

Creating Consistency in Educational Finance: A Training Curriculum

Introduction

Students' success in managing their educational debt is optimized by the level and consistency of counseling they receive throughout their college experience. Postsecondary education administrators serve as important partners in ensuring that students are well informed about their rights and responsibilities with respect to their educational debts. While the student financial aid office has been the traditional lead office in assisting students on these matters, other campus administrators — from academic affairs to student affairs — also can have a meaningful impact on how well students understand their obligations as borrowers.

This module is intended to assist campus administrators (both in and outside the financial aid office) in gaining relevant and timely information regarding student loans and proven techniques for counseling students about their educational debts. The module includes insights on the respective roles of multiple entities that contribute to the student loan process. Furthermore, the module reviews the fundamentals of credit and debt management and provides key indicators about why students may inadequately manage their debt. The module also explains how loan defaults adversely impact both institutions and students.

Finally, the module builds on the premise that we are most effective in informing students about their educational debts when we employ exceptional customer service techniques. This module recommends customer service strategies and techniques designed to facilitate meaningful conversations with students.



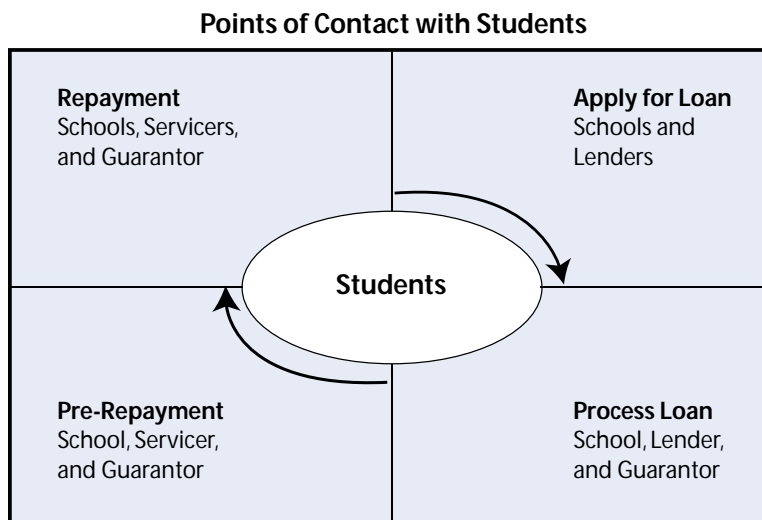
Learning objectives

At the end of this module, you will:

- Understand the role that lenders, servicers, guaranty agencies, and schools play in the student loan management process
- Learn the fundamentals of credit and debt management
- Understand cohort default rates and its implications on the campus and students
- Learn proven skills and techniques for providing exceptional customer service

Role of schools, lenders, servicers, and guarantors in loan management

This section presents an overview of the roles and responsibilities of each of the players in the student loan process. It is important that campus administrators understand when and how the institution and other players interact with students during each of the phases of the loan process. This knowledge will allow campus administrators to maximize their communications with students by reinforcing the messages about proper management of educational debts that students receive from the multiple players.



Note: Schools are a point of contact throughout the life of the loan

Role of the lender

The lender (bank, credit union, etc.) provides the capital for the student loan. Generally, students come into frequent contact with lenders. During the initial phase of the loan, students receive contact information from the lender and lenders collect information about the student, which is important to ensure successful communication between the lender and student throughout the remaining phases of the loan process. Also, before the student enters repayment, and if the lender sells the student's loan, lenders will inform students about the new holder and servicer of the loan. This information will help avoid confusion for students once the loan enters repayment.

When applying for a student loan through the Federal Family Education Loan Program (FFEL), students have a choice in lenders. To gain exposure to students, lenders generally employ different strategies to market their services on campus. The campus financial aid offices typically keep a list of "preferred" lenders that have a working relationship with the campus. Campus administrators should become familiar with the preferred lenders to ensure that students receive consistent information and guidance on selecting a lender.

Lenders and financial aid administrators are generally in close contact to address issues that may arise during the processing of student loans. Campus administrators outside the financial aid office are encouraged to coordinate with the financial aid office any contact with lenders to maximize the relationship between lenders and the institution.

Role of the servicer

A servicer is the entity that bills the student for payment and posts payments to the student's account, on behalf of the lender or loan holder. Some lenders service their own loan portfolio, so the servicer is not necessarily a different entity from the lender. In addition, servicers perform collection due diligence on delinquent accounts and other activities as required by federal regulations.

