

# Loan Servicing Update

Developed by US Department of Education

Presented by Dana Kelly, Nelnet Loan Servicing

# Agenda

- **Servicing Landscape**
  - The Servicing Realities
  - The Federal Loan Servicers (TIVAS and NFP's)
  - Split Servicing
- **Navigating the Servicer Environment**

# Servicing Realities – “Define It”

## Federal Loan Servicer

An entity that services Title IV loans owned by the Department of Education (the Department). These loans include, but are not limited to, William D. Ford Federal Direct Loan (Direct Loan<sup>SM</sup>) Program loans and Federal Family Education Loan (FFEL<sup>SM</sup>) Purchased Loans, more simply referred to as federally-held loans

## “TIVAS”

An acronym used by FSA which stands for the Title IV Additional Servicers. In communications with schools, borrowers, and the financial aid community, FSA uses the term “federal loan servicers”

## Not-For-Profits (NFP’s)

Not-For-Profit awarded federal loan servicing contracts under the HCERA/SAFRA Not-For-Profit (NFP) Servicer Program solicitation



# Servicing Realities – “Define It”

## Federally-Held Loans

William D. Ford Federal Direct Loan (Direct Loan) and FFELP<sup>SM</sup>  
Purchased Loans (PUT), held by the Department

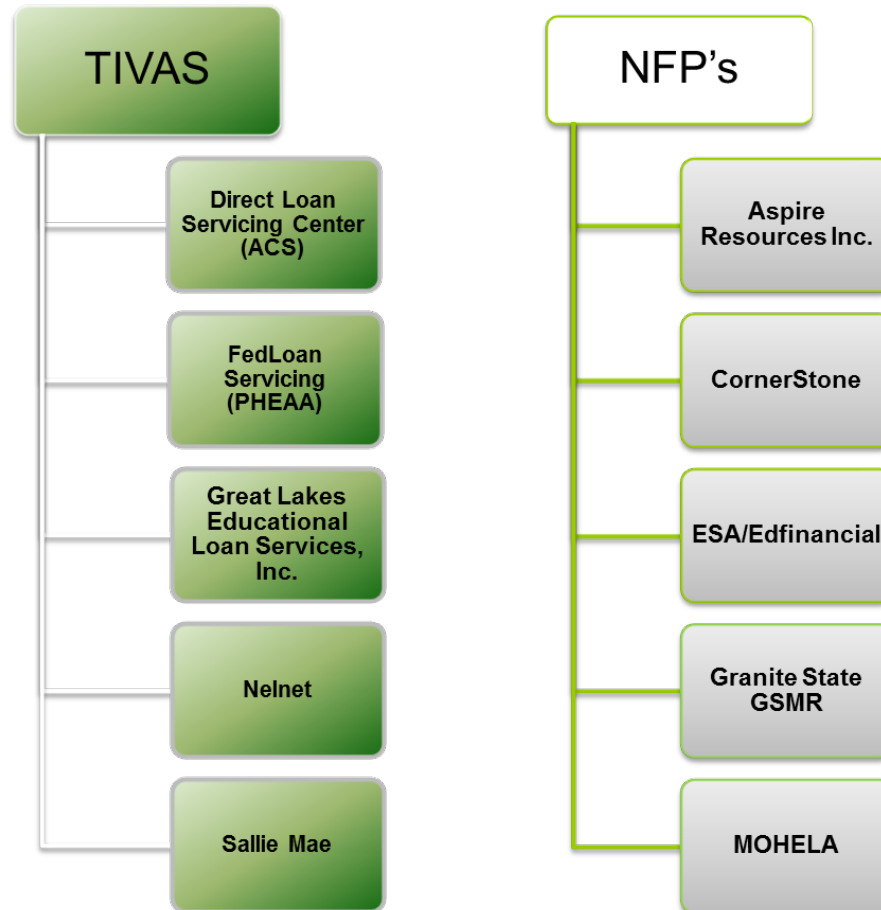
## PUT

Loans made under FFELP by lenders and subsequently purchased by  
ED

## Split Loan Servicing

Borrowers who have more than one servicer of their Direct Loan and FFEL  
PUT (federally-held loans)

