## Financial Aid Packages

Borrowers with high amounts of Estimated Financial Assistance (EFA) default at a higher rate than borrowers with relatively small assistance packages. This result coincides with the GAO report that found schools with a higher reliance on Title IV money were associated with higher student loan default rates[23] and with Greene who found grant and scholarship aid associated with higher student loan default rates.[24] In our model, the variable used is the financial aid determination made by financial aid offices, not necessarily the actual aid received by the student. Borrowers offered packages (work study, grants, scholarships, and other need-based loans) of more than $3,000 have default rates that are 17 percentage points higher than borrowers with packages below $1,000. Even though it is difficult to know the true relationship between the size of the financial aid package and default, this result suggests that higher amounts of financial aid packages mirror borrower need, since needy borrowers lack resources to pay for school and to later pay off their loans. However, further investigation is necessary to find the underlying reasons of the relationship between financial aid packages and default.

## Race/Ethnicity of Borrower's Community

In contrast to some previous research on defaults, this study shows the connection between race/ethnicity and defaults to be relatively minor. The model establishes that for every 10 percent increase of the Hispanic or Afro-American share in the borrower's ZIP code area, default probability increases by about three percentage points. However, it is important to note that since we are using a proxy for race/ethnicity (the race/ethnic make-up of the borrower's ZIP code), the lack of precision might result in an under or over estimate of the true relationship between race/ethnicity and default.

## Deferments

Our research provides strong evidence that the use of deferments is an effective way that borrowers can postpone a default claim, but these delaying strategies do not ultimately avoid default. For example, analysis of a 1995 cohort model with a 2 1/2 year default time frame found that borrowers with deferred loans defaulted one-third as often as borrowers without deferred loans. Thus, as expected, borrowers who obtain deferments are quite effective in reducing defaults soon after their repayment date. However, the 1991 cohort model with a 6 1/2 year timeframe indicates that borrowers with deferred loans defaulted almost as often as borrowers who never deferred. Thus, deferments almost disappeared as a factor when the timeframe for default increased.

## Multiple Lenders

Borrowers in the 1995 cohort who had loans with more than one originating lender had about a 20 percent increase in the odds of default compared to borrowers with one lender. However, the association between defaulting and multiple lenders is diminished over a 6 1/2 year time frame in the 1991 cohort. Generally, the default problems associated with a borrower having more than one lender diminished after a long period (about 6 years) of repayment. Probably, borrowers' use of consolidation alleviates some problems with multiple lenders.

## How We Can Use This Information to Identify the Most Likely Defaulters?

The information from this model can be used to rank the probability of default for borrowers in the TG data files. In order to identify borrowers with a consolidation loan, a consolidation loan model is also formulated for the computation of default probability. Figure 2 shows this process.

Figure 2 Method for Assigning Probabilities to New Borrowers

The model works as follows:

1. Take a group of borrowers who are entering repayment during a given month.
2. Use the appropriate model, depending upon loan type.
3. From these models, a list of borrowers is formed and ranked by probability for defaulting. Those at the top of the list would be the target of default prevention activities even prior to any reported delinquency. By reaching out to at-risk borrowers in this way, borrowers can be equipped with information when they need it.

## Conclusions

The multivariate modeling technique used in this study provides important insights into patterns of default. Like some earlier reports on defaults, this study suggests that default behavior is more closely linked to the characteristics of students than characteristics of institutions. The most effective predictors of defaulting are whether a borrower withdraws from school, especially when the student last borrowed at the first or second year grade level. This finding agrees with past studies connecting poor academic preparation and lack of persistence of borrowers with a higher occurrence of student loan defaults.

## Additional Research

Additional research and acquisition of data would be needed to improve the accuracy of this model. Investigating factors associated with student loan default demonstrates the complexities of this issue and the need for more empirical information. Some factors that could help the model in predicting default are:

- Employment status
- If employed, monthly salary
- Major field of study in post-secondary education
- Gender
- Marital status
- Dependency status

## Telephone Surveys

To provide more texture to the description of the characteristics of defaulted borrowers and to investigate whether our predictive model had important factors that were not operationalized, TG conducted in-depth telephone interviews with 42 borrowers. This sample was not intended to be statistically representative. Instead, the purpose was to talk one-on-one with borrowers to better understand their special circumstances, to provide a fuller portrait of student loan borrowers as they face the challenges of leaving school and working to pay off their loans. While TG’s econometric model does an excellent job of predicting defaults, it is limited by the kinds of data that are available for analysis. It was hoped that through these focused interviews additional dimensions to the default issue might emerge.

Borrowers were not selected randomly. Instead, they were picked in a way that might reveal the most about the prediction model discussed above. Borrowers were chosen based on whether their experience confirmed or contradicted the predicted repayment behavior.

Figure 3

Did the model predict default?

| Did the borrower default? | | Yes | No |
|---|---|---|---|
| | Yes | Predicted/ Did default | Predicted/ Did not default |
| | No | Not predicted/ Did default | Not predicted/ Did not default |

By segmenting the survey population into these four equal groups (see Figure 3), it was hoped that we could learn what was different and what was common among these groups.

The first group of borrowers interviewed were those that the model predicted would have defaulted and who did, in fact, default on their student loan. This group had the highest rate of unemployment among the four groups and they tended to be angry about the quality of education they received. If they had jobs, they were usually not related to their education. The loan counseling they received was typically unclear or not understood. Only one-half of this group considered using a deferment and even fewer thought of requesting a forebearance. Not one borrower in this group voiced a good experience with their servicer. These borrowers expressed exasperation with the process and seemed resigned to having the IRS take their refund checks. Their attitude was one of hopelessness concerning their economic future. Significantly, this group reported the highest number of combined life traumas. While some borrowers in all groups expressed some life traumas like divorce, large medical experiences, job loss, new dependents, etc., the first group expressed the most combinations of life traumas from incarceration to job loss due to donating a kidney to an uncle.[25]

The second group interviewed consisted of borrowers who the model predicted would default, but who had not. While these borrowers typically had low incomes, they tended to be working in jobs related to their training. While this group had a mix of life traumas, they often had some other source of support such as parents or spouses willing to help. These borrowers knew about their loan obligations. For example, most considered using forebearances — the highest percentage of any of the four groups. This group was committed to repaying their loans, despite being the least satisfied with their education. Interestingly, these borrowers viewed exit counseling more favorably than other borrowers.

The major differences between the first two groups (those that the model predicted to default) seemed to be:

- Repayers had jobs related to their training both during school and afterwards, while defaulters did not.
- Repayers were more knowledgeable about their loan options and were committed to repaying, while defaulters were not.

Similarities between these two groups were:

- Both attended short-term programs and were earning relatively low wages.
- Both experienced a good deal of life traumas.

Borrowers predicted by the model to not default, but who did, comprised the third group interviewed. Borrowers in this group were satisfied with their education and usually were working in a job related to their training. Most had attended college for at least four years and three of the borrowers had graduated from medical school. This group had the lowest unemployment rate of the four groups. However, the third group had a very high incidence of life traumas including trouble finding a job. Fortunately, these borrowers also appeared to have strong networks of support to help them through their difficult times. Most of these borrowers reported good experiences with their lenders and servicers and with their loan counseling. However, some of these borrowers had defaulted on only one of many loans suggesting a lack of awareness of their loans.

The final group of borrowers interviewed consisted of those predicted to avoid default and who, in fact, had avoided defaulting. This group overwhelmingly indicated that repayment was easy. This group had no trouble finding jobs and had little exposure to job loss. These borrowers were pleased with their education and loan experience, although they felt that their exit counseling was vague or unmemorable. While this group had more credit cards than the other groups, the balances on these cards were less than what they currently owed on their student loans. The fourth group was also the most successful in avoiding life traumas.

The two groups that were predicted to not default seemed to have different levels of success in finding and keeping jobs that would pay enough to let them repay their loans. Also, those that defaulted tended to have several life traumas (especially job loss, new dependents, and large medical expenses), while repayers seemed free of traumatic experiences. They were similar in that they attended long-term programs and were currently holding down jobs related to their education. Also, both groups seemed knowledgeable about their loan options and obligations.

From the telephone interviews, we learned that repayers typically have jobs related to their education and often had related jobs while in school. The transition from school to work was very smooth for repayers. Repayers also seemed to know more about their loan obligations than did defaulters. For defaulters, fate had dealt them significant life traumas. Defaulters often had trouble finding and keeping jobs with wages sufficient to allow them to pay back their loans.

