

# SERVICERS: Your Partners in Default Aversion

A Guide For Institutions of Higher Learning



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## Introduction

The Council for the Management of Educational Finance (Council) and TG are pleased to provide this guide, one in a series of default aversion resources available to the higher education community. Originally published in 2000, this guide has been updated to reflect recent technologies, processes, opportunities and challenges facing the loan servicing community. It is the intent of the Council that this guide will serve as a means to build alliances and expand partnerships, which are critical to successful and sustainable default aversion efforts. Our combined efforts and partnerships will continue to strengthen our industry and provide the means for student success.



### Who is the Council for the Management of Educational Finance?

Established in 1997 in partnership with TG, the Council is a consortium representing the Texas financial aid community. Sixteen members representing institutions, lenders, loan servicers, and a professional TG liaison comprise the Council. The objective is to develop default aversion initiatives which promote success in higher education. Among the Council's past accomplishments include

- Coordinating the 2002 Industry Dialogue with Servicers in Dallas, Texas, focusing on default aversion trends and producing the concomitant white paper titled: *Identifying significant pre-delinquency and default aversion practices: An industry dialogue with loan servicers*
- Carrying out default aversion training initiatives and consultative sessions for institutions
- Planning the National Summit of Councils in Dallas, Texas
- Developing and publishing the original *The role of servicers in default aversion: A guide for institutions of higher learning*
- Developing and publishing *Default prevention: A model for institutions of higher learning*, in an effort to provide institutions a model for default management
- Implementing a public awareness campaign targeting institutions regarding default prevention, including default aversion posters, brochures, and other materials
- Organizing the 1998 Default Prevention and Debt Management Conference in Austin, Texas



The Council and TG use the aforementioned activities and publications to provide default aversion training through TG's Achieving Systemic Default Aversion (ASDA) Program. TG's ASDA program is based on the premise that successful default aversion efforts must be comprehensive. This calls for the involvement of not only the student financial aid community but also major campus departments including the office of the president, admissions, registrars/bursars, faculty, counseling, and job placement who also play a critical role in default aversion.



### **Why the Guide?**

Institutions that understand and maximize servicer and guarantor default aversion practices and activities will increase the overall success of students' ability to fulfill their loan obligations. Included in this guide is an overview of federal due diligence requirements, activities, techniques, and tools that servicers use for delinquency resolution.

Additionally, the guide highlights practices of the servicing, school, and guarantor communities which go above and beyond the required due diligence. Numerous suggestions are included for schools to incorporate into their respective default aversion efforts. Also addressed are commonly used approaches to default management along with services offered by many servicers to complement school default management efforts.

**Institutions that understand and maximize servicer and guarantor default aversion practices and activities will increase the overall success of students' ability to fulfill their loan obligations.**

### **What is due diligence?**

Most default aversion efforts are based on due diligence requirements, which include activities that a lender or servicer is required by federal regulation to follow in order to encourage the repayment of student loans. The three categories of due diligence required by servicers include

- Written correspondence
- Telephone contacts
- Skip tracing

Whether written or verbal, the purpose of any due diligence effort is to elicit willingness and action from the borrower to bring the account current. Due diligence requirements may be found in 34 CFR 682.411 of the federal regulations.

The overall success of any default aversion program is tied to the efforts of the entire higher education community and specifically the student financial aid community.

### **What is a loan servicer?**

The term “servicer,” as used in this document, includes lenders who service their own portfolios, secondary market servicers (organizations that have purchased loans from the original lender and provide on-going servicing), and third-party servicers (organizations that provide loan servicing on behalf of the loan owner). The term “borrower,” as used in this document, is the individual listed on the promissory note as the person borrowing the money — whether that person is still in school (a student), a former student in grace or repayment, or a parent.

The default management efforts for Federal Family Education Loan Program (FFELP) servicers are regulated by federal requirements and guarantor policies. However, servicers have flexibility in developing specific default aversion strategies. The overall success of any default aversion program is tied to the efforts of the entire higher education community and specifically the student financial aid community. Each FFELP entity must be accountable, consistent in its efforts, and establish a sense of teamwork among its school, servicer, and guaranty agency partners.

### **Schools as partners**



#### **Why do schools build alliances with loan servicers?**

Servicers, schools, lenders, and guarantors are partners in the student loan business. Servicer default aversion efforts can benefit school default aversion efforts in the same way that school efforts complement servicer efforts. Servicers welcome requests for assistance to help with the development and implementation of effective default management plans at schools.

Servicers are often able to provide a variety of historical, statistical, and operational information to schools to assist with the start-up of default management areas and information in support of on-going default management efforts.

#### **How to initiate and sustain partnerships with servicers**

- Identify a point of contact at the servicer and make that initial contact. If you do not know where to begin, call the servicer’s customer service number, check the

servicer's Web site, or call TG and ask for a point of contact. Some servicers have school liaisons who work directly with institutions on a variety of issues. The servicer's default management/collections manager is usually a good starting point. These managers usually have a keen interest in preventing defaults and appreciate the opportunity to assist schools as they begin their default prevention efforts or continue to work to improve them.

- If you need information to help you determine the extent of your default situation, ask for school-specific statistical data on the loans with which the servicer is associated. It is best to have an idea of the types of data in which you are interested. Otherwise, tell the servicer what your objective is, and they should be able to identify reports and/or data that they can deliver to you quickly.
- Once the servicer information arrives, if it is not what you need (or if you need more), do not hesitate to ask for something different. Servicer technology is usually capable of reformatting of generic reports quickly, interrogating for different data, and compiling the data into a format that is most useful to schools.
- Ask about establishing electronic links to the servicer's database so you can have online access to account records. Online viewing of the borrower accounts can be enlightening and can assist you with your ongoing default management efforts.
- Inquire about the servicer's Web site. Navigate the site yourself or find out what information and service offerings are available through the Internet. This knowledge will help you in your default management efforts, and you can easily pass on the information to your financial aid counselors, so that anyone in the department may effectively help students help themselves in managing their educational finances.
- Establish a liaison between your default management staff/unit and the servicer's collection area. Having a direct line to an operation's point of contact to assist with day-to-day delinquency resolution issues can speed up the process.
- Conduct conference calls between the servicer, the student, and the school.
- Ask for assistance on your campus during the default management unit's start-up process.

