

# MANAGING DEBT, DELINQUENCY AND DEFAULT

*Laura Dickerson*

*Director of Business Development*



Charting Our Future

2014  FASFAA

Annual Conference  
St. Petersburg, Florida  
Renaissance Vinoy Resort May 27 - 30

# Topics

- Understanding Student Loan Debt
- Preventing Delinquency and Default
- Keys to Successful Loan Repayment
- Tools and Resources





## Understanding Student Loan Debt

*Charting Our Future*

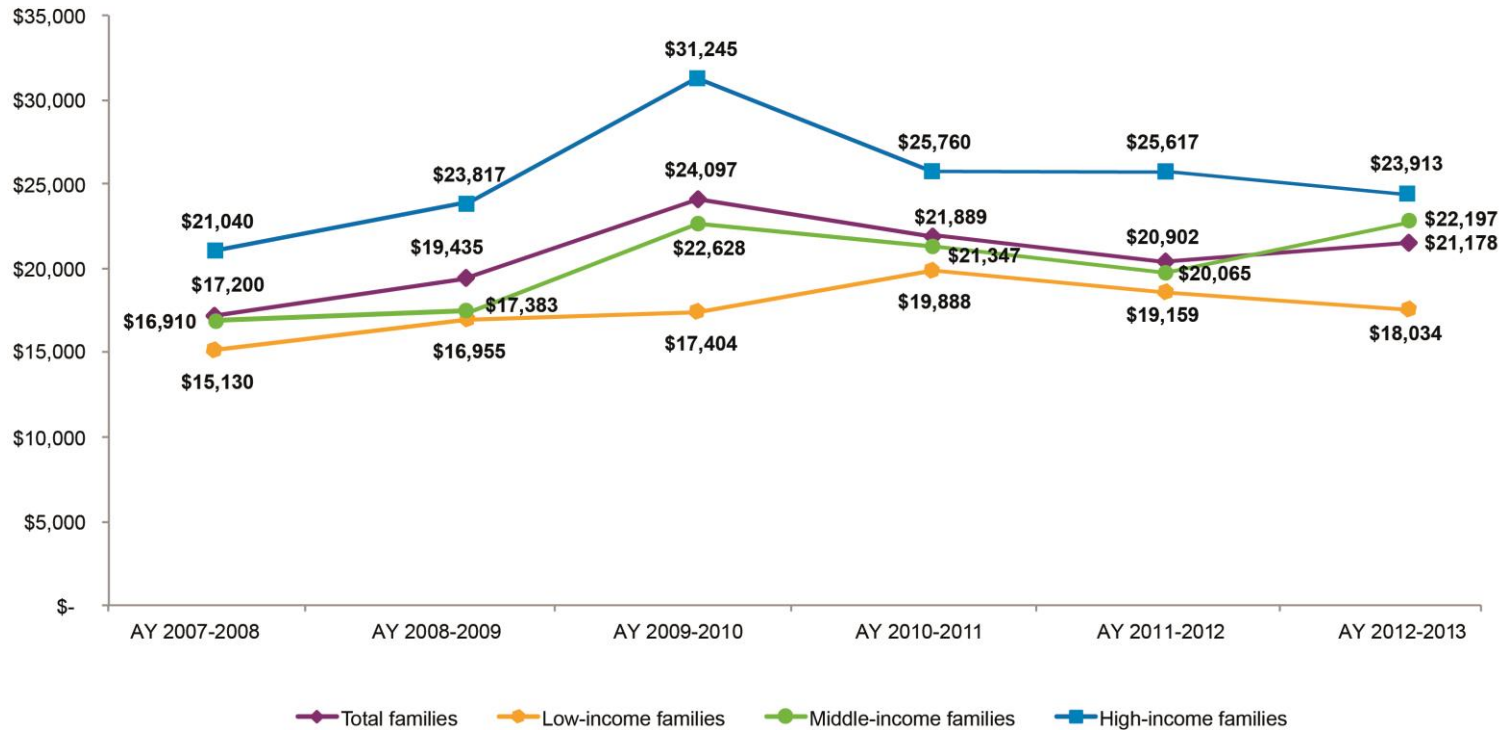
Gulf of Mexico

Tampa Bay

2014  FASFAA

Annual Conference  
St. Petersburg, Florida  
Renaissance Vinoy Resort May 27 - 30