# Federal Loan Servicers



**Direct  
Loans**

William D. Ford Federal Direct Loan Program

**fedloan**<sup>SM</sup>  
SERVICING

**GREAT LAKES**

**nelnet**  
EDUCATION PLANNING  
& FINANCING

**SallieMae**<sup>®</sup>

**Aspire**  
RESOURCES INC.<sup>SM</sup>

**CornerStone**<sup>SM</sup>  
EDUCATION LOAN SERVICES  
by uheaa

**EdFinancial**  
SERVICES  
A U.S. Department of Education Loan Servicer

**MOHELA**<sup>®</sup>

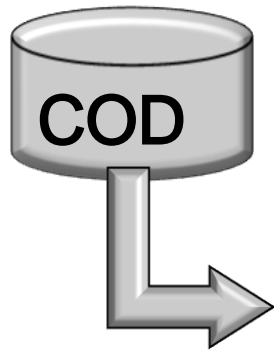
**nelnet**<sup>®</sup>  
EDUCATION LOAN  
SERVICING

# Our Federal Loan Servicers:

- Comply with legislative regulatory requirements and provide unique services
- Educate and inform borrowers regarding the tools and options available to assist them in the management of their student loans
- Offer multiple repayment options tailored to borrower preferences (i.e. online payments, ACH, check, etc.)
- Provide self-service tools for borrowers and options to receive bills and/or correspondence electronically
- Offer dedicated services to schools to help manage cohort default rates

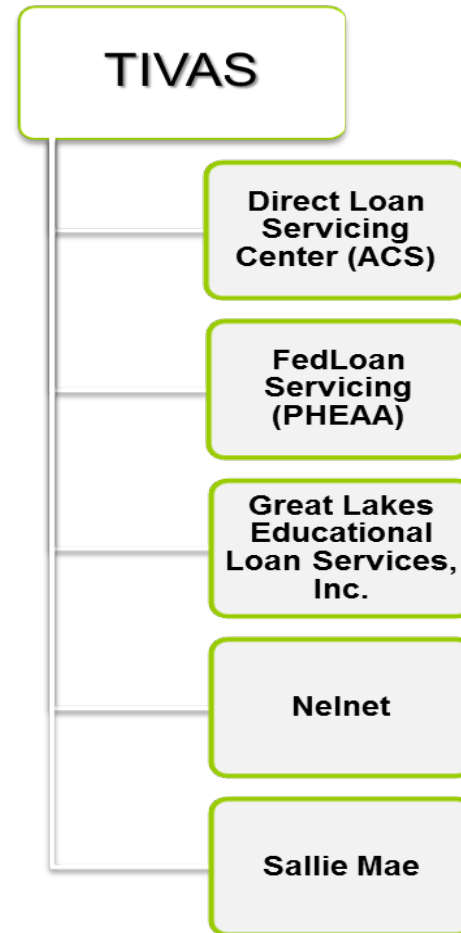
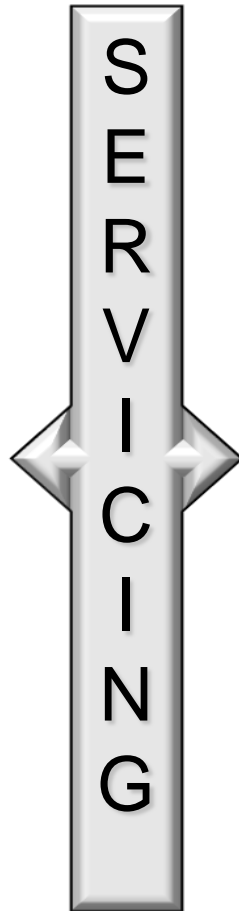
**“TIVAS”**  
**Title IV Additional Servicers**

# Federal Loan Servicers - TIVAS



## COD LDE

- Origination
- Disbursement
- Loan Allocation
- Servicer Assignment
- Customer Service