Finally, to enhance communication, solidify partnerships with servicers and establish a closer professional relationship, institutions are encouraged to visit their servicer(s) to become familiar with their policies and practices.

If you need information to help you determine the extent of your default situation, ask for school-specific statistical data on the loans with which the servicer is associated.

The lender must document the performance of these attempts, and the attempts must be similar to those generally used for consumer loans.

## Federal due diligence

The subsequent sections outline the due diligence procedures required for attempting to satisfactorily resolve a delinquency and prevent a default in accordance with federal regulations. The lender must document the performance of these attempts, and the attempts must be similar to those generally used for consumer loans.

### Due diligence: Written correspondence

#### *Objective*

To encourage a borrower to take responsibility for repaying his or her student loan debt and to initiate action to resolve the delinquency.

#### *Federal requirements*

Before repayment begins, the servicer furnishes a borrower with information that discloses the total amount of the loan(s) entering repayment, the repayment terms, the first payment due date, the scheduled payment amount, and addresses and phone numbers of the servicer. This disclosure occurs anywhere from 30-240 days prior to the first payment due date for Stafford Loans, and at or before the beginning of the repayment periods on PLUS Loans. Generally, the servicer will provide the borrower the following information:

- Name, address, telephone number, e-mail address, and Web site of lender/servicer
- Date the repayment period is scheduled to begin
- Estimated balance at the time repayment begins (including capitalized interest)
- Actual interest rate on the loan
- Fees that may accrue or be charged during the repayment period
- Repayment schedule: date of first payment, amount, number of installments
- Estimated interest to be paid on the loan over the course of the repayment period
- Statement that the borrower has the right to prepay at any time without penalty



In addition to this loan-specific information, servicers may inform borrowers about a variety of options and incentives that are available to make payment of their student loan easier, more convenient, and less financially burdensome. Such repayment options and incentives vary from one servicer to another, and each servicer offers information on its own options and incentives.

While the federal requirement allows servicers to disclose as early as 240 days (approximately nine months) prior to the first payment due date; servicers find that it is more effective to disclose terms to former students closer to the time that a borrower is scheduled to make that first payment, typically 30-120 days prior to the first due date.

For any loan that has entered repayment and is past due, servicers are required to send letters encouraging or urging borrowers to return to a current repayment status. Generally, the first past-due notice is sent by the 15th day of delinquency, and additional collection correspondence is forwarded at pre-set intervals until the loan defaults or is brought current.

It is important for institutions and borrowers to understand that by day 90 of delinquency (if not sooner), most servicers have reported a delinquency status to at least one national credit bureau. Early resolution of delinquency is critical and in the best interest of borrowers and their creditworthiness for mortgages, future indebtedness, and overall propensity for personal and financial success.

By day 90 of delinquency (if not sooner), most servicers have reported a delinquency status to at least one national credit bureau.

As the delinquency progresses, the language of the letters becomes more severe to further emphasize the urgency of resolving the delinquency and the consequences of continued delinquency and default. Servicers send a final letter (referred to as the Final Demand Letter), when the loan is more than 240 days delinquent demanding payment of the entire loan in full within 30 days. This letter further explains that if the delinquency is not resolved in the subsequent 30-day period, the loan will default and will be assigned to a guaranty agency for collection.

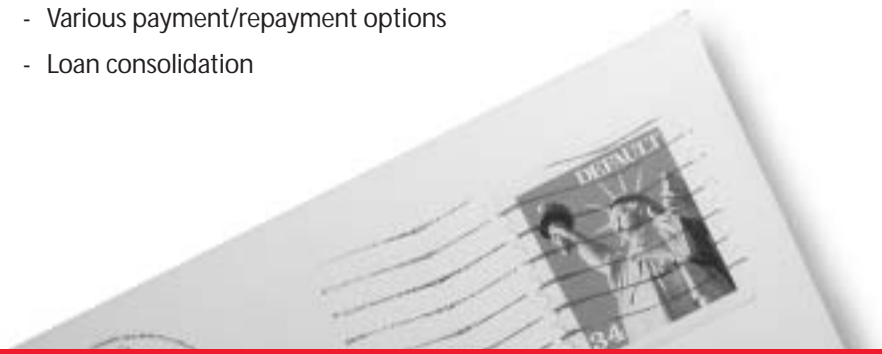
The U.S. Department of Education (ED) does not standardize past due letters. The content and format of these letters varies from servicer to servicer.

Letters sent between day 181 and 240 must include information on options to avoid default and the consequences of default.

ED does, however, prescribe that all required collection letters between day 16 and 180 of delinquency include information on deferment, forbearance, income-sensitive repayment, and other available options. At least two letters during this timeframe must inform the borrower of default consequences: Reporting of default to credit bureaus, tax refund offset, wage garnishment, litigation, etc. Similarly, letters sent between day 181 and 240 must include information on options to avoid default and the consequences of default.