# Sallie Mae's "How America Pays 2013" Survey Results

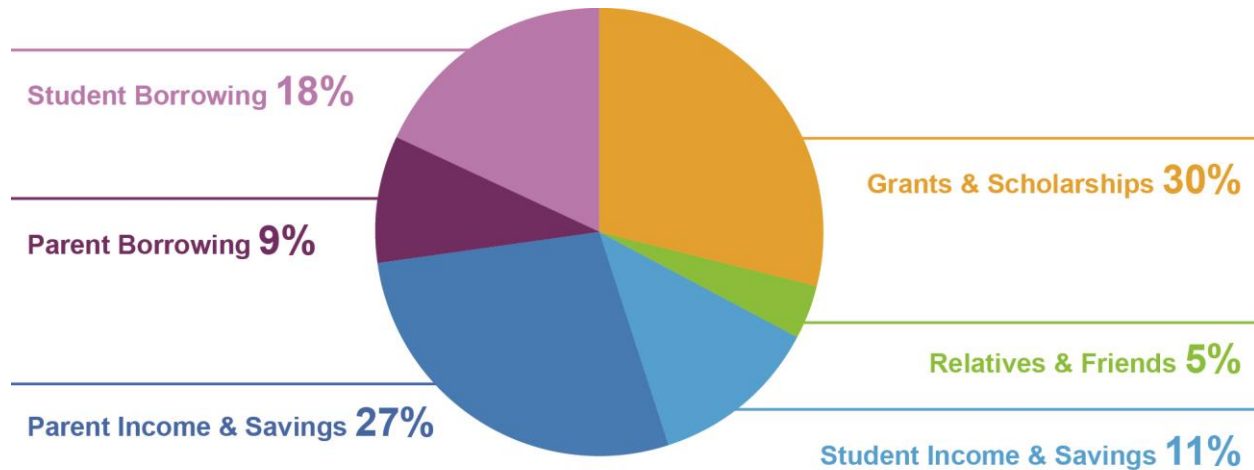


For the purposes of this study, low-income families have been defined as those with an annual household income of less than \$35,000, middle-income are families with an annual income from \$35,000 up to \$100,000, and high-income families are those with an annual income of \$100,000 or more.