## Not-For-Profit Servicers

# Not-For-Profit Servicers

- Federal loan servicing contracts awarded under the HCERA/SAFRA Not-For-Profit (NFP) Servicer Program solicitation
- We continue to expand our federal loan servicer team as our loan portfolio grows
- Whether individual or team award, our customers will know and face one servicer



# Not-For-Profit Servicers

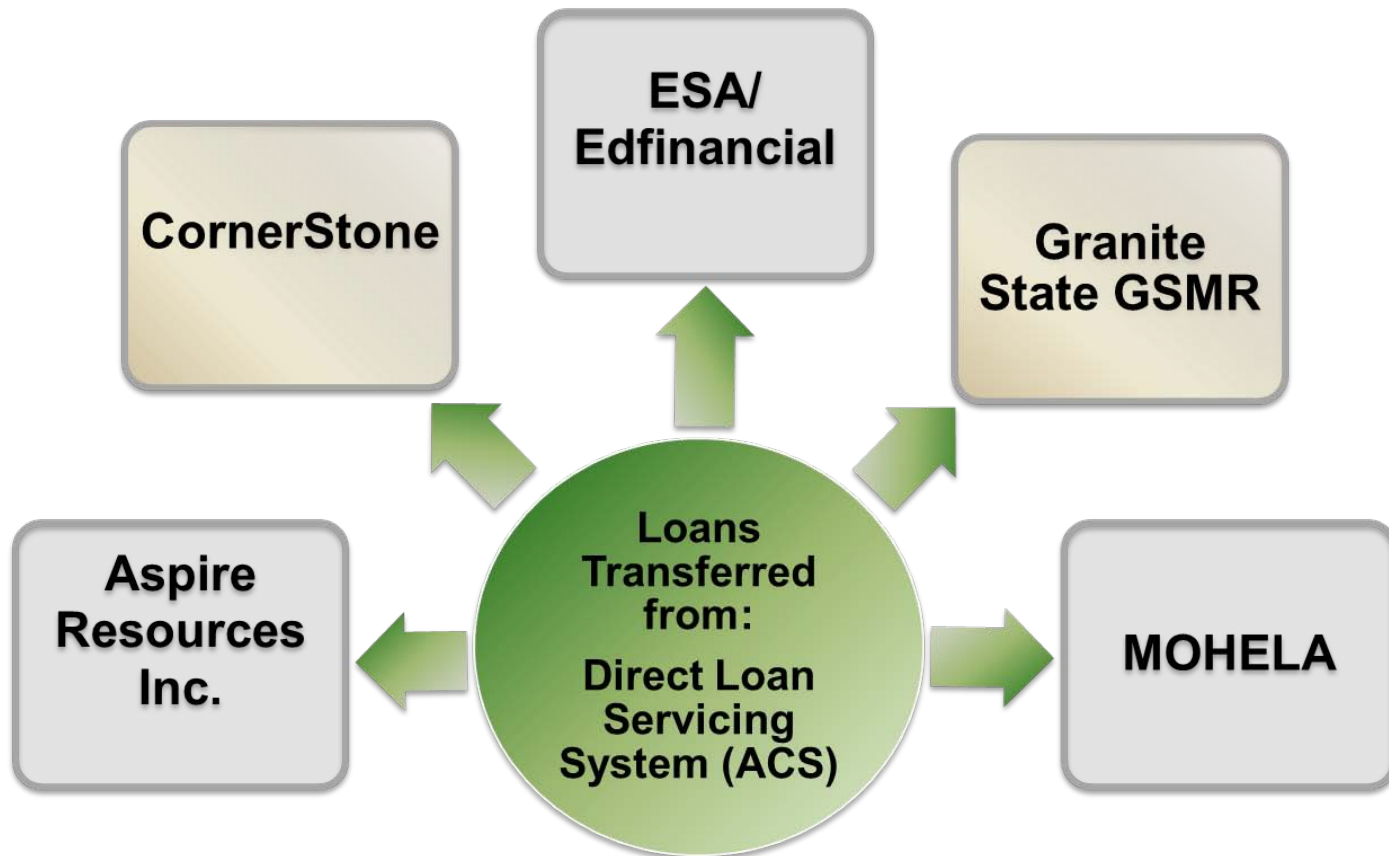
**Q. Which Direct Loan borrower accounts are transferred to the NFP's?**

A. We transfer existing Direct Loan borrower accounts currently assigned to the Direct Loan Servicing Center (ACS) that belong to borrowers who have no loans in an in-school or grace period.