Effective delinquency letters should include information on

- The number of days past due
- The amount past due
- Addresses, phone numbers, e-mail addresses and Web sites that can be used for payment or inquiries
- Consequences of continued delinquency and/or default:
  - Ineligibility for additional financial aid
  - Credit bureau reporting
  - Inability to renew professional licenses (applicable to certain states)
  - Administrative wage garnishment
  - Federal offsets (including loss of income tax refunds and other federal payments)
  - Late fees
  - Collection costs
- Options for resolving the delinquency:
  - Deferments
  - Forbearance
  - Various payment/repayment options
  - Loan consolidation



## Due diligence: Telephone contacts

### *Objective*

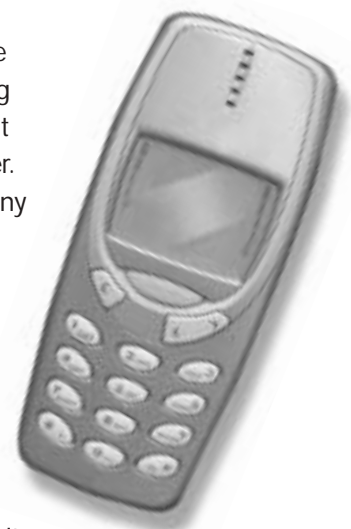
To establish verbal contact with the borrower to encourage the borrower to take responsibility for repaying his or her student loan debt and to initiate action to resolve the delinquency.

### *Federal requirements*

The U.S. Department of Education further requires servicers to perform due diligence activities to achieve telephone contact with borrowers who are delinquent in making their scheduled student loan payments. Data indicates that the most effective default prevention efforts are those that result in a one-on-one interaction with the borrower. For most servicers, this relates to telephone contact with the borrower. Therefore, many servicers concentrate the majority of their default prevention efforts in this area.

Telephone contact efforts are also required throughout the delinquency period until the date of default. To meet telephone contact due diligence requirements, a servicer must either complete a telephone call that results in actual contact with the borrower or complete two attempts to make telephone contact with the borrower. Generally, a servicer makes at least two diligent efforts to contact the delinquent borrower before the 90th day of delinquency and at least two additional contact efforts between the 90th day of delinquency and the day of default. One diligent effort is defined by a contact or two unsuccessful attempts. As many as four separate attempts may be required before the 90th day of delinquency and another four attempts after the 90th day.

A variety of strategies can be successful in achieving telephone contact with a delinquent borrower. When servicers are formulating their telephone strategies, they must comply with provisions and restrictions on telecommunications efforts mandated by the Fair Debt Collections Practices Act. Servicers sometimes initially focus on calls to a borrower's home phone number, with subsequent attempts to alternate or work phone numbers. Phone attempts may be heavily concentrated during certain segments of a delinquency period – or even during certain times of the day. Multiple calls may be made on the same day to a variety of phone numbers until actual contact is achieved with the borrower.



When servicers are formulating their telephone strategies, they must comply with provisions and restrictions on telecommunications efforts mandated by the Fair Debt Collections Practices Act.



Because a variety of options are available to the borrower and the servicer to resolve student loan delinquency, a servicer's agent acts more like a loan counselor than a pure collector.

When phone attempts result in the customer service representative leaving a message with someone other than the borrower or on an answering machine, the servicer leaves information to indicate that the borrower needs to contact the servicer as soon as possible. Most servicers provide a toll-free phone number for the borrower to return calls.

Once a servicer achieves contact with the borrower, the servicer's telephone agent attempts to resolve the delinquency. Agents attempt to obtain a clear picture of the borrower's current situation, both financially and personally. Once the borrower's situation is defined, the agent leads the borrower through the different options available to resolve the delinquency, obtains agreement on the solution, and assists with its completion.

Because a variety of options are available to the borrower and the servicer to resolve student loan delinquency, a servicer's agent acts more like a loan counselor than a pure collector. The agent provides information on the borrower's options and guides the borrower to a decision.

Borrower repayment options may include

- Eligible entitlements (e.g., deferments, updating in-school status)
- Postponement of scheduled payments (e.g., forbearance)
- Various payment options, details within each vary by servicer:
  - Reduced payments
  - Graduated payments
  - Income sensitive payments
  - Consolidation of multiple loans
  - Direct debit
  - Military payroll allotments
  - Extension of loan repayment periods

- Immediate payment of past due amounts:
  - Payments by phone through a borrower's personal checking account
  - Overnight mailing
  - Wire transfers
  - Transmitting forms electronically between the servicer and the borrower

### **Due diligence: Skip tracing**

#### *Objective*

To obtain current demographic information for the borrower to replace invalid telephone numbers and/or mailing addresses.

#### *Federal requirements*

Skip tracing is an important area of a servicer's efforts to resolve delinquency. Obtaining valid borrower demographic information is essential to resolving a delinquency; without it the servicer cannot make contact with the borrower, either by correspondence or by phone.

Skip tracing efforts are categorized into two general types: address skip tracing and telephone skip tracing. If a servicer discovers that a borrower's address is invalid, telephone contact efforts continue while address skip activities are performed. Likewise, when a borrower's phone number is found to be invalid, written correspondence continues while telephone skip activities continue.

Skip tracing efforts must begin when a servicer determines that a delinquent borrower's demographic information is no longer valid. These efforts must be completed by the date of default with no gaps of more than 45 days.

Skip tracing efforts must begin when a servicer determines that a delinquent borrower's demographic information is no longer valid.