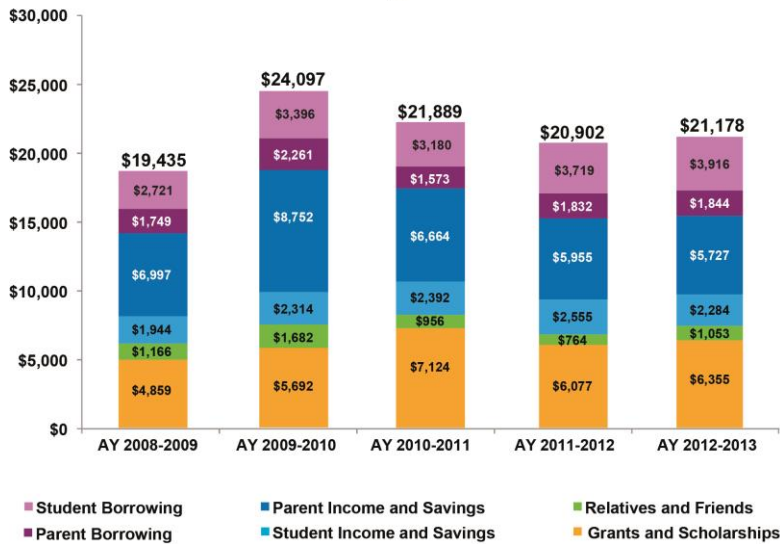


# Sallie Mae's "How America Pays 2013" Survey Results

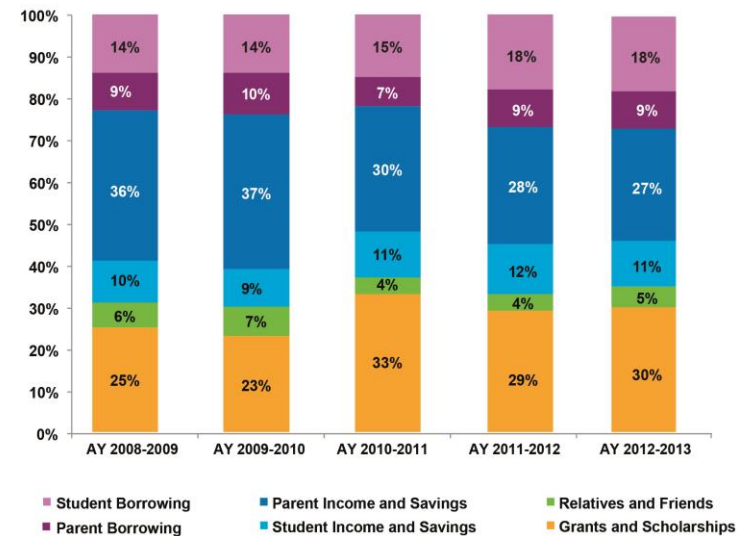


# Sallie Mae's "How America Pays 2013" Survey Results

Average Amounts

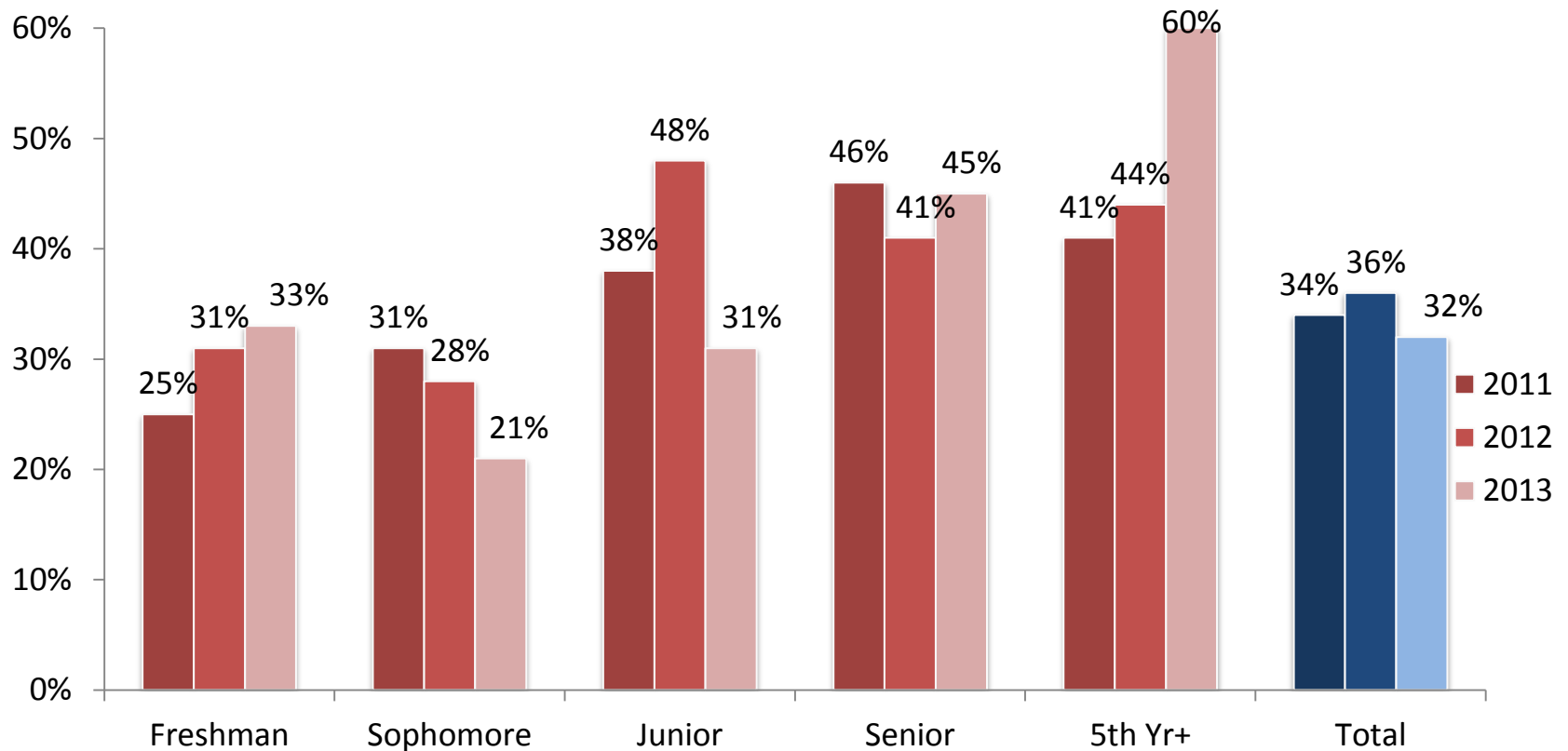


Funding Source Share

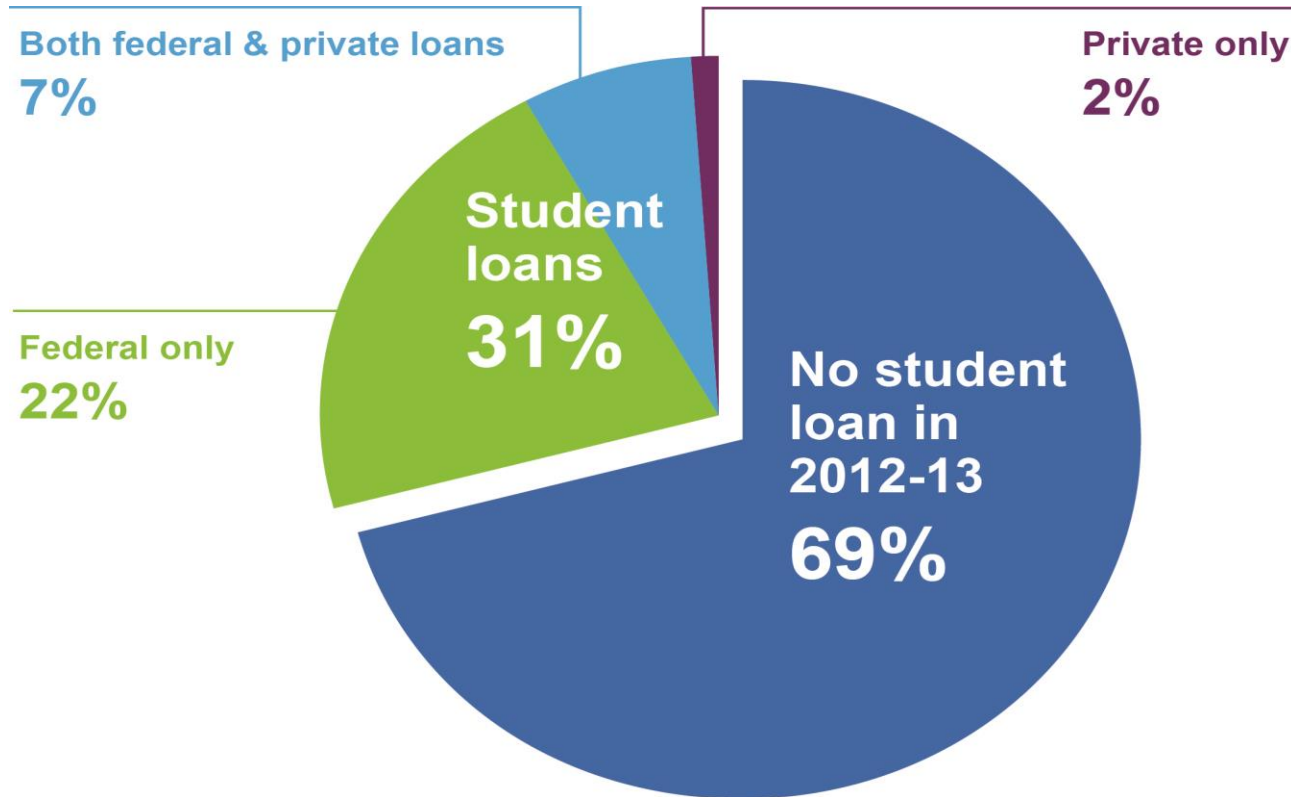


2014   
 Annual Conference  
 St. Petersburg, Florida  
 Renaissance Vinoy Resort May 27 - 30

# Sallie Mae's "How America Pays 2013" Survey Results

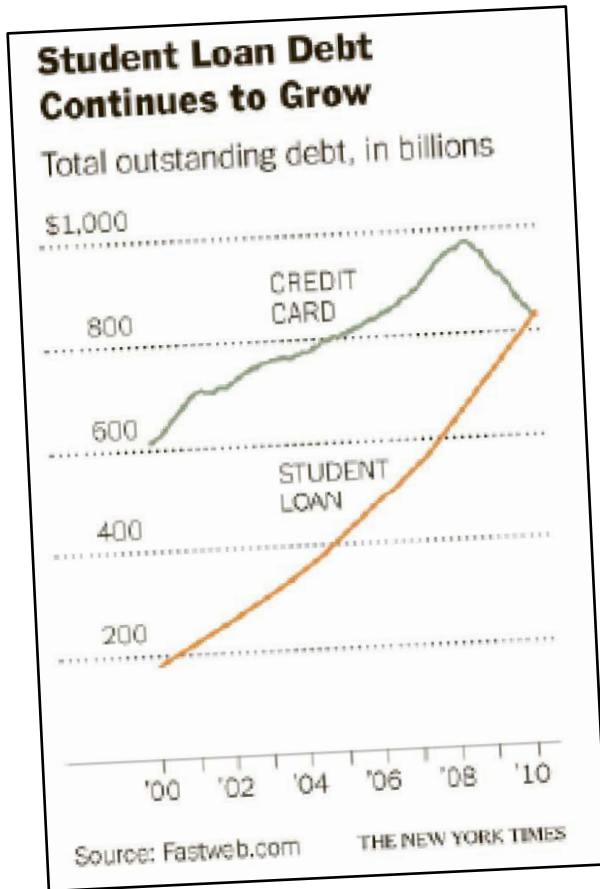


# Sallie Mae's "How America Pays 2013" Survey Results





# Student Loan Debt (Continued)



- Student loan debt now exceeds credit card debt in the U.S.
- According to the Consumer Finance Protection Bureau (CFPB) there is now a trillion dollars of outstanding student loan debt

Source: <http://www.nytimes.com/2011/04/12/education/12college.html>





# Preventing Delinquency and Default

*Charting Our Future*

2014



Annual Conference  
St. Petersburg, Florida  
Renaissance Vinoy Resort

May 27 - 30

# Delinquency and Default

- Delinquency
  - Failure to make scheduled payment(s)
  - Reported to credit bureaus
    - Potentially affects student borrower's credit rating
- Consequences of Default
  - Account is assigned to a collection agency that can add incremental “collection costs”
  - Unable to obtain additional federal student aid
    - Loss of deferment and forbearance benefits
  - Wages can be garnished (without a court order)
  - Tax refunds may be withheld
  - Potential legal action
  - School can withhold records
    - NOTE: student loans are rarely discharged in bankruptcy