In this section, we outlined a model by which TG can predict defaults with a reasonable level of accuracy. From the telephone interviews, we learned that certain key factors related to default couldn't be captured by the quantitative model, e.g. the incidence of life traumas or the degree to which a borrower's job is related to his or her education. Given this limitation, the model will always fail to predict some defaults and some repayment successes.

## V. Policy Implications

### Summary

The 203 recommendations from the 1988 SDI conference can be grouped into three major categories: (1) improve communication, (2) limit borrowing for at-risk students, and (3) provide proper incentives for repayment and disincentives for default.

Most of the proposals addressing communication issues were adopted. Students now benefit from access to loan counseling at matriculation and graduation, can download information and forms from the Internet, and must be informed by student loan participants at key moments in the life of the loan. Among student loan partners, communication has improved with changes in technologies and customer demand for standardization and high-quality customer service. Even organizations not directly involved with student loans now routinely share information with TG, thereby improving the operation of the student loan program in Texas.

One way to reduce defaults is to limit who can borrow and how much debt they can assume. Balancing this restriction with the desire to promote equal access to higher education can be challenging. SDI conferees made several recommendations which sought an equitable balance. Measures designed to reduce defaults among early dropouts — e.g. late disbursements, multiple disbursements, and freezing loan limits for first-year borrowers — did not seriously compromise access to college.

Conferees offered numerous suggestions for structuring a system of incentives and disincentives for students. While not all proposals were adopted, several were, and word about the negative consequences of default has reached students. Positive incentives have also been effective. Lender-provided interest rate discounts for good repayment history provides tangible rewards to students who repay regularly.

"Section III: Historical Trends" documents the impact of these and other default prevention measures on loan volume and default rates. Today's default situation is far different than it was in 1988. Defaulters are now much more likely to have attended a four-year school instead of a proprietary school. This paradigm shift has implications for the types of strategies to employ to lower defaults.

"Section IV: Predicting which Borrowers Will Default" analyzes the characteristics of defaulters today. The use of logistical regression provides a way to systematically sift through the data to pinpoint those characteristics most strongly associated with defaults. Academic progression was a key determinant of whether or not a borrower will default. Persistence through college greatly enhances the likelihood that the student will be able to repay his or her loan. School type was another important factor. The proprietary school experience appears to have a negative effect on default behavior holding all other currently measurable characteristics constant. So, too, for schools with past cohort rates that are high. However, the quantitative model suffers from a lack of data on potentially significant factors.

In-depth interviews were conducted to supplement the quantitative model. These interviews highlighted several important dimensions of the issue of defaults:

- Finding and holding a job are extremely important factors affecting one's ability to repay loans.
- Among repayers, a deep personal commitment to repaying one's loan was very noticeable even among borrowers who have had traumatic life experiences that might have driven other people into default.
- While many borrowers were able to withstand a traumatic life experience (e.g. job loss, large medical expenses, a new dependent, divorce, incarceration, etc.), multiple traumatic experiences often helped send borrowers into default.
- Repayers tended to have a much better understanding of their loan options than defaulters.

## Policy Implications

### 1. Defaults are not confined to one school sector .

In 1988, it was easy to consider defaults largely the problem of one school sector. Default rates at proprietary schools were extremely high and reports of abuses widespread. However, today defaults are not clustered in one school sector. While default rates at proprietary schools remain higher than in other types of schools, the rates are much lower than during the peak of proprietary school borrowing. Loan volume at proprietary schools has been significantly reduced by cohort default rate sanctions and school closings. The problems associated with defaults can no longer be reduced to overzealous recruiters who exploit welfare recipients by charging outrageous tuition for inferior training that leads to dead-end jobs. Defaults are more likely to occur at four-year schools that have the most loan volume and lowest default rates — good schools with some students who get into trouble with their loans. The policy response to the current default environment would not attempt to put schools out of business with harsh sanctions, but would search for ways to lessen the problems of a minority of students. One way might be to better inform borrowers of the availability of deferments and forebearances to help borrowers through life's rough spots. At some schools, the issue of debt burden is emerging. For a detailed analysis of student loan debt burden in Texas and the policy implications which arise from recent changes in debt levels, see *Education on the Installment Plan: The Rising Indebtedness of Texas Borrowers*, a report by TG.

### 2. The need for wise education investments

In general, investing in a college education pays off handsomely. Student loans are a good way for most students to finance their educational investment. The full cost is deferred and spread-out over a number of years as one would with any other investment with long-term benefits. Loans allow students to limit or eliminate the need to work while in school freeing up more time for study and integration into campus life, which are essential for academic success. With this success, students become economically more productive and flexible. For students with few financial resources, loans may not be an effective means to open access to higher education. But by and large, student loans are excellent financing tools.

To lower defaults, it is important to maximize the benefit of a college education by investing wisely. Students need to carefully select schools on the basis of the estimated return on investment. Students should be provided with information that will allow them to consider the performance of schools based on various measures, e.g. retention, graduation, and default rates; placement rates; and starting salaries of graduates. Part of this investment decision should involve choosing fields of study with clear expectations of the labor market for related occupations. A prudent investor would also want to select a high quality school at a reasonable price.

Academic success makes the overall public subsidy/investment yield higher returns. Neither the public nor students benefit when students do not complete their program of study. While there will always be an element of risk in going to college, public policies which promote academic progress will increase the common good.

### 3. Limit borrowing for students most at-risk of defaulting.

Both the econometric model and the anecdotal evidence from the in-depth interviews seem to confirm the connection between dropping out and defaulting. Measures which limit borrowing for early dropouts — such as late and multiple disbursements and low loan limits for first-year borrowers — appear to be sound, provided that schools actually have a problem with early dropouts. These measures can be administratively burdensome and cause hardship — perhaps even forming barriers to college for some students. If schools show that early dropouts are rare on their campuses, then the problem that these limiting measures seek to address would appear to be minimal.

Both the U.S. Senate and the House bills reauthorizing the Higher Education Act, currently being considered by the Congress, increase the authority of financial aid administrators to place limits on borrowing for some students. This power may prove to be an effective way to reduce defaults associated with imprudent borrowing. The exercise of this authority should be monitored to ensure that access is not compromised and that it is not used in an arbitrary or discriminatory way. Financial aid professionals will want access to relevant research in setting their policies, and it is hoped that this report can be of assistance to them.

### 4. Promote academic success.

While limiting borrowing for students at danger of defaulting may be wise policy, ultimately the challenge is to promote academic success. Students who progress to higher grade levels and complete their programs of study become more economically productive and less likely to default. Program completion is especially important for the more vocationally focused schools; failure to complete may mean the inability to become certified in an occupation, thus rendering the specialized training of little use. The longer-term, less specialized programs aim to create well rounded, critical thinkers. For these students, mere advancement to an additional grade level reduces the chance for default. Policies and services that promote college retention and persistence will have the added benefit of lowering defaults. Remedial education is essential for many students who can then become more successful in their core classes. Through in-depth telephone interviews we learned that students can go through major life traumas. Schools that provide support systems (e.g. adequate health insurance, childcare, counseling, etc.) can keep students progressing academically. Closely monitoring the overall progress of students can aid schools in identifying potential dropouts. Perhaps most significantly, schools that provide quality instruction will be better able to ensure the success of its students.

### 5. Help students find and keep jobs.

The transition from school to work can be hazardous. Efforts to smooth this transition will go a long way towards empowering borrowers and making them better able to repay their loans. Employment while in school may be beneficial, especially if the work is related to the student's instruction and if the number of hours is low enough to allow for adequate study. A smooth transition to work is critical for students in vocational programs who are less able to be flexible in a rapidly changing economy. Providing students with quality labor market information will make expectations more realistic and better enable students to plan for the transition to the work world. Part of this planning should involve loan and personal finance counseling.