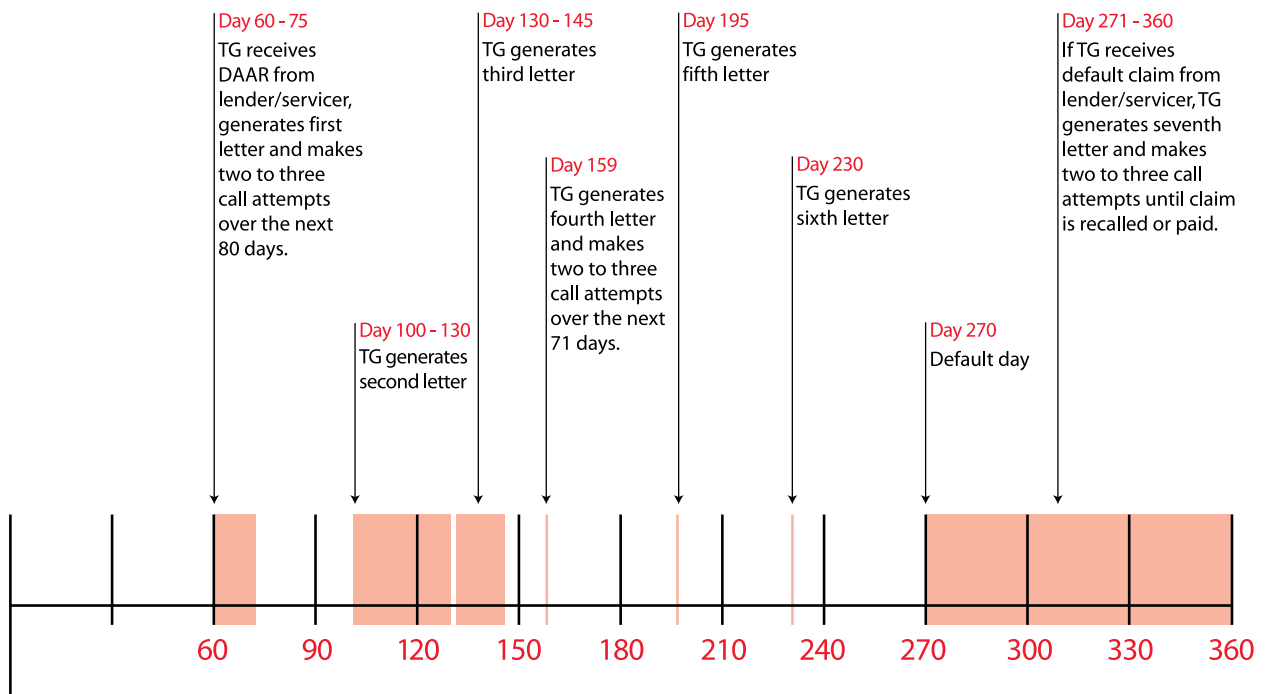
Campus departments that could be helpful in providing updated borrower/student demographic information include the registrar, the alumni office, the financial aid department, and the student affairs department.

Skip tracing may include the following activities

- Contacting by mail references listed on the loan application
- Calling references listed on the loan application
- Calling Directory Assistance
- Reviewing credit bureau demographic information
- Contacting the school(s) that the borrower attended
- Contacting the previous lender/owner/servicer of the loan
- Contacting the borrower's employer
- Filing a default aversion request for skip tracing assistance from the guarantor
- Using skip tracing/locator software programs
- Contracting with professional locator services
- Using the Internet/Fast Data/Accurint

Schools may play an important role in a servicer's skip tracing efforts. As noted above, servicers contact schools as part of their skip tracing efforts. When schools place a high priority on responding to these requests, it increases the opportunities to make contact with the borrower and resolve the delinquency before the borrower defaults. The school and servicer working together in skip tracing is especially critical as students often move after withdrawing or graduating. Campus departments that could be helpful in providing updated borrower/student demographic information include the registrar, the alumni office, the financial aid department, and the student affairs department.

## Sample timeline to meet due diligence requirements



Technology has changed the way many servicers conduct business, including how they generate written correspondence, perform telephone contact attempts, complete skip tracing efforts, and provide general customer service.

## How do servicers maximize available technologies?

Advances in technology affect all servicer efforts. The servicing of student loans is a business and servicers, like most businesses, rely on technology to make their organizations as effective and efficient as possible. Technology frees up human resources once devoted to routine activities so that they can commit their time to the activities that require the “human touch” — the one-on-one interactions with customers. Technology has changed the way many servicers conduct business, including how they generate written correspondence, perform telephone contact attempts, complete skip tracing efforts, and provide general customer service. Noted below are some of the ways servicers have integrated technology to enhance their performance.

### Computer operations

Computers and the associated programming software provide online, real-time account information to the servicer’s agents and to the customers. Examples include

- The ability to provide real time borrower account information to the borrower via interactive voice response telephone units and/or through Internet access
- Automated correspondence and payment processing
- Automated generation of past due notices and mailing of various forms
- The generation of reports and statistical data
- Predictive dialing systems that automate telephone contact efforts
- Automated skip tracing efforts through direct links to skip tracing/locator software
- Electronic transmission of data and information (i.e. electronic linkages with schools, lenders, and guarantors)
- Coordinated customer service “contact center” system through integrated telephone, e-mail, self-service Web sites, and fax capabilities



	From	Subject
	Smith, J.	Student Loan Payment
	Daniels, W.	Payment Due
	Mom	Hello
	David X.	Funny Cartoon
	Smith J.	Student Loan Payment
	Mom	Re: Money
	Angie	Cancelling Tonight
	Cardona, B.	Account Status
	Smith J.	Urgent Message
	David X.	MP3s
	Smith J.	Please

## Telephone operations

Technology also improves telephone operations, which can make servicer default prevention efforts more successful by

- Routing incoming customer calls to “specialty” groups depending on the type of caller (borrower – delinquent/non-delinquent, school, or lender).
- Utilizing Interactive Voice Response (IVR) capabilities, allowing the caller to obtain specific account information, update information, and request forms — all without having to wait for a live agent.
- Arranging IVR menu options so that borrower needs may be quickly and easily met without having to dig deep into sub-menus. Similarly, the option to speak with a live agent should be made available in places where automated responses for basic information are maximized and borrower frustration minimized.
- Providing timing and flexibility of IVR menu options at the top layer, which has proven to result in expedient and effective resolution of borrower issues. Examples include an option for tax information during the first months of the calendar year, information on consolidation or the change in the variable interest rate in the June/July timeframe, and repayment plans and options for May graduates toward the end of the year.
- Maximizing IVR usage, for which the typical range of resolution is between 25-40% of inbound calls.
- Providing the ability to automate the manual dialing of phone numbers, terminate non-connect phone calls, and leave messages on answering machines by telephone agents. This has made it possible for agents to spend more time on calls that result in live contact, which increases the opportunity to resolve delinquencies.
- Providing the ability to quickly fax forms using desktop faxing, saving the time required to deliver mail.