# Early Student Borrower Outreach

- Familiarize student borrowers with their debt obligations, payment options, and default consequences
- Communications are most effective at key transition points in the loan's lifecycle
- Provide helpful, relevant, and easy-to-understand information
  - Offer resources well before the student borrower enters repayment (in-school, separation, grace)



2014   
Annual Conference  
St. Petersburg, Florida  
Renaissance Vinoy Resort May 27 - 30

# Default Prevention Techniques for Schools

- Counsel student borrowers on repayment options tailored to individual needs during in school and grace periods
- Attempt to contact targeted populations prior to entering repayment
  - In-school and/or grace-period outreach campaigns
- Work with your school's repayment- and default-management staff and third-party servicer(s)
  - Use specialized strategies and counselors for late-stage delinquencies
  - Send a series of letters and calls that exceed minimum regulatory requirements





# Borrower Outreach Tips for Schools

- Communicate with student-borrowers by means they feel most comfortable
  - SMS texting
  - Automated “opt-in” interactive messaging
  - Video narratives embedded within E-mail messages
  - Reduce text-laden letter content in all (direct- and E-mail) communications
- Offer “non-banking” hours of operation
  - Nights, weekends, etc.
- Launch alternate-telephone number and/or personal reference campaigns



# Financial Literacy Tips for Schools

- Urge student-borrowers to exhibit responsible borrowing by using the “1-2-3 approach”
  - (1) “Free money” such as grants and scholarships
  - (2) Federal student aid
  - (3) Private (non-federal) educational loans
- Counsel students to be aware of their likely future earning power associated with their degree and program-of-study
  - Borrow accordingly
- Encourage student borrowers to access NSLDS
  - [www.nsls.ed.gov](http://www.nsls.ed.gov)
    - Locate whereabouts (and loan amounts) of their federal student loans



# Financial Literacy Tips for Schools (Continued)

- Advise student borrowers to request a free credit report annually [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com)
- Require students to demonstrate financial literacy in a forum that your school deems appropriate
- Create videos and letter content on relevant topics
  - Student loan repayment
  - Money management
    - Budget building exercises
  - Securing gainful employment
    - Interview tips, resume building, etc.



# Understand Your Loan Portfolio

- Retrieve the NSLDS SCHPR1 School Portfolio Report on a monthly basis
  - Augment NSLDS data with information from loan servicers
- Segment your school's portfolio based on various "risk" attributes
  - Account status and delinquency ranges
  - Separation reason
    - Graduated, withdrawn, dismissed
  - Account balance
- Identify student borrowers who are "at-risk" of defaulting by the close of the CDR evaluation period (September 30)



# Debt Management and Default Aversion Tips

- Promote principal-reducing payment via “standard” repayment terms
- Promote electronic debit account enrollment
  - Take advantage of interest rate reductions for on-time repayment
- Help student borrowers develop a “payment relationship” with their loan-servicers
- Suggest “alternative” repayment options for student borrowers who cannot afford monthly loan payment amount
  - IBR, ICR, graduated, extended repayment plans
- Make student borrowers aware of deferment entitlements



2014



Annual Conference

St. Petersburg, Florida

Renaissance Vinoy Resort May 27 - 30



# Tips in Locating Your Students

- Verify demographic information during every student borrower interaction (via phone, in-person, etc.)
- Call archived telephone numbers on file and contact personal references if available
- Use third-party data providers
  - E.g., Accurant, FirstData, Innovis, etc.
  - To obtain the “freshest” demographic information associated with student borrower
- Look into possibly using social media to locate and contact “hard-to-find” student borrowers
  - Evaluate compliance considerations
    - Consult your legal team