# Appendix A

Table A General Recommendations

| Recommendation | SDI Recommendations | What happened? |
|---|---|---|
| 1. Better communication | All participants in the Program must engage in better, more effective communication with one another. | TG efforts to keep schools and lenders better informed.<br>1. Lender-School Advisory Committee written in TG statute. (1989)<br>2. *Shoptalk* replaced Executive Director Memorandums (EDMs) and external newsletters as more reader-friendly way to disseminate regulatory updates. (August 1990)<br>3. School reports from TG's Preclaims Department. (1992)<br>4. Monthly Default Management Reports. (1993)<br>5. Electronic transmission of Request for Assistance (RFAs).<br>6. Annual TG conferences.<br>7. TG ad hoc reports customized to meet school and lender needs. (1994)<br>8. Development of Tex-Net. (1990)<br>9. Development of Internet communication capabilities. (1995)<br>10. TG actively participates in meetings/conferences with other professional associations such as ATLE and TASFAA.<br>11. TG assumed a leadership role as one of 10 guarantors who developed the *Common Manual-Unified Student Loan Policy.* This manual publishes standardized student loan rules and policies for schools and lenders and has been adopted by all guarantors. |
| 2. National Student Loan Data System | Update references every semester to facilitate skip tracing. The Congress should appropriate funding to the Department of Education to begin immediate development of the National Student Loan Data System to centralize borrower tracking. | After years of no appropriations and administrative delays, money was finally appropriated, a system was developed, and the first loans were loaded onto the system in November 1994. Guarantors, lenders, and schools participated in improving the quality of the data that populated this database. All FFELP loans active as of 10/1/89 were initially loaded onto the system. Direct Loans, Perkins Loans, Pell Overpayments and loans held by ED's Debt Collection Service followed. Monthly updates from guarantors, schools, the Direct Loan servicer, other Title IV systems, and indirectly from lenders and servicers, keep data current. NSLDS now contains over 100 million loans for 37 million students. The system is used to pre-screen and post-screen student aid applications, calculate Cohort Default Rates, maintain the SSCR process, produce Student Aid Reports (SAR) and Institutional Student Information Records (ISIR), provide Financial Aid Transcript (FAT) data, and support Borrower Tracking. Further progress on NSLDS was made in April 1996 when Congress allowed schools to access NSLDS for financial transcript data. |
| 3. Entrance counseling | Schools, lenders, and guarantors should provide more information to student borrowers on their repayment responsibilities upon entry to college. | On August 24, 1989, Congress required entrance counseling for all first-time borrowers. |
| 4. Information to borrowers during the grace period | Borrowers should be contacted by the appropriate parties during the six-month grace period after leaving school and before repayment begins to remind them of their repayment obligations. | Congress required exit counseling for all borrowers. TG also reports information to schools on total dollars borrowed, number of loans, number of current holders of those loans for borrowers leaving school. Schools provide this information to their students to encourage them to repay their loans and to clarify any questions they may have. Often schools hire staff or consultants to specialize in default prevention. In the Fall of 1996, TG developed a Student Loan Inquiry system on the corporate Internet site to allow students to learn more about their actual loan obligations. |

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| 5. Allow nominal payments while in school | Borrowers should be required to make nominal payments on their loans while still in school in order to allow them to become accustomed to making payments. | Although various groups have supported this concept periodically, Congress has not mandated this requirement. Concerns about added complexity and administrative cost have prevailed. |
| 6. Provide more need-based aid especially for high risk students | Both the state and federal legislative bodies must provide more need-based grant funding in order to reverse the growing imbalance of loan assistance over grant assistance in the student aid program. Too many high-risk students are forced to rely too heavily on loans to finance their postsecondary educations (sic), creating problem of student debt burden among low-income student borrowers. | Since FY 1989, need-based grants in Texas (state and federal) rose from $294 million to $442 million in FY 1996. Most of this increase came from the federal government which grew its need-based grants from $248 million in FY 1989 to $346 million in FY 1996. The State of Texas increased its need-based grants from $46 million in FY 1989 to $96 million in FY 1996. Unfortunately, during this same period college costs rose at a faster pace, forcing more students to borrow more heavily to finance their education. |
| 7. Develop student awareness of the responsibility for repaying loans | Students must be made aware by the lender and school financial aid office that a Guaranteed Student Loan is a loan - not a gift - that must be paid back by the student. This point cannot be stressed too strongly. | With entrance and exit counseling, students are more informed about their financial obligations than ever before. However, improvements are still needed to ensure that this counseling is more effective. More and more, this distinction between loans and grants is being emphasized at high school and college student aid information workshops. |

Table B Administrative Practices

| Student Aid Partner | # | SDI Recommendations | What happened? |
|---|---|---|---|
| Schools | | | |
| (Recruitment) | 1 | Students should be made aware that there is a price to pay for achieving their individual goals. | Media attention to the issue of student loan indebtedness and the significant value of an investment in education have been widely publicized and promoted. |
| (Recruitment) | 2 | Success stories of students who have completed their education and repaid their student loans should be included in the recruitment process. | Federal legislation in July 1996 took a consumer protection approach by requiring schools to disclose completion/graduation and transfer-out rates to current and prospective students on request of the prospective student. More can be done to promote stories of successful repayment by graduates. |
| (Recruitment) | 3 | During high school career days, have financial aid sessions to show students how to achieve their goals. | Colleges, lenders, HEAs, and TG actively participate in high school career days. |
| (Recruitment) | 4 | Sell education but make students aware of the cost factors and the consequences of not fulfilling the obligations with regard to those cost factors. | See 2 above. This is demonstrated by wage garnishment laws and placing holds on transcripts. |
| (Recruitment) | 5 | If possible, help students secure part-time jobs while in school because employment is an integral part of developing good repayment habits. | Colleges have used the work-study program and have established cooperative education partnerships with employers. |
| (Admissions) | 1 | Admissions representative should be salaried instead of sales oriented. Develop pay incentive based on the number of recruited students staying in school. | Item # 10 in the ED Program Participation Agreement prohibits commissioned recruiters. |
| (Admissions) | 2 | Start here in educating students about the real costs of programs. | The TG Internet provides cost, budget, and repayment calculators. Entrance counseling educates students about costs. |
| (Admissions) | 3 | Develop effective screening practices and evaluation techniques of admission exams. Testing isn't always the best indicator. Conduct follow-up evaluation. | Admission policies vary among schools. Most schools have adopted multi-purpose admission criteria. |
| (Admissions) | 4 | Some type of remediation assistance should be addressed. | Current law allows student aid for remedial courses. Recent Clinton administration proposals to deny Title IV funds for remediation classes have been unsuccessful. |

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| (Financial Aid) | 1 | Entrance interview - provide student with information concerning student loan. | Federal legislation passed in August of 1989 requires students to receive entrance counseling for all first-time borrowers. *Mapping Your Future* web site, and TG's web application products' provide online entrance counseling. |
| (Financial Aid) | 2 | Develop stricter financial aid requirements. | Some of the stricter requirements include cross matching through NSLDS for defaults, loan limits, citizenship, and SSN. |
| (Financial Aid) | 3 | Exit interview - refresh student with pertinent loan information. | A school must conduct exit counseling shortly before a borrower ceases at-least-half-time study, in person, individually, in groups, through videos, or on the Internet. However, exit interviews are rare for those who dropout. Schools must mail materials to them. |
| (Financial Aid) | 4 | Send follow-up letters to remind student of his or her obligation. | TG sends graduation letters with loan information for students to schools. Schools use these in exit counseling and are required to mail exit counseling material to the borrower within 30 days after learning that the borrower has left school or failed to attend an exit counseling session. |
| (Financial Aid) | 5 | Conduct workshops for administrative officers so they will be knowledgeable about the GSL Programs. Explain the importance of the ability to benefit and how it affects the default rate. | TG offers training workshops, as does NASFAA. Schools have been required to adhere to certain regulations regarding ability to benefit and have received training in conjunction with those regulations. |
| (Financial Aid) | 6 | Perform verification prior to certification of GSL. | Applications to be verified are chosen randomly by the Central Processing System according to criteria established by ED. Schools may perform verification before certification, or they can certify and begin verification. Schools must not release funds until verification is complete. |
| (Financial Aid) | 7 | Employ default prevention administrator. | Many schools have done so or have hired contractors to do so. |
| (Financial Aid) | 8 | Send deferment form to students based upon FAT. | The need for this has diminished due to the check off provision on the initial application. |
| (Financial Aid) | 9 | More stringent satisfactory academic progress requirements. | More quantitative and qualitative regulations have been added. |

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| (Financial Aid) | 10 | Check release - Student must provide copy of loan disclosure statement and explain disclosure details of agreement prior to check release. Students must complete questionnaire about total amount of loans due and indicate understanding of repayment terms. | EFT is the most prevalent disbursement method now. In July 1996, federal legislation addressed school and student information exchange when the EFT occurs. Schools must notify a borrower when the student's account is credited, and students must notify the school when they receive the notice. |
| (Financial Aid) | 11 | Communicate with other departments. | More information needed. |
| (Exit Interview) | 1 | Conduct group exit interviews which reinforces student's financial obligations. | The 1992 Reauthorization required schools to implement exit counseling and transmit pertinent loan information to the guarantor within 60 days. Schools use a variety of ways to conduct exit interviews including group sessions. |
| (Exit Interview) | 2 | Stress the importance of good credit. | The importance of good credit is stressed during exit interviews. |
| (Exit Interview) | 3 | Promote group discussions to include the student, financial aid representative, a lender representative, and students who have successfully met their financial obligations. | More information is needed. |
| (Exit Interview) | 4 | Give certificate of indebtedness to students who have borrowed. Make it something honorable. | This practice is rare. |
| (Exit Interview) | 5 | Withhold diploma if exit interview is not attended. | Some schools do this. |
| (Exit Interview) | 6 | Show effect of interest compounding as affected by nonpayment. | This information can be found in the *New Directions: Guide to Repaying Your Student Loans* booklet prepared by TG. Many lenders, such as SLMA, have Internet sites. |
| (Exit Interview) | 7 | Perform exit interview when releasing check to student. | Exit interviews are normally conducted at the time of the borrower's graduation from the institution. |
| (Out of School) | 1 | Actively encourage re-entry (if student did not complete certificate or degree). | TG and other awareness activities also promote students' completion/graduation. |
| (Out of School) | 2 | Encourage student involvement - communication. | Many schools keep in contact with former students. |