**Q. How will a borrower know if his or her Direct Loans were transferred to a new NFP servicer ?**

A. When we transfer a student or parent borrower's Direct Loans from ACS to an NFP servicer, the new servicer will correspond with the borrower after the transferred loans have been fully loaded to the system

# Not-For-Profit Servicers



# Split Servicing - Background

- Split Servicing – borrowers with federally held loans serviced by more than one federal loan servicer
- ED owns both Direct Loans and FFELP (PUT)
  - PUT: Loans made under FFELP by lenders and subsequently purchased by ED
- Split Servicing conditions results from:
  - PUT loans (FFELP loans purchased by ED)
  - Schools transitioning from FFELP to Direct Loan

# Split Servicing – Solution

- Goal: All of a borrower's federally-held loans will be maintained by a single servicer
  - Ongoing processes to resolve situations where a borrower's federally-held loans are assigned to two or more federal servicers
- Federally-owned and commercial loans may still be split among servicers
- Consolidation sometimes viable option, but not in all circumstances

# Not-For-Profit Servicers

**Q. How will the school know which federal loan servicer is servicing a borrower's loans?**

A. In addition to the student or parent borrower receiving correspondence from the new federal loan servicer, the servicer of record will be identified in NSLDS.

**Q. How long will it take for loan information to be reflected in the NSLDS?**

A. The federal loan servicers report loan information to NSLDS on a weekly basis. As a general rule, the new servicer should be identified in NSLDS within 7-10 business days after transferred loans load on the system.

# Navigating the Servicer Environment



# Challenges and Benefits of a Multiple Servicer Environment

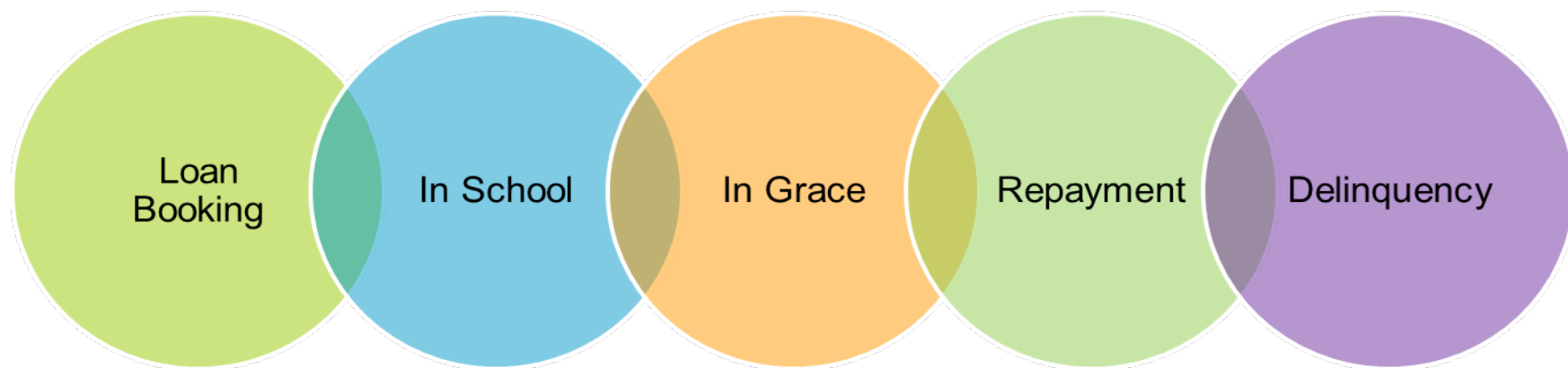
- The federal loan servicers and FSA collaborate on solutions to borrower, school, regulatory, and operational issues
- Through the multi-servicer, borrower-centric approach, schools will notice different processes and procedures offered by the servicers
- The competitive structure of the servicing contracts allows for more innovation and creativity