Interactive Voice Response (IVR) capabilities allow the caller to obtain specific account information, update information, and request forms — all without having to wait for a live agent.

### Internet access

Internet technology can also make a significant impact on the success of default aversion strategies by

- Providing borrowers, schools, and lenders with real-time, online account access for their own review and to request and return forms, to make online payments, to review payment options (with embedded calculators), and to correspond with the servicer via e-mail.
- Supplying information on educational financial programs, the ability to calculate expected loan amounts, and the means to perform financial planning.
- Assisting borrowers in the loan application process including the option of electronically signing promissory notes.



### Above and beyond federal requirements:

#### The servicing community

One of the highest priorities of a servicer is to maintain the insurance (guarantee) of loans it services by ensuring that minimum due diligence efforts are completed.

One of the highest priorities of a servicer is to maintain the insurance (guarantee) of loans it services by ensuring that minimum due diligence efforts are completed. After achieving this objective, servicers have the option of performing additional efforts to increase the chances of resolving the delinquency before the default date. A variety of additional default aversion efforts and strategies may be performed throughout the delinquency period. These strategies may coincide with the delinquency volume “peaks and valleys” during the year, reflecting the cyclical nature of student loans.

#### *Correspondence*

The following are examples of additional written correspondence efforts that may be conducted by servicers:

- Establish priorities on the processing of incoming forms/paperwork to remove a loan from delinquency status. Establish “turn-around” standards for the processing of forms to 24-48 hours from time of receipt. Quickly processing correspondence may help avoid some of the consequences associated with delinquent loans.

- Encourage the use of technological capabilities between servicers, borrowers, and schools to expedite the exchange of information and written correspondence. Expeditious exchange of information can be advantageous to the borrower by limiting late fees, and preventing adverse marks on credit history.
- Contact the school for enrollment verification if there is reason to believe that a borrower may still be in school. Such information may be the result of non-borrower contact, for instance through a telephone attempt or from receipt of a delinquency letter in which a spouse, relative, reference, or roommate indicates that the borrower is still enrolled in school. Utilize information from the National Student Clearinghouse and NSLDS to facilitate enrollment verification for deferment eligibility or return to an in-school status.
- Provide borrowers with Internet access to comprehensive loan information and empower them to manage their loan online. With the advent of electronic signature, allow borrowers to complete and certify forms electronically in a single step using this capability (e.g., unemployment deferments, forbearances, changes in repayment plans, consolidation).
- Capture, retain and update borrower e-mail addresses so that due diligence, follow-up and other servicer communications can take place electronically, with increased frequency. E-mail is a very cost effective alternative and/or complement to the historically routine communications.
- Offer automatic debit of a borrower's checking account so that payment may be made electronically and automatically. Many lenders offer interest rate or other discounts associated with participation in monthly electronic withdrawals from borrowers' checking or savings accounts. However, borrower participation percentages in electronic payment debit (EPD) are less than ideal. While the borrower may receive a discount and convenience, the servicer may gain an efficiency, and the school may acquire a tremendous tool to minimize its Cohort Default Rate, it is estimated that only 5-10% of borrowers take advantage of this option. Enhancing exit counseling by — or on behalf of — schools and providing better information at the time of servicer disclosure may heighten the awareness and utility of this alternative.
- Utilize alternatives for servicers either in-house or through a vendor to accept a one-time payment electronically from a borrower in order to immediately resolve a delinquency. All the borrower needs is the bank routing number, checking account number, and possibly a check number. (SpeedPay is an example of such a third-party service.)

Expeditious exchange of information can be advantageous to the borrower by limiting late fees, and preventing adverse marks on credit history.

- Implement monthly billing statements for borrowers. Although they are more costly, monthly statements allow the servicer to provide comprehensive loan information frequently to borrowers and integrate due diligence letters (on a frequency that exceeds federal requirements), deferment/forbearance forms, tax statements, address change requests and other relevant information into the monthly billing statements, facilitating positive repayment behavior.

Specialized training for telephone customer service representatives can enhance counseling, collection, and resolution skills.

#### *Telephone and skip tracing*

In addition to due diligence requirements, servicers may also improve their chances of resolving delinquencies by offering additional phone-related default prevention efforts and strategies. Examples include

- Extending hours of servicer telephone availability
- Offering specialized training for telephone customer service representatives which will enhance counseling, collection, and resolution skills
- Providing bilingual or multilingual customer service representatives
- Initiating telephone contact with borrowers prior to delinquency to offer information on incentives and various repayment options
- Routing incoming customer calls to “specialty” groups depending on the type of caller (borrower delinquent/non-delinquent, school, or lender)
- Enhancing Interactive Voice Response capabilities so that they are available 24/7, allowing the caller to obtain specific account information, update information, and request forms — all without having to wait for a live agent
- Collecting updated reference information prior to repayment
- Placing priorities on the processing of forms and paperwork for delinquent accounts. Establish 24-48 hour turn-around standards for processing forms. A servicer is required by regulation to respond to any inquiry from a borrower or endorser within 30 days of the inquiry
- Emphasizing the use of fax capabilities between servicers, borrowers, and schools to expedite the exchange of information and “paper”
- Performing follow-up calls to borrowers following a “promise” to resolve a delinquency, if the promise remains unfulfilled several days after it is made. The follow-up call is to remind the borrower of the agreement that was previously reached and the need to expedite his or her actions to fulfill the obligation.