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| (Out of School) | 3 | Discuss bad points of not repaying loan. | Covered in the exit counseling session, the promissory note, the *New Directions* booklet and on the *Adventures in Education* web site. |
| (Out of School) | 4 | Provide an in-depth letter series - tracking | Many schools keep in contact with former students. |
| (Out of School) | 5 | Send newsletter emphasizing success stories. | More information needed. Texas Migrant Workers Council provides this information. |
| (Out of School) | 6 | Create placement offices for defaulted students. | Many schools have placement offices which are typically open to all current and former students. |
| (Out of School) | 7 | Contact lender/TG in a timely manner if a student withdraws. | July 1996 Federal legislation required that schools must promptly provide the Department, lender, or guarantor with information regarding the borrower's name, address, or employer's name/address upon request. This also applies to changes reported by the student. NSLDS/National Student Loan Clearinghouse transmits information regarding student withdrawals. |
| (Out of School) | 8 | Send letters to those students who are 60 days past due from the list sent from TG. | Table G, items 3,12, and 14, address diligence activities required by lenders. |
| (Out of School) | 9 | Reunions for student loan borrowers. | Many schools hold reunions. |
| Lenders | 1 | Stress loan ownership throughout the student's educational career. | TG's *New Directions: A Guide to Repaying Your Student Loans* and *Adventures in Education* Internet site reiterate this message. |
| | 2 | Stress the importance of good credit. | TG's *New Directions: A Guide to Repaying Your Student Loans* and *Adventures in Education* Internet site reiterates this message. |
| | 3 | Mail post cards to the references verifying information and establishing a contact person for updating student information. | The Fair Debt Collection Act prohibits this. |
| | 4 | Mail the student updated information once a month until the six-month grace period has ended (keep the loan on the student's mind). | Lenders and servicers are required to send a notice(s) to students about repayment during grace period. |

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| | 5 | Notify schools/borrowers if loans are sold and to whom. | The 1992 Higher Education Amendments requires both the seller and buyer to contact borrowers if their loan(s) are sold or transferred to another holder or servicer and the place to which they must make payment changes. |
| | 6 | Distribute monthly lists to schools for those students who are entering repayment. | TG makes default prevention reports available to schools. |
| | 7 | Notify student about level of indebtedness each semester indicating what the monthly payment amount will be. | Student Loan Inquiry on TG's web site provides borrowers with up-to-date information on their total indebtedness. A letter outlining all loans and their holders is provided at graduation. |
| | 8 | Lenders should hold notes longer. | Practices vary. |
| | 9 | Perform credit checks prior to loan approval. | The 1992 Reauthorization required lenders to conduct a credit check on PLUS loan applicants. Further, lenders may deny PLUS loans to borrowers with bad credit. However, July 1995 legislation allowed a PLUS loan applicant with adverse credit to obtain a creditworthy endorser. Later legislation in July 1996 allowed students to receive an additional unsubsidized Stafford loan if one parent had been denied a PLUS loan. If, a parent becomes eligible for a PLUS loan, future Stafford loans would be cancelled. |
| | 10 | Increase responsibility not to sell to different servicers. More willingness to cooperate to sell or buy loans to reduce payment. Some students are not eligible for consolidation, and sometimes it is not to their advantage to consolidate. | In 1992, Reauthorization prohibited lenders from selling or transferring loans that have not been fully disbursed if the borrower would have a new organization receiving those payments. TG's Project Merge helped reduce the number of borrowers with multiple lenders. |
| | 11 | More contact with students during in-school period. | More information is needed. |
| Guaranty Agency | 1 | Establish a network to exchange information on defaulters between agencies. | NSLDS is the facilitator of default information. However, guaranty agencies have very limited access to loan information of other guaranty agencies and then only after a borrower has received a guarantee. |
| | 2 | Send notice to student and school when student is scheduled to start repayment prior to graduation as a reminder. | TG's Dear Graduate letter supplies notice on repayment. |

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| | 3 | Provide better information to schools concerning loan consolidation. | TG provides information on consolidation through a variety of means. |
| | 4 | Provide nationwide list of lenders who consolidate loans and their restrictions. | More information is needed. |
| | 5 | Provide a list of lenders and list the markets that purchase their loans. | TG provides this information on its corporate web site through the Lender Fact Sheets. |
| | 6 | Send disclosure statement copy to schools for interest rate information and for use in exit interview. | Not adopted. |
| Legislative | 1 | Schools should receive an administrative allowance to offset the costs involved in the GSL Program/offset cost of default program. | Not adopted. |
| | 2 | Increase federal budget allocation in grant programs to schools to insure that first year students need not borrow. | Although there have been increases in grant programs, these are insufficient to eliminate the need to borrow. Appropriations have not kept pace with increased annual authorized maximums. |
| | 3 | Give schools the authority to deny a loan based on professional judgment. | Financial aid administrators, under the authority of section 479A of the Higher Education Act, have the limited authority to use professional judgment in denying a loan. Currently, the House reauthorization bill, H.R. 6, proposes to allow financial aid administrators to certify a lower loan amount for individual students. |
| | 4 | Give schools the authority on disbursement dates | Federal legislation in March 1990 mandated that schools determine the disbursement dates for loans. As of July 1, 1997, schools are required to establish disbursement schedules for FFELP loans that provide for disbursements to be made on a payment-period basis, rather than on the basis of the enrollment period. |

Table C Preloan Counseling, Packaging, Early Financial Planning

| Student Aid Partner | # | SDI Recommendations | What happened? |
|---|---|---|---|
| Schools | 1 | Package first year students with grants, scholarships, and work study. Avoid loans. | While schools have this option, federal and state grant aid has not been sufficient to allow schools to repackage in this way. Congress has considered, but not adopted, proposal to "front-end" grants to freshmen and sophomores. |
| | 2 | Correlate amount of loan to satisfactory academic progress standards. | No, unless student does not meet SAP at all. |
| | 3 | Require students to attend preloan counseling before application is certified. Provide document for students to sign as verification of attendance. | As of 8/24/89 schools must provide entrance counseling for all first-time borrowers. TG web products provide online counseling before school. |
| | 4 | Educate parents in the preloan process. | TG provides information on its Internet site for parents. |
| | 5 | Develop software to project expected earnings in relation to indebtedness. | Some entrance counseling software does this. |
| | 6 | During preloan counseling, require students to figure payback amount. | Practices vary. |
| Lenders | 1 | Require a credit report on all loan applicants. | The 1992 Reauthorization required lenders to conduct a credit check on PLUS loan applicants. |
| | 2 | Require cosigner on all loan applications from adult with legal interest. | Not adopted. |
| | 3 | Educate parents in the preloan process. | TG provides information on its Internet site for parents. |
| Legislative | 1 | Graduated borrower scale - amount determined using classification and percentage of total cost of education. | Graduated repayment plans, income sensitive repayment, and step up loan limits are available. Currently, both the House and Senate 1998 reauthorization bills allow a broader application of "professional judgement" which would enable financial aid administrators to reduce loan amounts in some circumstances. |