# Making it work...

- With the addition of new servicers challenges accompany growth and change
- Remember with our borrower-centric approach
  - Schools see many servicers; but
  - Borrowers see **ONE**
- Together with our servicing team, we will work to serve borrowers as efficiently as possible



# Loan Servicing





Loan Booking

• Assignment

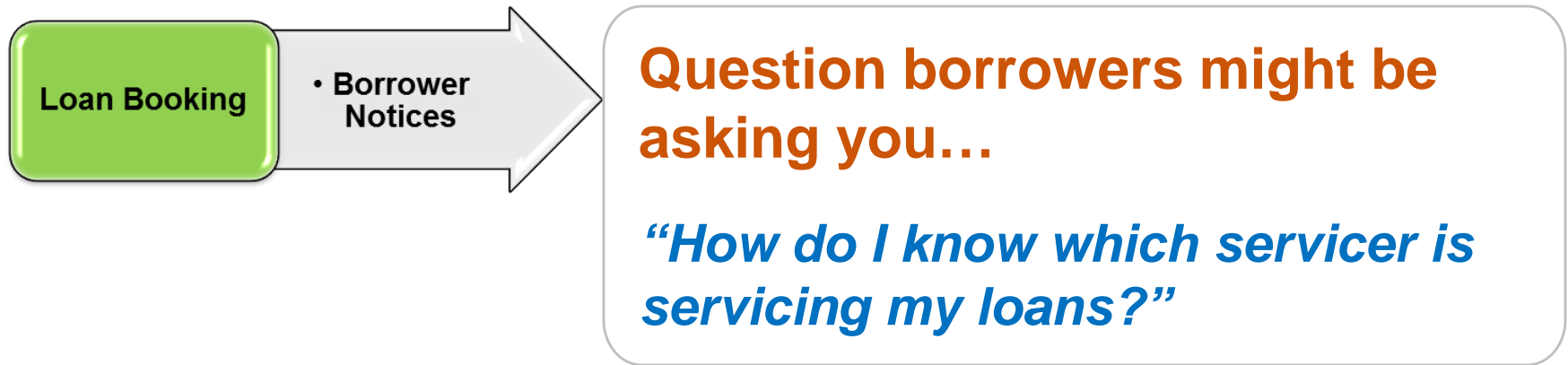
## Schools want to know...

***“When and how is the servicer assigned?”***

### Here's how it works...

The federal loan servicer is assigned upon the “booking” of the loan. Booking occurs when COD accepts an origination record, links to the p-note, and accepts actual disbursement.

New borrowers are assigned to **Great Lakes, FedLoan, Nelnet, and Sallie Mae** based upon percentages assigned by FSA. The percentages of new loans each servicer receives is based on its performance (default rates & customer service scores).



## Here's how it works...

1. When we assign a student or parent borrower's Direct Loans to a federal loan servicer, the servicer corresponds with the borrower.
2. The “welcome” correspondence notifies the borrower of the servicer, toll-free phone number, and website information.
3. Always refer borrower to NSLDS if they need to identify their federal loan servicer.



In School

• Interest Payments

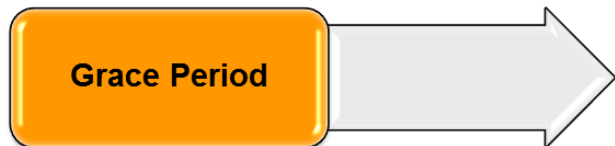
**Question borrowers might be asking you...**

***“How do I make interest payments on my unsubsidized loans while I’m in school?”***

## **Here’s how it works...**

Borrowers can always view and make a payment on the servicer’s website at any time.

Quarterly interest statements are generated either automatically or at the request of the borrower (e-mail or paper mail) while the borrower is in school.



