

Cohort Default Rates Matter to Schools

Low CDR

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High CDR

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- Positive impression of school.
- Waivers of loan disbursement requirements.
 - Multiple disbursement rule.
 - 30-day delay for first-year, first-time borrowers.

- Negative perception of administrative capability.
- Administrative burdens.
- Potential loss of eligibility to participate.

Effect on Schools

Mandatory Default Prevention Plans

Any school with a three-year CDR of 30 percent or greater:

Year 1:

- Develop a task force focused on default prevention.
- Submit a plan to ED.

Year 2:

- Submit revised plan to ED.

Year 3:

- School is subject to sanctions, including provisional certification or loss of eligibility to participate.

Agenda

- ♦ Why is default prevention important?
 - Cohort default rate trends.
 - Consequences of high CDRs.
- ♦ **Why early contact is key.**
- ♦ Questions and answers.

Why Early Contact is Key

USA Funds' experience:

- Averted default on more than 93 percent of accounts on which payments were 60 days or more past due.
- Prevented default on nearly 1.4 million past-due federal student loan accounts, totaling nearly \$25.4 billion.
- Made nearly 163 million phone calls and sent 2.6 million pieces of correspondence to borrowers.



Regular borrower contact is a proven strategy for reducing defaults.

Best Practices

1. Maintain quality demographic data.
2. Identify your at-risk students.
3. Outreach during the grace period.
4. Outreach during early-stage delinquency.
5. Outreach before forbearance or deferment expires.
6. Outreach during late-stage delinquency.

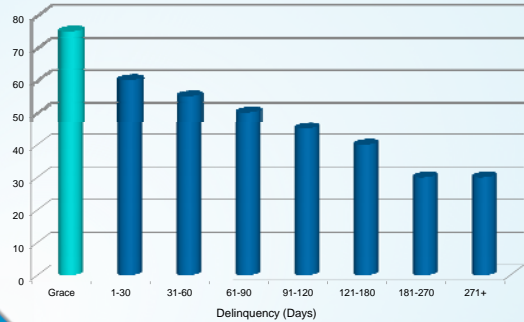
1. Maintain Quality Demographic Data

- ◆ Ensure each borrower's contact information is complete and accurate.
- ◆ Gather current reference information.
- ◆ Collect cell phone and texting permissions.
- ◆ If possible, validate their contact data during exit counseling.



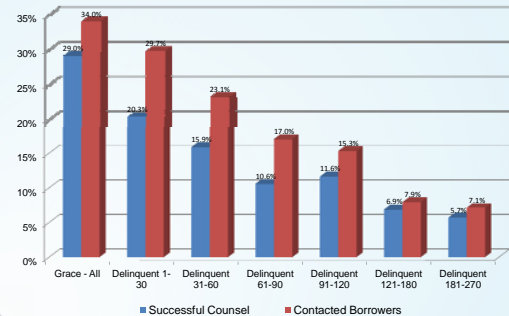
1. Maintain Quality Demographic Data

Percentage of Borrowers With Valid Contact Information Available



1. Maintain Quality Demographic Data

Percentage of Borrowers Successfully Contacted and Counselled



2. Identify Your At-Risk Students

- ♦ Link between retention and default prevention.
 - Students who do not complete or persist have a much higher rate of default.
- ♦ Analyze your at-risk students and borrower characteristics.
- ♦ Make no assumptions.
- ♦ Focus on causes and solutions.
- ♦ Continue to communicate during repayment.



3. Outreach: Grace Period

- ♦ At-risk borrowers:
 - Counsel borrowers as grace begins.
 - Counsel borrowers on:
 - Obligation to repay the debt.
 - Repayment options.
 - Role of servicers.
 - Follow up with borrowers again 60 days prior to start of repayment.

This is the **best** time to reach your student borrowers!



3. Outreach: Grace Period

- ♦ Withdrawn borrowers:
 - Recommend borrowers re-enroll, if possible.
 - Counsel borrowers on:
 - Obligation to repay the debt.
 - Repayment options.
 - Role of servicers.
 - Follow up with borrowers again 60 days prior to start of repayment.



3. Outreach: Grace Period

- ♦ Borrowers enrolled less than half time:
 - Recommend borrowers increase enrollment to at least half time.
 - Counsel borrowers about:
 - Obligation to repay the debt.
 - Repayment options.
 - Role of servicers.
 - Follow up with borrowers again 60 days prior to start of repayment.

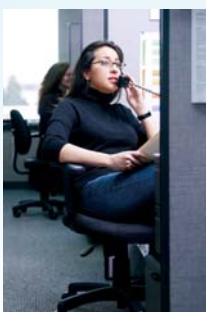


3. Outreach: Grace Period

- ♦ Graduated borrowers:
 - Counsel borrowers about:
 - Obligation to repay the debt.
 - Repayment options.
 - Role of servicers.
 - Follow up with borrowers again 60 days prior to start of repayment.



4. Outreach: Early-Stage Delinquency



- ♦ Start early:
 - Between 30 and 60 days late.
- ♦ Review reports from NSLDS:
 - SCHPR1.
 - DELQ01.
- ♦ Review reports from federal loan servicers.
- ♦ Consider using default prevention tools or services from various vendors.
- ♦ Use multiple communication methods, such as phone, email or letters.

5. Outreach: Forbearance and Deferment



- ♦ Reach out to borrowers before the forbearance or deferment ends.
- ♦ Ensure they have achievable plan for repayment.
- ♦ If needed, arrange a three-way call with the loan servicer to ensure successful resumption of repayment or continued deferment or forbearance.

6. Outreach: Late-Stage Delinquency



- ♦ Contact the borrower using all available contact information.
- ♦ Serve as a trusted adviser.
- ♦ Remind borrowers:
 - They borrowed money from the federal government.
 - **What they borrowed must be repaid**, even if they withdrew or were not satisfied with the school experience.
- ♦ Increase the urgency of your message:
 - “This is a very serious matter.”
 - “This debt will not go away.”
 - “Late payments may damage your credit record.”


Default Prevention Strategies: Best Practices

- ♦ Recommendations:
 - Keep good demographic and contact information.
 - Educate borrowers about their student loans.
 - Use reports and tools to help identify delinquent borrowers.
 - If you use a third party, communicate this clearly to your borrowers.
 - Prioritize borrowers during the grace period on their loans.
 - Remind borrowers that repayment will resume once forbearance or deferment expires.
 - Reach out to borrowers early.

Default Prevention Strategies: Best Practices

Questions?

USA Funds Borrower Connect™



- Helps automate borrower communication:
 - Phone.
 - Letter.
 - Email.
- See status of your portfolio and projected CDR at a glance.
- USA Funds can make calls and send emails to borrowers for you.

Default Prevention Strategies: Best Practices

Questions?