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| 2 | Prorate student loan amounts according to enrollment status. | Federal legislation in January 1990, prorated SLS annual limits depending upon the length of time borrowers attend school in a given academic year. Additional legislation passed during the 1992 Reauthorization prorated Stafford loans for some first year full-time undergraduates. Further legislation in 1992, required that annual loan limits for SLS first and second year full-time enrollment be prorated. Additional federal legislation related to this SDI recommendation occurred in July 1993 when Stafford annual loan limits were increased for second year students. Further, SLS annual loan limits were increased for future undergraduate enrollment. Currently, both the House and Senate 1998 reauthorization bills allow a broader application of "professional judgement" which would enable financial aid administrators to reduce loan amounts in some circumstances. |
| 3 | Require credit report on all loan applicants. | Actually the opposite has occurred. No credit check on students is allowed. |
| 4 | Require cosigner with legal interest. | Not adopted. |
| 5 | All students must report parental income and assets. Delete the independent student concept. | Not adopted in full. However, independent student is better defined. |
| 6 | Require student borrowers to purchase savings bonds equal to that of debt obligation with the guarantee agency or federal government (holder of promissory note) as primary beneficiary in the event of defaulted loan. | Not adopted. |
| 7 | Graduated amounts to borrowers according to relative academic progress. | Federal legislation in July 1993 increases SLS annual limits for graduate and professional students. Shortly thereafter, in October 1993, Stafford loan limits for the same population increased. |
| 8 | Borrower limits based on correlation of indebtedness compared to career objectives compared to monthly GSL payments. | Not adopted. |
| 9 | Allow percentage of forgiveness for each year all payments were made on time. | Some lenders have interest rate reductions to reward timely payment histories. |

Table D State and National Legislative Initiative

| Student Aid Partner | # | SDI Recommendations | What happened? |
|---|---|---|---|
| National | 1 | Redefine default in a way to account for students that are paying back their loans. | Not adopted. |
| | 2 | Redefine Independent and Dependent student status. | Yes, since 1988 the definition has changed. |
| | 3 | Increase dramatically Pell amount. Allow student to receive all eligible Pell in first two years to avoid awarding GSL to student in early years. Allow student to receive GSL afterwards. | On 11/13/97, President Clinton signed the FY98 Labor-HHS-Education Appropriations Bill that provides funding for ED and the programs that ED administers. The Pell Grant maximum award was increased to $3,000 from $2,700. The $300 increase is the largest increase in two decades. Congress has considered, but not adopted, proposal to "front-end" grants to freshmen and sophomores. |
| | 4 | Count hours the student is enrolled at all eligible schools toward student deferment and change to 1/2 time status for all student deferments. | The In-School deferment covers both full-time and half-time study at an eligible school. A student enrolled in more than one school at the same time is eligible for the In-School deferment, provided that a single school certifies total enrollment for all of the schools. In addition, the schools involved must have a consortium agreement. |
| | 5 | No late disbursements. Allow institutional discretion for late disbursements within 30-45 days of the end of a loan period. | OBRA legislation addressed late disbursements by requiring schools to not deliver SLS late first disbursements if a student failed to complete the first 30 class days. Additionally, OBRA prohibited late second disbursements for Stafford and SLS loans. Further Federal legislation enacted in 1990, requires lenders to disburse Stafford and SLS loans in multiple disbursements. Later legislation again modified late disbursements. |
| | 6 | Modify default calculation to adjust for high risk students. | Effective 7/1/96, ED allows a school to appeal its cohort default rate under Exceptional Mitigating Circumstances provisions. |
| | 7 | Give schools the right to deny a loan based on professional judgment. | Although not frequently used, federal regulations allow a school to refuse to certify an application and promissory note or reduce the borrower's eligibility for a loan. The school needs to provide the reason for its action to the borrower in writing and retains documentation of the reason in the student's file. However, both the House and Senate 1998 reauthorization bills allow a broader application of "professional judgement" which would enable financial aid administrators to reduce loan amounts in some circumstances. |

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| 8 | Reform the tax act to make interest on student loans tax deductible. | For undergraduate students, the Taxpayer Relief Act of 1997 allows a student loan interest deduction for interest payments made during the first 60 months, whether or not consecutive, in which interest payments are required on the loan. |
| 9 | Require credit checks and/or cosigner. | PLUS only |
| 10 | Require multiple disbursements on SLS and PLUS. | In October 1988, Congress passed legislation allowing multiple disbursements of SLS loans in excess of $1,000. Although the SDI recommendation was to require multiple disbursements, Federal legislation compromised the number of disbursements by placing a minimum cap on the amount of the SLS received. Multiple disbursements of PLUS loans became Federal law in October 1993. Currently, both the Senate and House reauthorization bills would repeal the multiple disbursement requirement for short-term enrollment periods. |
| 11 | Allow no compromises on loan payment. | Practices vary. |
| 12 | No punitive action should be taken on Pell participation and other federal aid if a school has a GSL default problem. | Since 1992, schools with a 40 percent cohort default rate in one year have been excluded from all federal student aid programs, including Pell Grants. The FY96 Appropriations Act provides that schools with a cohort rate of at least 25 percent for three consecutive years are now ineligible for Pell Grants. |
| 13 | Standardization of all forms. Provide a 1-800 # for students and lenders who have questions. | In 1992, Reauthorization required all industry participants to develop common loan applications, promissory notes, deferment forms, and reporting formats. 1-800 numbers are common. Currently, both the Senate and House reauthorization bills would extend this to all-electronic forms. |
| 14 | Vary guidelines by type of institution. | Not adopted. |
| 15 | Should not negotiate amount when collecting. Word is getting out! | Practices vary. |
| 16 | Increase lender incentive to collect/ownership. | Lender risk sharing was effective in 1993. |
| 17 | Consider changing the term “guaranteed” easily misunderstood. | Still a common expression. |

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| | 18 | Deny loans to student if member of family has defaulted. | Not adopted. |
| | 19 | Allow schools to place records on hold if student is 60 days delinquent. | Not adopted. |
| | 20 | Require that students submit loan application to lender and a personal interview be conducted. | Not adopted. |
| | 21 | Student must declare major prior to loan approval. | Not adopted. |
| | 22 | Loan disbursement date - 30 days after first class day. | The Omnibus Budget Reconciliation Act of 1989 (OBRA) required schools to delay first year student disbursements until after 30 days from the start of the intended loan period. SDI, however, recommended no disbursement after 30 days from the first class day. Currently, both Senate and House reauthorization bills would repeal the delayed disbursement requirement for schools with very low default rates. |
| | 23 | Remove remedial course hours from the hours counted toward GSL eligibility. | Not adopted. |
| | 24 | Allow schools to change grades to F for those students in default. | Not adopted. |
| | 25 | Allow schools to bar enrollment for defaulted students. | Not adopted. |
| | 26 | Do not permit GSL and SLS in the same year. | Not adopted. |
| | 27 | Provide institutions with an administrative allowance. | Not adopted. |
| State | 1 | Put a block on state licenses. | Effective 9/1/89, the Texas Education Code requires that a licensing agency shall not renew the license of a person who has defaulted on a loan guaranteed by TG. |
| | 2 | Change Homestead Provision as it relates to higher education. | Home Equity loans are now permitted in Texas. |
| | 3 | Delinquency notices on more timely basis. | Common practice. |

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| 4 | Create a SUPER GRANT program for first and second year students. | Not adopted. |
| 5 | Give school the authority to hold transcripts. | Section 57.47(d) of the Texas Education Code allows this. |
| 6 | Refunds for direct vs. indirect costs. | Not adopted. |
| 7 | Accreditation based on performance of schools. | Common practice. |
| 8 | State law on “HOLD” of professional licensing and driver’s license. | Effective 9/1/89, the Texas Education Code requires that a licensing agency shall not renew the license of a person who has defaulted on a loan guaranteed by TG. |
| 9 | Full garnishment of wages in state. | Currently garnishment is set at 10 percent of the borrower’s disposable income. |
| 10 | Allow institutions to revoke degrees to loan defaulters. | Not adopted. |
| 11 | Equal access of state grants. | More information is needed. |
| 12 | More state gift aid. | State gift aid has declined from FY 1992 to FY 1996 by 11.6 percent. Furthermore, total state aid during this same time period has declined by 2.6 percent. |
| 13 | Standardization of forms throughout the state. | In 1992, Reauthorization required all industry participants to develop common loan applications, promissory notes, deferment forms, and reporting formats. |
| 14 | Require schools to block academic records. | Section 57.47(d) of the Texas Education Code allows this. |