- Contacting the school for enrollment verification if the servicer discovers through non-borrower contact that the borrower is still in school. Non-borrower contact could result from a telephone attempt or from receipt of a delinquency letter in which a spouse, relative, reference, or roommate indicates that the borrower is still enrolled in school.
- Establishing delinquency resolution goals and providing incentives to employees for reaching and achieving those goals

### The guarantor community

Federal due diligence requirements are also applicable to the guarantor community. However, unlike the servicing community, guarantors are required to conduct due diligence (default aversion efforts) after they have received a Default Aversion Assistance Request (DAAR) from the lender/servicer. Generally, DAARs are received by guarantors when the loan has been delinquent between 60 and 120 days. In an effort to be proactive, TG established a policy to require DAARs to be submitted no later than after 60 days of delinquency.

TG's commitment to default aversion goes far beyond the required federal due diligence. Maintaining low cohort default rates is critical to sustaining a viable student loan program, and the consequences of default impair both the students who enter default and the institutions they attend.

Toward this end, TG is constantly engaged in forward-thinking default aversion policies and practices with the school and lender/servicer communities to assist and educate students and their families about the consequences of default and the opportunities for assistance. TG's innovative, ongoing default aversion program targets borrowers and institutions through

- Proactive communication tools, including on-campus default aversion consulting and training campaigns
- Internet sites that provide easy-to-understand information and counseling
- Early default aversion counseling with students during grace period
- Financial literacy and debt counseling to students
- Cooperative default aversion activities and educational conferences with our FFELP partners



Maintaining low cohort default rates is critical to sustaining a viable student loan program, and the consequences of default impair both the students who enter default and the institutions they attend.

TG works every day to help students avoid default, whether through publications like this guide or default aversion posters and brochures (many available in English and Spanish), on the Internet, or by telephone.



- Dedicated default aversion consultant teams that assist institutions with developing custom default management plans
- Statistical analysis to help institutions target institutional default aversion efforts
- Call center customer service support to facilitate debt repayment arrangements — our default prevention team personally answers calls in less than 22 seconds, so borrowers don't waste time on hold

TG works every day to help students avoid default, whether through publications like this guide or default aversion posters and brochures (many available in English and Spanish), on the Internet, or by telephone. During Fiscal Year 2000, TG averted defaults for more than 90 percent of the delinquent borrowers referred to us by lenders for preclaim assistance.

### **The school community**

Institutions of higher learning are not required to perform due diligence activities, per se. However, the school community is profoundly involved in efforts to help students avert default. Federal law requires schools to maintain a cohort default rate of less than 25% for any three consecutive years. Toward that end, schools perform a variety of default aversion activities, including entrance and exit counseling sessions for students who borrow.

In recent years, schools have become increasingly innovative in carrying out proactive and effective efforts to ensure successful repayment of education debt by their students/alumni. For example,

- Schools have begun to generate their own delinquency reminders. These are letters in which schools inform former students that their loans are in delinquency. Letters from schools often take the same approach as servicer letters — encouraging the borrower to establish contact with the servicer, guarantor, and/or the school directly to resolve the delinquency status. These letters may include toll free telephone numbers of servicers and guarantor(s).

- Schools receiving funds under Titles III and V (Strengthening Institutions, Historically Black Colleges and Universities, and Hispanic-Serving Institutions) of the Higher Education Act have begun to utilize some of these federal dollars to fund specific default management efforts. In one instance, a school tapped into its Title III funds to hire a full-time professional to serve as the campus-wide default prevention manager.
- Schools have begun to provide borrower demographic updates to their servicer partners, soon after the borrower leaves school. This ensures that servicers have current address and phone number information needed to maintain timely communications with the borrower concerning the grace period and the upcoming repayment timeline. A variety of media is available to transmit these updates — the Internet, direct electronic links, electronic tape/disk mailings, written correspondence, and even the telephone. Key to this effort is close coordination between the school and its servicer partners.
- Schools generally keep close communications with former students or alumni. The alumni office or career/employment services office are key to these communications. Schools may tap into these resources to establish and maintain close communications with their former students who borrowed. These communication efforts are not limited to a sole medium. Rather, schools can provide multiple communication channels (fax, e-mail, Web sites, etc.) so that the borrower can choose the method that suits him or her best.
- Schools can help their servicer partners with the arduous, but critical, effort of finding reliable contact information for student borrowers. Currently, schools conduct both entrance and exit counseling sessions with students who borrow. These counseling sessions – or communications, in those cases when the exit counseling information is mailed to students who unofficially withdraw – provide valuable opportunities to gather new or updated demographic information from students, which in turn will help servicers carry out effective skip tracing.