## Question borrowers might be asking you...

*“When must I begin repayment on my loan?” Do I get a grace period?”*

### Here's how it works...

#### **Borrowers with Direct or Stafford Loans:**

Borrowers receive a 6-month grace period that begins the day after they graduate, leave school, or drop below half-time status. Payments are due after the grace period ends.

#### **Borrowers with PLUS Loans for Graduate & Professionals:**

Borrowers can postpone payments while enrolled at least half time. Grad PLUS borrowers may also postpone payments for the 6 months after they graduate, leave school, or drop below half time (for loans first disbursed on or after July 1, 2008).

#### **Borrowers with Parent PLUS Loans:**

PLUS loan borrowers (with loans disbursed on or after July 1, 2008) can request to postpone payments while the student for whom they obtained the PLUS Loan is enrolled at least half time. PLUS borrowers may also request to postpone payments for the 6 months after the student is no longer enrolled at least half time.



# **Servicing Practices, Procedures, & Policies**

## **Capitalization Practices for the Servicers**

Our federal loan servicers must meet regulatory requirements.

FSA identified capitalization scenarios that were applied inconsistently between Direct Loan and the FFEL portfolio (for the federally held loans).

FSA has documented its preferred business practice to standardize the capitalization rules so that the servicers are consistent.



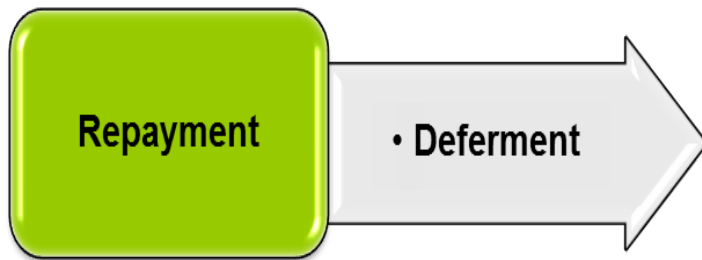
Grace Period

• Entering  
Repayment

***“What are the most important things a student should know as he/she prepares for loan repayment?”***

There are several important messages the servicers deliver to borrowers as they are leaving school and entering repayment:

- Check **NSLDS** to identify all federal loans.
- Provide servicers with updated contact information.
- Sign up for online account access.
- Sign up for automatic debit to ensure timely payments and receive a 0.25% interest rate reduction.
- Call the servicer to obtain information on repayment options that best meet the borrower's financial situation.
- Understand that servicers are there to help.



**Question borrowers might be asking you...**

***“Can I provide my servicer one deferment form for my ED held FFEL and DL loans?”***

As a general rule, the federal loan servicers will accept either the FFEL Program or Direct Loan Program deferment form for all deferment requests for federally-owned loans. In some cases, a FFEL form must be used for FFEL program loans and a DL form for Direct Loans.



## Payment Fees Fact or Fiction?

### Answer: Fiction

None of the federal loan servicers charge fees on payment methods or any other activities associated with the servicing of federally-owned loans.

# Servicer Repayment Counseling

During the grace period our loan servicers:

- Establish a relationship with the borrower
- Ensure the correct repayment status
- Discuss the appropriate repayment plan
- Promote self-service through the web
- Update and enhance borrower contact information
- Discuss consolidation options

# Tools for Borrowers

Our servicers have websites designed to assist the borrower:

- ❖ Understand the various repayment plans and options
- ❖ Understand entitlements
  - ✓ Deferments
  - ✓ Forbearances
  - ✓ Discharges
  - ✓ Forgiveness Programs
- ❖ Loan Consolidation

# Understanding Repayment Plans

Student borrowers may repay their student loans through one of several repayment plans:

- Standard Repayment Plan
- Graduated Repayment Plan
- Extended Repayment Plan
- Alternative Repayment Plans (Direct Loan Only)

## Income-Driven Repayment Plans:

- Income-Based Repayment (IBR)
- Income Contingent Repayment (ICR)(Direct Loan Only)
- Income-Sensitive Repayment (FFEL Only)

# Loan Discharges

Discharge or cancellation is the release of a borrower from their obligations to repay their student loans.