2014



Annual Conference

St. Petersburg, Florida

Renaissance Vinoy Resort May 27 - 30



# Keys to Successful Loan Payment

*Charting Our Future*

Gulf of Mexico Tampa Bay

2014  FASFAA  
Annual Conference  
St. Petersburg, Florida  
Renaissance Vinoy Resort May 27 - 30

# Federal Loan Repayment Plans

- **Extended**
  - Lengthens the repayment term effectively reducing the monthly payment amount
- **Graduated**
  - Monthly payment amount increases as the loan ages
- **Income-Based Repayment (IBR)**
  - Aligns the monthly student loan payment with the student borrower's earning power
- **Income-Contingent Repayment (ICR) (Direct Loan only)**
  - Aligns the monthly student loan payment with the student borrower's earning power
- **Income-Sensitive Repayment (ISR) (FFELP Loan only)**
  - Pegs the student loan payment amount with the student borrower's earning power
- **Pay As You Earn (Direct Loan only)**
  - Combines certain features if IBR and ICR for borrowers with financial hardships



# Federal Loan Repayment Comparison

Total Loan Amount	\$150,000 in Loans *			
	Initial Monthly Payment	Long-term Monthly Payment	Total Interest	Years in Repayment
Standard	\$1,726	\$1,726	\$57,145	10
Graduated (4 years interest-only)	\$850	\$2,543	\$73,894	10
Extended (Standard)	\$1,041	\$1,041	\$162,332	25
<b>Income-based repayment*</b>	<b>\$727</b>	<b>\$1,726</b>	<b>\$155,714</b>	<b>20</b>
Income-sensitive repayment	\$850	\$1,726	\$67,345	11
Consolidation (Standard)	\$985	\$985	\$204,742	30

Examples assume federal Stafford loans with the total loan amount due on the day repayment begins, 6.8% fixed interest rate on non-consolidated loans and 6.875% interest rate on consolidated loans, no borrower benefits or repayment incentives, no pre-payments and no delinquent payments. All payment calculations are estimates only. **Monthly payment schedule and total payment estimates will vary.** Note: Sallie Mae's current repayment calculator estimates schedules for non-consolidated loans. This table provides consolidation schedule for fuller comparison of borrowers' repayment options.

\*Income-based repayment assumptions: Borrower is repaying \$34,000 in subsidized Stafford loans and \$116,000 in unsubsidized Stafford loans, all carrying a rate of 6.8%. In this scenario, the calculations assume a household size of 2, residence within the Continental U.S., an initial adjusted gross income (AGI) of \$80,000, and a 5% annual increase in AGI. The example also assumes that borrower is married but spouse has no IBR-eligible loans. The borrower's payment will rise each year until it reaches the maximum payment amount allowed, which, in this example, is \$1,726—the monthly payment amount required to repay the balance of the loans at the time they are placed into IBR, in equal installments over a 10-year term. In this example, the borrower can expect to make 245 payments (approximately 20.5 years), totaling \$307,959. In addition, the borrower can expect to qualify for a small interest subsidy of \$658, during the early years of the loan. All payments are assumed to be made on time.



2014



Annual Conference  
St. Petersburg, Florida

Renaissance Vinoy Resort May 27 - 30

# Payment Relief on Federal Loans

- Grace-Period
  - Six (6) months in length for Stafford Loans
  - Neither principal, nor interest payments are due
  - Repayment begins at the expiration of the grace period
- Deferments
  - Student-borrower payment-postponement entitlements (providing specific criteria is met)
    - In-School
    - Economic Hardship
    - Unemployment
    - Graduate Fellowship
    - Military
- Forbearance
  - Lender/servicer-discretionary suspension of payments
    - Helps to help avoid delinquency and default (only when deferment is not an option)
    - Monthly payment amounts will increase (post-forbearance) when interest capitalizes (causing the student borrower to pay more overall)





