p> <p>Increased collection activity and costs</p> <p>ED reimburse GA for funds to lender at ~ 95%</p>	<p>Possible appeals and requests for assistance</p>	<p>Eventually successful through use of AWG, TOPS, NDNH, but much higher cost for collection activity</p>	<p>Cost of Student Aid Program increases</p>



Electronic Servicing From Start to Finish

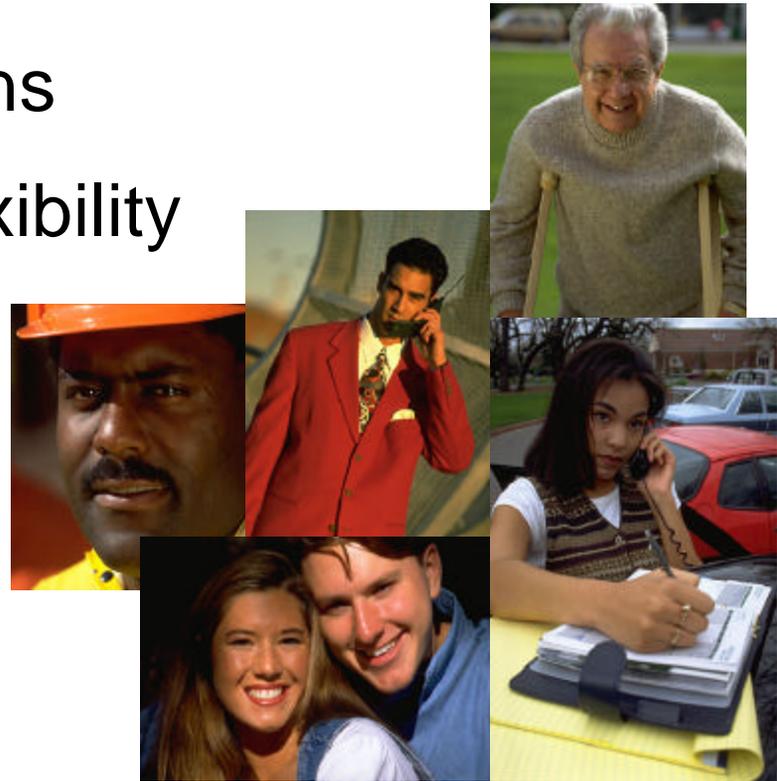
- Web-based functionality provides “anytime, anywhere” access to Title IV information to enhance repayment.
- Online Counseling
 - Credit and debt counseling
 - Entrance and exit counseling
 - Budget calculators
- Online Account Management for Borrower (receive bills/correspondence, payments and prepayments, track loans, manage pay plans and dates, etc.)
- Online Management for Schools (delinquency reporting, credit checks, etc.)



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Tools for Borrowers

- Repayment Plan Options
- Payment Due Date Flexibility
- Entitlements
 - Deferments
 - Forbearances
 - Forgiveness
- Loan Consolidation
- Electronic Payments (EDA, ACH, Bill Pay Services)



Tools for Loan Holders

- Skip Tracing
- Entrance/Exit Counseling materials
- Borrower Contacts (collection calls)
- Electronic Servicing (ease of use, access)
- School Delinquency Support
- Credit Bureau Reporting
- NSLDS





In Summary...

- Need the right payment options to match debt level and ability to pay
- Need to consider all debt (including credit card, alternative loans and Title IV loans)
- The borrower needs to understand their **OPTIONS**
- We're all in this together and working hard for our borrowers to achieve successful repayment of their student loan debt!



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**THANK
YOU!**

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Questions and Answers

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