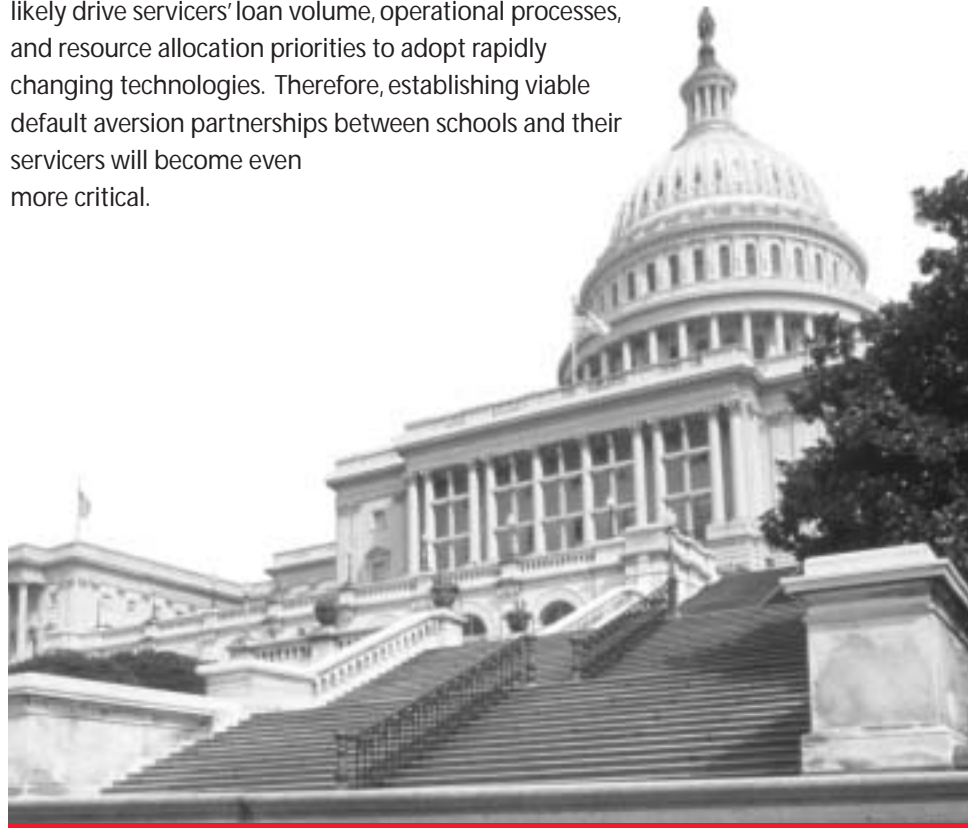
Schools can help their servicer partners with the arduous, but critical, effort of finding reliable contact information for student borrowers.

As with previous Reauthorization legislation, the Congress may opt to make policy and programmatic changes to the student loan programs, which will affect default aversion efforts by the loan servicing community.

## The future of loan servicing

As this guide was prepared for final print, the United States Congress had only just begun a two-year process for the Reauthorization of the Higher Education Act of 1965, the law authorizing all federal student financial aid programs. As with previous Reauthorization legislation, the Congress may opt to make policy and programmatic changes to the student loan programs, which will affect default aversion efforts by the loan servicing community.

Moreover, the student loan industry landscape is in a constant state of change, partly influenced by its market-driven nature, the advent of new technologies, ever-changing and rapidly growing student demographics, and state budget deficits. In Texas alone, the state legislature began its 78th Legislative session with an estimated \$10 billion budget deficit. This fiscal challenge comes at a time when the state has embarked on a 15-year plan, dubbed "Closing the Gaps by 2015," to increase student enrollment by 500,000. These challenges and the unknown outcomes of Reauthorization will most likely drive servicers' loan volume, operational processes, and resource allocation priorities to adopt rapidly changing technologies. Therefore, establishing viable default aversion partnerships between schools and their servicers will become even more critical.



## Glossary of terms

**Administrative Wage Garnishment:** Process by which a guarantor, under federal law, may intercept a portion of the wages of a borrower with a defaulted FFELP loan.

**Capitalization:** An increase in the principal balance of a Stafford, SLS, PLUS, or Federal Consolidation loan that occurs when a lender adds the interest accrued on the loan to the outstanding principal balance.

**Capitalized Interest:** Accrued interest added to the borrower's outstanding principal. Subsequent interest accrues on the new total principal balance, which includes any capitalized interest.

**Cohort Default Rate:** The percentage of Stafford and SLS loan borrowers who default before the end of the fiscal year following the fiscal year in which they entered repayment on their loans. The Department of Education calculates this rate annually to determine the default experience of students who attended a particular school during a particular period of time. Unless otherwise noted, the cohort default rate pertains to the Federal Family Education Loan Program (FFELP) cohort default rate or the dual program.

**Default:** The failure of a borrower (or endorser or comaker, if any) to make installment payments when due, or to meet other terms of the promissory note or other written agreement(s) with the lender under circumstances where the Department of Education or guarantor of the loan reasonably concludes that the borrower no longer intends to honor the borrower's obligation to repay a loan, provided that this failure persists for the most recent consecutive 270-day period (for a loan repayable in monthly installments) or the most recent 330-day period (for a loan repayable in less frequent installments).

**Default Aversion:** Activity performed in an effort to assist students from defaulting on a student loan.

**Default Aversion Assistance:** The help provided to a lender by the guarantor in order to prevent a delinquent loan from defaulting.

**Default Aversion Assistance Request Period:** The period during which a lender must submit a request for default aversion assistance from a guarantor. This period begins no earlier than the 60th day and ends no later than the 120th day of the borrower's delinquency.

**Deferment:** A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal.

**Delinquency:** A period that begins on the day after the due date of a payment when the borrower fails to make the equivalent of one full payment.

**Disbursement:** The transfer of loan proceeds by individual check, master check, or electronic funds transfer (EFT) by a lender to a borrower, a school, or an escrow agent

**Due Diligence:** The procedures required for attempting to satisfactorily resolve a delinquency and prevent a default in accordance with federal regulations. The lender must document the performance of these attempts, and the attempts must be at least as forceful as those generally used for consumer loans.

**Electronic Funds Transfer (EFT):** The electronic transfer of Stafford or PLUS loan proceeds from the lender to an account at the school or the school's financial institution.

**Electronic Payment Debit:** The automated monthly withdrawal from a checking and or savings account at no cost to the borrower.

**Extended Repayment Schedule:** A repayment schedule available to a new borrower on or after October 7, 1998, with outstanding principal and interest in FFELP loans totaling more than \$30,000. An extended repayment schedule may provide for standard or graduated installments over a period not to exceed 25 years.

**Fair Debt Collection Practices Act (FDCPA):** Created to ensure that collectors and collection agencies follow a consistent standard of fair treatment of consumers and or debtors. FDCPA also sets forth procedures for obtaining debt or location information, communicating with consumers, and disclosing that consumers have the right to dispute the validity of the debt.