Table E Debt Management

| Student Aid Partner | # | SDI Recommendations | What happened? |
|---|---|---|---|
| Schools | 1 | Require one hour credit course in debt management/personal finance. | Not adopted although some schools offer this. |
| | 2 | Provide a compiled listing to students of all financial aid received. Add rights and responsibilities. | This is the award notice and is required by academic year. TG's graduate letters list all loans received. |
| | 3 | Discuss student loans at career days - invite lenders. | Common practice. |
| | 4 | Include success stories at exit interview. | Practices vary. |
| | 5 | Provide student with a folder at initial contact to encourage accurate record keeping and reinforce the seriousness involved in borrowing money. | Practices vary. |
| | 6 | Involve student in collection efforts. | More information is needed. |
| | 7 | Provide debt management brochures all over campus. | Practices vary. |
| Lenders | 1 | Provide information to borrowers concerning selling practices, deferments, forbearance, contact person, etc. | 1992 Amendments-Regulations detail when borrowers need to be notified of sale or transfer. Deferment and forbearance information is available on *Adventures in Education* under Managing Debt-Postponing Student Loan Payments. Lenders send deferment and forbearance information in some letters to borrowers. |
| | 2 | Allow mandatory merging of student loans at borrower request. | Not adopted, although students consolidate their loans. |
| | 3 | Provide electronic fund transfer availability. | This is common practice. |
| | 4 | Participate in the preloan/exit sessions at the schools. | Lenders are doing this. |
| | 5 | No penalty for consolidation. | Federal legislation in 1993 required lenders to offer Consolidation loans to borrowers with the options of repaying their loans with graduated or income sensitive repayment options. 1997 Emergency Consolidation Loan Act improved the terms to students for this option. |

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| | 6 | Assuming student liability by parent at no penalty of rate. | Not adopted. |
| | 7 | Provide GSL line of credit/credit card. | The Master Promissory Note is in progress. FFEL submitted to ED in 1996; 1999-2000 implementation expected. |
| | 8 | Require multiple cosigners. | Not adopted. |
| | 9 | Perform credit checks prior to loan award on GSL. | Some schools do this at this time if it is done for default prevention purposes. |
| | 10 | Provide a resume of policies and procedures to schools and borrowers. | Schools have access to policy manuals, specifically, the *Common Manual*. |
| | 11 | Provide student with a 12-month payment booklet. After those payments have been made, provide borrower with a status report and new payment booklet. | Many lenders provide a 12 month payment coupon book; a new one is provided each year. |
| Legislative | 1 | Require at least one payment while student is in school. | Not adopted. |
| | 2 | Require mandatory consolidation participation. | Legislation addressed consolidation, however somewhat differently than the SDI recommendation. In January 1993, the Federal government allowed married couples to consolidate their loans into one single Consolidation loan. July 1994 Federal legislation further gave borrowers incentive to engage in loan consolidation by lifting a minimum loan amount for loan consolidations. |
| | 3 | Give financial aid office the authority to JUST SAY “NO”! | This is done on a case by case basis; school must document why and inform the student. |
| | 4 | Provide hotline for students to call concerning total indebtedness at all guarantee agencies and total monthly payments. | Schools can access NSLDS on behalf of the student. |
| | 5 | National database. | NSLDS |
| | 6 | Require multiple cosigners. | Not adopted. |
| | 7 | Create incentive plan for good payments. | Some lenders give borrowers a break/reward if every payment for a certain amount of time is made in a timely manner. |

Table F Servicers — The Parties Involved; keeping Everyone Informed

| Student Aid Partner | # | SDI Recommendations | What happened? |
|---|---|---|---|
| Schools | 1 | More dynamic preloan and debt counseling to include audiovisual and other types of instructional tools. | *Mapping Your Future* web site and publication of past videos are some of the collaborative efforts by industry participants. |
| | 2 | Update references every semester to facilitate skip tracing. | Not adopted. |
| | 3 | Improve the timeliness of reporting out-of-school status to lenders. | Must report within 60 days. |
| Lenders | 1 | Notification to school/borrower when a loan is sold or transferred to a servicer. | The 1992 Higher Education Amendments require lenders to contact borrowers if their loan(s) are sold or transferred to a servicer, in certain cases. |
| | 2 | Provide more contact to the borrower. | More information is needed. |
| | 3 | Timely response to borrowers concerning deferment requests. | Regulations-A lender must reply to a borrower request within 30 days of that request. |
| Guaranty Agency | 1 | Contact school before defaulted loan is turned over to the Feds. | Preclaim information is sent to school. |
| | 2 | Make TG Request for Assistance report a part of required reporting to schools. | Preclaim information is sent to school. |
| | 3 | Provide electronic transfer of information. | TG makes this available. |
| | 4 | Provide multicopy forms. | TG provides forms to the industry that can easily be photocopied or completed electronically. |
| Legislative | 1 | Relax eligibility for GSL. Make more students eligible and prorate government subsidy rate for less needy students. | Unsubsidized program offers eligibility to students who were not previously eligible. 1992 Reauthorization excluded family homes as assets in the need analysis thereby increasing loan amounts to more families. |
| | 2 | Establish student loan debt as a separate category of debt with its own rules. | In July 1993, legislation indirectly addressed how student loan debt was examined by requiring lenders to offer SLS and Stafford loan borrowers graduated or income-sensitive repayment options. |

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| 3 | Require minimum monthly payments while in school - tie it to funding of national database. | Not adopted. |
| 4 | Allow open access to government records to facilitate skip-tracing and ultimately collection. | State agencies fall under the Open Records Act. |
| 5 | Commensurate state recourse and collection practices of delinquent/defaulted loan borrowers to the federal government with similar default types such as income tax. Subsidy is viewed to be same as if funds were directly advanced by federal government. | The State Comptroller's Office holds all state checks made out to borrowers with a defaulted student loan. |
| 6 | Require repeat borrowers to use the same lender. | Some guarantors do this, but it restricts student choice. |

Table G Loan Servicing — The Process: Due Diligence, Student Status Deferments, and Skips

| Student Aid Partner | # | SDI Recommendations | What happened? |
|---|---|---|---|
| Schools | 1 | More training for staff about what is involved in loan servicing. | Not a common practice. |
| | 2 | More verification reporting. | Applications to be verified are chosen randomly by the Central Processing System according to criteria established by ED. As provided in the 1992 reauthorization of the Higher Education Act, schools may be exempt from certain verification requirements if they are participating in ED's Quality Assurance Program. |
| | 3 | Utilize student associations to communicate repayment, default, etc. information to students. | Not a common practice. |
| | 4 | Explain in detail about deferments in the exit interview session. | Beginning in 1993, TG publishes a handbook entitled *New Directions: A Guide to Repaying Your Student Loans* to help students understand their student loan debt responsibility and explain repayment options. |
| | 5 | Verify student's address upon disbursement of loan. If it has changed, notify lender. | Federal regulations require schools to notify the lender and guaranty agency within 30 days of a student's change of address. |
| | 6 | Send student's personal information to the lender at time of exit interview. | The 1992 Higher Education Amendments require a school to notify the borrower's guaranty agency(s) within 60 days after the exit interview of changes in a student's personal information. Lenders can access this information. |
| Lenders | 1 | Involvement in preloan exit interview counseling. | Many lenders now offer their servicers to schools to facilitate or conduct entrance and exit counseling. |
| | 2 | Additional training for staff. | TG provides training opportunities. |
| | 3 | Early/more frequent telephone contact. | Effective 7/1/97, federal regulations require lenders to send the first delinquency notice no later than the 15th day of delinquency offering assistance to the borrower. |
| | 4 | More informative grace letters. | Letters are reviewed and improved. |
| | 5 | Enhance training for collectors. | Not adopted. |
| | 6 | Emphasize bank drafts (auto-payments). | Many lenders offer this option. |

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| | 7 | More comfortable and open lines of communication with the students. | Lenders and TG provide different channels for communication — e-mail, Internet, 1-800 numbers, etc. |
| | 8 | Diversify collection letters and envelopes. | The Fair Debt Collection Act tightly regulates all communication with debters. |
| | 9 | Second shift collectors. | Widespread practice. |
| | 10 | More non-related references and verifying references through the form of post cards, etc. | More information is needed. |
| | 11 | More education on deferment forms. | *Adventures in Education* helps to educate borrowers about deferment forms and provides a way for students to download the forms from the Internet. |
| | 12 | Send letter at 45 days past due listing deferment availability. | Part of diligence. |
| | 13 | Send deferment form in due diligence progress. | More information is needed. |
| | 14 | Send grace letters prior to the end of grace period. | The Higher Education Amendments of 1992 require lenders to disclose repayment to borrower “not less than 60 days nor more than 240 days before the first payment is due.” |
| Guaranty Agency | 1 | More specific handbook. Include more examples. Maybe smaller handbooks explaining specific situations. | Beginning in 1993, TG publishes a handbook entitled *New Directions: A Guide to Repaying your Student Loans* to help students understand their student loan debt responsibility and explain repayment options. |
| | 2 | Provide simplified deferment packet. | In a letter issued May 8, 1996, ED announced approval of common deferment forms. |
| | 3 | Automation - from guarantor to schools and vice versa. | In response to suggestions offered by lenders and schools, TG has made several enhancements to the Loan Information Network Clearinghouse (LINC) since its initial implementation in 1988. CommonLine ‘96 was developed by the National Council of Higher Education Loan programs and allows schools to expand automated connections for guaranteed loan processing nationally. ED’s implementation of the National Student Loan Data System (NSLDS) allows direct access to current loan-level information on Title IV aid. TG also offers online access to borrower information. |