- Closed School
- Unpaid Refund
- False Certification
  - School-based
  - Identity Theft
- Bankruptcy
- Total and Permanent Disability
- Death (including death of a dependent for parent PLUS loans)

# Deferments

Deferments allow borrowers to postpone their monthly payment in certain circumstances.

- In-School
- Graduate Fellowship or Rehabilitation Program
- Unemployment
- Economic Hardship
- Military
  - Active Duty
  - Post-Active Duty Student

# Forbearances

Borrowers may temporarily postpone or agree to make smaller payments with a forbearance in certain circumstances.

- Based on poor health or other acceptable reason
- During medical internship or residency
- During National Community Service
- During teaching service eligible for Teacher Loan Forgiveness
- Up to three years during repayment if monthly payment is  $\geq$  to 20% of total monthly

# Loan Forgiveness

Borrowers may qualify to have all or a portion of their loan forgiven under the following forgiveness programs:

Teacher Loan Forgiveness

Public Service Loan Forgiveness

# Other Repayment Strategies

- Loan Consolidation
  - Benefits
    - One Lender and One Monthly Payment
    - Flexible Repayment Options
    - Lower Monthly Payments
    - Fixed Interest Rate for Life of Loan
    - It's Free

# Communication Channels for Borrowers

- All servicers have toll free numbers for borrowers to contact (phone, fax, and e-mail)
- Use IVR (integrated voice response) systems
  - Allow self service-for those that prefer
  - Make payments over the phone
  - Includes option to speak to a representative
- All servicers have a dedicated staff to assist borrowers
- Financial literacy resources (budgeting, credit tips, etc.)

# Skip Tracing

All servicers perform skip tracing efforts on delinquent accounts

- Work with schools to obtain current available contact information
- Utilize a variety of tools to get the most current data to contact borrowers

# Partner with Schools:

## Gather feedback and opinion from schools

All servicers work to gather feedback and find ways to partner with schools on default prevention

- Face to face meeting on school campuses
- Financial aid conference attendance
- Presentations at conferences
- Proactive phone calls
- Email communication

# Third Party Servicers:

**What is required for a school to obtain access for a third party servicer that handles the school's default management activities?**

All of the federal loan servicers allow third party servicer access to school data and reporting AFTER the school establishes an agreement with each servicer indicating its relationship with the third party servicer.

# Reporting Resources: Centralized Loan Information

## NSLDS

- Includes Guaranty Agency (GA) or Lender held FFEL, PUT (ED-held FFEL), Direct Loans and servicer assignments
- Leverage NSLDS Reports for Default/Delinquency Prevention:
  - School Portfolio Report
  - Delinquent Borrower Report

# Reporting Resources: Individual Servicer Reports

- ✓ Provide greater level of detail
- ✓ Offer customization options
- ✓ Include only loans serviced by that organization

# Reminders:

There are several important messages that schools can remind borrowers:

- ✓ Check **NSLDS** to identify all federal loans
- ✓ Provide servicers with updated **contact** information
- ✓ Sign up for **online account access**
- ✓ Sign up for **automatic debit** to ensure timely payments
- ✓ Call the servicer to obtain information on **repayment options** that best meet the borrower's financial situation

**Understand that servicers are there to help!**

# Reminders:

## Protect the Grace Period

- ❖ Of the borrowers who defaulted, most did not receive their full 6-month grace period
- ❖ Schools must learn when a borrower leaves campus and promptly report this to NSLDS

# Summary:

- Take every opportunity to deliver information to your student loan borrowers, not just at the time of entrance and exit interviews
- Make sure that borrowers clearly understand what types of loans they have, their servicer contact, and where they can find servicer information
- Make sure borrowers understand their responsibility
- Stay involved with students that have withdrawn or are delinquent
- Stay informed as to what the servicers are doing & the resources available

**Partner with your Servicers—make it count!**

# Questions?

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Thank You for Your Time!