**Federal Consolidation Loan:** A loan to combine a borrower's outstanding education loans into a single loan with a single monthly payment. The borrower may choose to include all loans or only certain loans.

**Final Demand:** A letter that the lender mails to the borrower demanding full payment of a delinquent or ineligible account. The letter is required as part of the due diligence procedures for collecting a loan that is seriously delinquent or ineligible. The final demand letter is mailed on or after the 241st day of delinquency for loans payable in monthly installments. The letter must be mailed at least 30 days before the lender files a default claim.

**Forbearance:** A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments. The borrower is liable for the interest that accrues on the loan during the forbearance period. Some forbearances are entitlements for eligible borrowers; others are granted at the discretion of the lender.

**Grace Period:** The period that begins the day after a Stafford loan borrower ceases to be enrolled at least half time at an eligible school, ends the day before the repayment period begins, and during which payments of principal are not required. For a borrower with a Stafford loan that has not yet entered repayment who also has an SLS loan, the grace period for the SLS loan is the equivalent of the grace period for the Stafford loan if the borrower requests grace on his or her SLS loan(s).

**Graduated Repayment Schedule:** A repayment schedule under which the amount of the borrower's installment payment is scheduled to change (usually by increasing in two or more increments) during the course of the repayment period. The graduated repayment schedule cannot exceed 10 years (or 25 years for borrowers eligible for an extended repayment schedule), excluding in-school, grace, deferment, or forbearance periods.

**Gramm Leach Bliley Act:** This Act requires organizations to disclose privacy policies and practices to their customers.

**Guarantee:** A conditional legal obligation, as defined in an agreement by and between a guarantor and a lender, for the guarantor to reimburse the lender for some portion of a loan that is not repaid by the borrower due to default, death, disability, bankruptcy, borrower ineligibility, false certification of borrower eligibility, or school closure.

**Guarantor (or Guaranty Agency):** A state or private nonprofit organization that has an agreement with the U.S. Secretary of Education to administer a loan guarantee program under the Higher Education Act of 1965, as amended.

**Income-Contingent Repayment Schedule:** A repayment schedule for some Federal Direct Loan Program (FDLP) loans under which the borrower's monthly payment amount is adjusted annually, based on the total amount of the borrower's FDLP loans, the borrower's family size, and the Adjusted Gross Income reported on the borrower's most recent income tax return. In the case of a married borrower, who files a joint income tax, the AGI includes the spouse's income.

**Income-Sensitive Repayment Schedule:** A repayment schedule for some FFELP loans under which the borrower's monthly payment amount is adjusted annually, based solely on the borrower's expected total monthly gross income received from employment and other sources during the course of the repayment period.

**Interactive Voice Response (IVR):** A system associated with TG's switchboard and call center operations. Typically programmed to front-end, inbound calls with a greeting and a menu of choices such as recently guaranteed loans and loan summary information. This allows many callers to obtain quick and easy access to certain student loan information without having to speak to a representative.

**IRS Offset:** An interception by the U.S. Internal Revenue Service (IRS) of the income tax refund of a borrower with a defaulted FFELP loan. The amount offset—less a processing fee—is forwarded to the Department of Education by the guarantor and ultimately applied to the defaulted loan.

**Late Charges:** Charges that the lender may require the borrower to pay if the borrower fails to pay all or a portion of a required installment payment within 15 days after it is due. This charge may not exceed six cents for each dollar of each late installment.

**National Credit Bureau:** A credit reporting agency with a service area encompassing more than a single region of the country.

**National Student Loan Clearinghouse (NSLC):** A nonprofit, industry-sponsored organization that accepts, processes, and shares student loan enrollment and deferment information with authorized program participants.

**National Student Loan Data System (NSLDS):** A database comprised of information from guarantors, schools, lenders, and the Department of Education, which contains information on Title IV aid received by students.

**Predictive Dialer:** Software used in specific call campaigns that automatically routes the call when a contact is made.

**Repayment Period:** The period during which payments of principal and interest are required. The repayment period follows any applicable in-school or grace period and excludes any period of authorized deferment or forbearance.

**Repayment Schedule:** The legal addendum to the Promissory Note stating the terms of loan repayment and fulfilling disclosure requirements. The repayment schedule is a plan that indicates the total principal and interest due, an installment amount, and the number of installments required to pay the loan in full. The repayment schedule also contains the interest rate for the loan(s) included on the schedule, the due date of the first and subsequent installments, and the frequency of installments.

**Secondary Market:** An entity that purchases education loans from eligible lenders in order to increase the amount of funds available for education loans. The secondary market obtains funds from investors and uses those funds to purchase existing education loans from lenders. The lenders then use the proceeds of those sales to make new education loans.

**Servicer (or Third-Party Servicer):** An entity that enters into a contract with a program participant to administer any aspect of its participation in a Title IV program.

**Skip Tracing:** Diligent efforts to locate a borrower's telephone number or address when such information is unknown.

**Standard Repayment Schedule:** A repayment schedule under which the borrower pays the same amount for each installment payment throughout the entire repayment period or pays an amount that is adjusted to reflect annual changes in the loan's variable interest rate. The standard repayment schedule cannot exceed 10 years, excluding in-school, grace, deferment, or forbearance periods.

## About TG

TG is a public, nonprofit corporation that administers the Federal Family Education Loan Program (FFELP), a federally-sponsored program providing low-interest loans to students. Since its creation in 1979 TG has grown to be one of the nation's largest guarantors, providing guarantees for approximately \$12 billion in loans and enabling more than 1.7 million students to pursue their higher education dreams.

For more information about TG, visit [www.tgslc.org](http://www.tgslc.org).



The Guarantor of Choice<sup>SM</sup>



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