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| | 4 | Standardize withdrawal forms. | Federal regulations define how a school determines a student's date of withdrawal. Schools are required to report the withdrawal date to NSLDS. |
| Legislative | 1 | Statewide skip tracing agency. | Not adopted. |
| | 2 | Minimum payment requirement while in school. | Not adopted. |
| | 3 | Hotline information concerning who owns the loan. | NSLDS provides schools with access to information on a student's loan. For TG borrowers, Customer Services provides information that is also shown in Dear Graduate letters. |
| | 4 | Twelve payments on time - 13th payment forgiven (incentive). | Lenders voluntarily offer incentive programs for borrower discounts. |
| | 5 | National student data network. | Implemented in 1994, the National Student Loan Data System (NSLDS) is a national database of information on Title IV student aid. The NSLDS was developed to provide current loan-level information on Title IV aid and to provide an integrated view of Title IV programs in terms of aid approval, disbursements, repayments, delinquencies, and school closings. |
| | 6 | For skip tracing, contact: DMV, Social Security Office, credit bureau, city utilities. | TG communicates with DMV, SS Office, credit bureaus, and other state agencies. |
| | 7 | Publish names of defaulters in newspapers and on TV. | Not adopted. |
| | 8 | Suspend and hold licenses. | Effective September 1, 1989, the Texas Education Code requires that a licensing agency shall not renew the license of a person who has defaulted on a loan guaranteed by TG. |
| | 9 | Allow financial aid office to post a MOST WANTED LIST. | More information is needed. |
| | 10 | For skip tracing, allow criss-cross at post office. | More information is needed. |
| | 11 | Include parent's social security number on application for use in skip tracing. | More information is needed. |
| | 12 | Educate Congress. | Ongoing |

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| 13 | Discontinue or make students earn some of their deferments | Federal legislation passed in July 1993 limited deferments to new borrowers in-school (1/2 time enrollment), graduate fellowship or rehabilitation training, unemployment (not to exceed 36 months), and periods of economic hardship. Additionally, PLUS loans may not be deferred based upon the status of the student. Further deferment changes that occurred in July 1996 legislation required borrowers who requested unemployment deferments to provide six persons the borrower had contacted for employment, excluding each initial request. However, this same legislation allowed lenders to give administrative forbearances. |
| 14 | Allow guarantors access to Social Security files. | Although guarantors do not have access to Social Security files, the Social Security Administration and the Central Processing System work together at the time the FAFSA is processed to conduct a match that verifies that the student's SSN is correct and that the SSN corresponds to the given student's name and date of birth. |
| 15 | Require that borrowers designate a primary lender. | Borrowers are required to designate a lender in the "Borrower Section" of the Common Application. |

# APPENDIX B

## Theoretical Background of Model Development

The formulation of this model is roughly grounded on concepts developed by Volkwein and Szelest. Their study of student loan defaults is based on four theoretical perspectives — 1) human capital and public subsidy, 2) borrower's ability to pay, 3) organizational structural/functional approaches, and 4) student-institution fit models from other literature. Each of these perspectives supports the choices of variables in our model that are influential to default behavior.

Brief descriptions of these perspectives are as follows. Human capital theory is based on the inherent value of a person's skills and knowledge and the theory relates acquisition of skills and knowledge to educational investment. Public subsidy theory states that low-income but capable students will benefit from the investment in education when the benefits of education exceed the cost of obtaining it. Borrower's ability to pay theory relates income levels of students and of parents to the borrower's ability to repay student loans. Organizational structural/functional approaches theory says that organizational characteristics exert influence on student choices and behavior including repayment of loans. Student institution fit models from other literature comprises many individual student traits to help explain repayment behavior. Volkwein and Szelest provide a more thorough explanation of these concepts.[26]

## Methodology of Model

Methodology of the default model consists of the steps to implement a mathematical representation of describing default patterns. These steps begin with obtaining the data and end with the realization of the model.

One of the model's advantages is the magnitude of the sample size. Models from nearly all other studies are based on sample sizes ranging in the hundreds to less than ten thousand. Often, the small sample sizes would represent a 'universe' of borrowers. TG's data files contain approximately three-quarters of the borrowers in Texas during the time period between April 1990 to the end of September 1991. Since we have approximately 170,000 observations and the data represent the majority of borrowers in Texas, this model should produce a more robust inference of the patterns of defaults.

Our first step in model formulation was to select possible characteristics of default and to perform cross-tabulations of characteristics that have a possibility of being associated with default behavior. Statistical significance of the relationship between default and each characteristic was tested by Chi-square in several different cohorts. Since this model is focused on predicting future borrowers who separate from institutions, we attempted to use characteristics at the time the borrower left school. However, enrollment status variables — whether a student withdrew from school, whether a student graduated, whether a student had less than half-time status, whether a student returned half or full-time, and whether a student had other statuses — were not available, so we used data available from November 1995. Some other variables were eliminated because of colinearity or unavailability of data. Table 5 contains the means and standard deviations for the selected variables.

Table 5 Means and Standard Deviations of Variables

| Variable | Mean | Standard Deviation |
|---|---|---|
| Default | .45 | .50 |
| Proprietary Business | .18 | .36 |
| Proprietary Cosmetology | .05 | .21 |
| Proprietary Trade | .26 | .44 |
| 2-Yr Public College | .10 | .30 |
| 2-Yr Private College | .002 | .04 |
| 4-Yr Private College | .12 | .32 |
| 1993 Cohort Default Rate (in 5s) | 4.1 | 2.8 |
| Average Estimated Cost of Attendance: | | |
| $4,000 - $7,000 | .38 | .48 |
| $7,000 - $10,000 | .34 | .47 |
| $10,000 - $14,000 | .16 | .37 |
| Over $14,000 | .04 | .20 |
| Type of Loan: | | |
| Unsubsidized only | .05 | .22 |
| PLUS only | .09 | .29 |
| Mix of loans | .07 | .27 |
| Grade level | 2.1 | 1.8 |
| 1990 household income (in 1,000s) in ZIP code | 12.5 | 5.6 |
| 1990 percent Afro-American in ZIP code ( in 10s ) | 1.4 | 2.1 |
| 1990 percent Hispanic in ZIP code ( in 10s) | 1.1 | 1.0 |
| Estimated Family Contribution ( in $1,000s) | 1.1 | 1.6 |
| Multiple originating lender | .14 | .35 |
| Deferment during Nov. 1991 | .07 | .25 |
| Age of borrower at time of repayment ( in 10s) | 2.7 | .74 |
| Debt: | | |
| 2-Yr College or proprietary (in $ 1,000s) | 2.0 | 2.4 |
| 4-Yr College (in $1,000s) | 2.7 | 5.1 |
| Average Estimated Financial Aid | | |
| $500 - $1,000 | .09 | .48 |
| $1,000 - $3,000 | .53 | .47 |
| $3,000 - $5,000 | .14 | .37 |
| Over $5,000 | .05 | .20 |
| Enrollment Status: | | |
| Withdrawn | .44 | .50 |
| Graduated | .39 | .49 |
| Less than half-time | .11 | .31 |
| Other status | .00 | .06 |

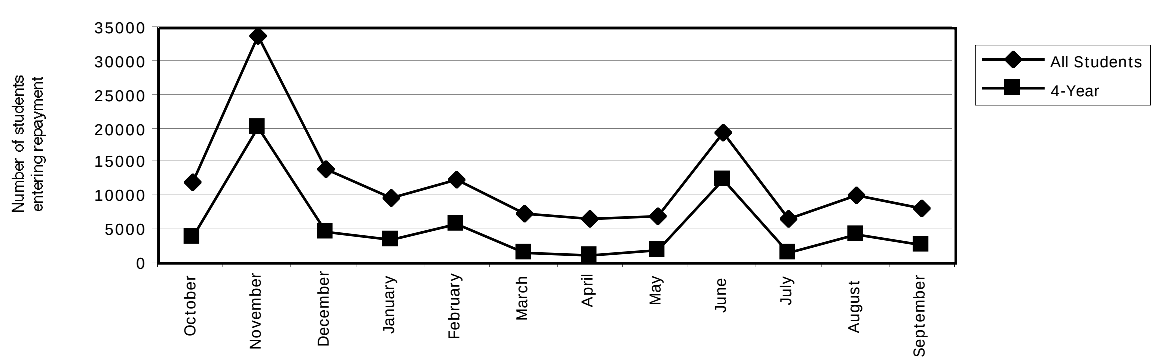
| | | |
|---|---|---|
| Region: | | |
| High Plains | .04 | .21 |
| Northwest Texas | .03 | .17 |
| Metroplex | .24 | .42 |
| Upper East Texas | .04 | .20 |
| Southeast Texas | .02 | .15 |
| Gulf Coast | .20 | .40 |
| South Texas | .20 | .40 |
| West Texas | .03 | .17 |
| Upper Rio Grande | .03 | .18 |
| Outside of Texas | .05 | .22 |

The following are technical details about the logistic regression model. Each observation represents a borrower. About 19 percent of the observations were eliminated due to missing values in explanatory variables. Continuous variables were plotted for linearity and were modeled as a continuous variable if the relationship between the characteristic and default was considered linear. If the continuous variable exhibited a non-linear pattern, then prediction by category was determined to best represent the relationship.