# The Cost of Postponing Payments

Forbearance period	Capitalized interest	% increase in loan balance	Increase in loan interest	% increase in life of loan interest
3 months	\$171	1.7%	\$236	6.2%
6 months	\$345	3.4%	\$476	12.5%
1 year	\$702	7.0%	\$967	25.4%
3 years	\$2,256	22.6%	\$3,115	81.8%

Source: Finaid.org



# Federal Loan Repayment/Forgiveness Programs

- Federal loan service commitment programs allow student borrowers to repay loans in exchange for service following graduation
  - Some program offer tax incentives
    - Currently available through various state and federal programs, and the armed forces
  - New Loan Forgiveness for Public Service Employees (for Direct Loans only)



# Private Loan Repayment

- Private Loans
  - Unsubsidized for life of loan
  - Generally have a separation/grace period prior to the time the student borrower is required to make (principal and interest) payments
  - Forbearance and/or Deferment may be available
    - Consult your loan servicer!
  - Repayment terms vary
    - Many lenders offer a choice of repayment plans
      - NOTE: \*Check promissory note(s) for details



# Paying Off Loans Early

- Student borrowers can always prepay federal student loans without penalty
  - Some private student loans can also be prepaid without penalty
    - NOTE: student borrowers should check with their lender
- Be aware of the relative cost
  - Make payments towards private loans and/or unsubsidized federal loans that have the highest interest rates and/or most frequent capitalization to save money
- Loan payments are typically applied first toward late fees, then interest, and finally principal –check your loan agreement for additional information





**Tools and Resources**  
**How Can You Help?**

*Charting Our Future*

Gulf of Mexico Tampa Bay

**2014**  **FASFAA**  
Annual Conference  
St. Petersburg, Florida  
Renaissance Vinoy Resort May 27 - 30



# Key Tips for Managing Student Loans

- Student borrowers must understand their student loan “portfolios”
  - Types of loans and how much they owe
  - Lender(s) and/or servicer(s) names and contact information
  - Interest rate and monthly payment amounts
  - So-called “borrower benefits” available
    - E.g., 0.25% interest rate reduction for on-time payments when enrolled into an electronic debit account
- Student borrowers should understand and know
  - Interest capitalization and its associated impact during forbearance
  - Grace-period length
  - Federal loan repayment plans (IBR, ICR, graduated, extended, etc.)
  - Delinquency and default avoidance techniques
    - Default aversion and financial literacy resources available



# Keep Good Records – A Student's To Do List

- Organize loan documents
  - Promissory notes
  - Disclosure statements
  - Award letters
  - Exit interview information
- Open and READ all student loan-related mail
- Bookmark loan-servicers' websites
- Notify loan-servicer of name and demographic (phone, physical and E-mail address) changes
- Document calls to loan-servicer (e.g., date/time of call, obtain the name of the person who handled the call)



# Resources for Students

- School financial aid office
- Lender/servicer(s)
- Federal Student Aid (FSA) Ombudsman
  - U.S. Department of Education FSA Ombudsman
    - <http://www.ombudsman.ed.gov> or 1-877-557-2575
- Federal Loan Servicers

**Direct  
Loans**

William D. Ford Federal Direct Loan Program

800-848-0979 - [www.dl.ed.gov](http://www.dl.ed.gov)



800-236-4300 - [www.mygreatlakes.org](http://www.mygreatlakes.org)

**fedloan**  
SERVICING

800-699-2908 - [www.myfedloan.org](http://www.myfedloan.org)

**nelnet**  
EDUCATION PLANNING  
& FINANCING

888-486-4722 - [www.nelnet.com](http://www.nelnet.com)

**SallieMae** DEPARTMENT OF EDUCATION  
LOAN SERVICES

800-722-1300 -  
[www.salliemae.com/edservicing](http://www.salliemae.com/edservicing)



# Questions



The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated. Nothing in this presentation constitutes or is designed to constitute legal advice. MKT6353



2014



Annual Conference

St. Petersburg, Florida

Renaissance Vinoy Resort May 27 - 30