Some literature has emphasized the importance of race and income levels in determining default. Some variables are included in the model to represent these factors. U.S. Census tract data provides median income level and the percent share of both Afro-Americans and Hispanics within each borrower's ZIP code tract.

The choice of the April 1990 - September 1991 cohort was chosen to ensure uniform distribution of students between school-types. Most borrowers enter repayment in either November or June when four-year school students outnumber other entering repayers combined (See Figure 4).

Figure 4 Number of Students entering Repayment by Month in Fiscal Year 1991



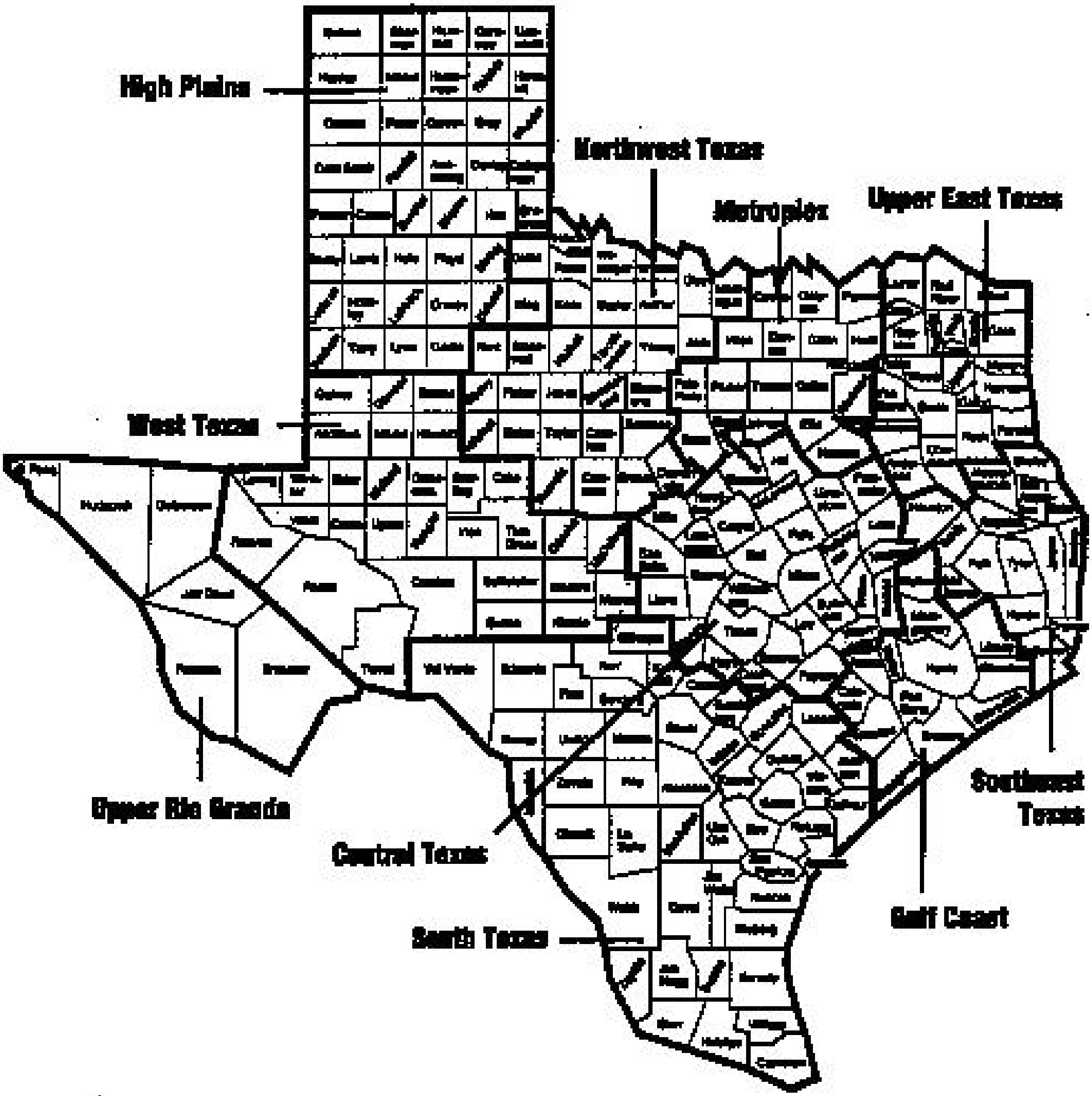
Some time-dependent explanatory variables are measured in November 1991. These variables are:

- Is there an underlying consolidation loan with the Stafford or PLUS loans?
- Does the borrower have multiple lenders?
- Is the loan deferred?

Another time-dependent explanatory variable was measured in November 1995, since we could not obtain the data for 1991. These variables are the enrollment statuses previously discussed in Table 11.

These variables are time-dependent since their effect on the model is dynamic with respect to the cohort time period. We take a 'snapshot' of these characteristics on either November 1991 or November 1995 in the model. For example, enrollment status is dynamic since it changes for a borrower as time progresses after the end of the cohort period. We consider variables such as type of school and location of student as more static, since these tend not to change for an observation over time.

## Appendix C — Texas Regions



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## Endnotes

1 For a complete list of recommendations and updates, see Appendix A.
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3 Joe McCormick, School or Scandal?, Texas Guaranteed Student Loan Corporation, Austin, TX, July 1989.
4 William J. Bennett, "Statement on Guaranteed Student Loan Defaults," U.S. Department of Education, press release, November 4, 1987.
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6 GAO, "Student Loans: Default Rates at Historically Black Colleges and Universities," U.S. General Accounting Office, January 1997.
7 GAO, "Proprietary Schools: Poorer Student Outcomes at Schools that Rely More on Federal Student Aid," U.S. General Accounting Office, June 1997.
8 Willford W. Wilms, et al., "Whose Fault is Default? A Student of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California," in Educational Evaluation and Policy Analysis, Spring 1987, Vol. 9, No. 1, pp. 41-54.
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10 Ibid.
11 Willford W. Wilms, et al., "Whose Fault is Default? A Study of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California."
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15 Willford W. Wilms, et al., "Whose Fault is Default? A Student of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California."
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17 J. Fredericks Volkwein, et al., "Characteristics of Student Loan Defaulters among Different Racial and Ethnic Groups," Boston, MA: AIR 1995 Annual Forum Paper. (ERIC Document Reproduction Service No. ED 386 972).
18 Kevin S. Gray, "Can Student Loan Default be Forecast Accurately?" in The Journal of Student Financial Aid, Vol. 15, No. 1, Winter, 1985, pp. 31-41.
19 J. Fredericks Volkwein, et al., "Characteristics of Student Loan Defaulters among Different Racial and Ethnic Groups."
20 Willford W. Wilms, et al., "Whose Fault is Default? A Student of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California," p. 49.
21 G.S. Becker. Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education. (3rd Ed.). Chicago & London: University of Chicago Press, 1993.
22 These numbers indicate the number of standard deviations change in default by one unit of standard deviation of each factor.
23 GAO, "Proprietary Schools: Poorer Student Outcomes at Schools That Rely More on Federal Student Aid," U.S. General Accounting Office, June 1997.
24 Laura L. Greene, "An Economic Analysis of Student Loan Default."
25 This borrower was then fired for being unable to lift heavy boxes.
26 J. Fredricks Volkwein, et al., "Characteristics of Student Loan Defaulters among Different Racial and Ethnic Groups," Boston, MA: AIR 1995 Annual Forum Paper. (ERIC Document Reproduction Service No. ED 386 972).