Throughout the life of the loan, the loan holder maintains contact with the student. Typically, lenders first notify students about who will service their loan at the time that the loan is originated, and then in some cases, periodically thereafter. Because college students move frequently during their college years, students sometimes do not get all correspondence and may lose touch with their loan servicer. In the event that students need to contact their servicer and are not sure where to call, they can either contact the financial aid office to verify this information, or they can go online at www.nslds.ed.gov to receive their own login ID to locate this information themselves.

Additionally, most servicers offer online account access to students and financial aid offices. This feature allows schools to view and check student account information, and it allows students to receive information at any time of the day or night. Students can also go online to find information about alternate student loan repayment options such as forbearances and deferments.

Role of the guaranty agency

The primary role of the guaranty agency is to administer the Federal Family Education Loan Program. The guaranty agency essentially guarantees student loans, enabling students to receive a loan under their name without a credit check. Without the existence of a guaranty agency, the student would have to rely on high-interest, private loans which require a credit history or a cosigner.

Guaranty agencies also provide financial aid and college awareness information to students and families. For lenders, schools and servicers, the guaranty agency provides loan management products, services and training. Most importantly, the guaranty agency plays a critical role in preventing student loan defaults by providing default aversion assistance to lenders. In fulfilling this role, guaranty agencies reinforce the counseling and guidance that campus administrators, lenders, and servicers provide to students.

Role of the campus financial aid office

In most cases, the financial aid office is the student's first contact when applying for student loans. While in college, students learn to rely on the advice of financial aid administrators to assist them and guide them in the student loan application process. Even after graduating from college, students generally contact the financial aid office before they contact the lender, servicer, or guaranty agency with questions regarding their student loans. Even students who do not graduate or who otherwise withdraw from school tend to contact the school when inquiring about their student loan.

Campus administrators in and outside the financial aid office are encouraged to educate students about the roles that each entity (lender, servicer, guaranty agency) plays in the student loan management process. Informing students about each entity's roles maximizes the student's ability to be in contact with the organization that can provide the most appropriate guidance and assistance in properly managing their student loan debt.

In addition, although the financial aid office is responsible for processing financial aid for students, other offices on campus should stay abreast of changes in policies and legislation affecting student financial aid. For instance, adjustments to loan limits at the federal level can have a direct impact on whether students can keep up with increasing college costs and thus continue their studies. To help students succeed in managing their educational debt while in school and once they leave campus, campus administrators should counsel students about proper debt management.

Fundamentals of credit and debt management

A student's understanding of the fundamentals of credit and debt management is critical to his or her successful repayment of education debts. Many college students do not have a thorough understanding of the damaging effects that large amounts of debt can have on their lives. Campus administrators have the responsibility to educate students about the serious consequences that living beyond their financial means can have on their lifestyle once they graduate. For instance, administrators are encouraged to teach students to be realistic about expected income levels for students graduating from a particular program of study. Also, students should become aware of the expenses associated with the cost of living upon graduation and the debt obligations that must be honored.

Understanding the importance of good credit history

It is important that students understand the reasons why they should build a strong credit history. Students should understand what a credit report is and how it can be used by others to make decisions about them. Students should realize the significance of interest rates and how they impact credit card balances. Campus administrators may counsel students using the following explanation about significant aspects of proper credit and debt management.

Understanding the impacts of credit history

- For college students without prior credit history, a student loan and/or credit card sometimes compose the only credit history that students will have on their credit report when they graduate. If managed properly, their payment history on such debts will help them make larger purchases that require proof of successful repayment.
- A positive credit history can be a great asset. Many employers can access it to find out about an individual's character.
- Having a good credit history will make it a lot easier (and less expensive) to buy a car or house. Good credit can mean lower interest rates.

Facts about credit reports and scores

- FICO (Fair Isaac and Company) scores make up an individual's credit rating and are widely used by lenders to approve loans. Individuals have three FICO scores, one for each credit bureau (e.g., Experian, TransUnion, and Equifax).
- A score is a snapshot of an individual's credit risk at a particular point in time.
- The credit score influences the credit that is available to an individual, and the terms (interest rate) that lenders will offer.
- The higher the score, the lower the risk for the lender.
- Each lender has its own strategy, including the level of risk it finds acceptable for a given credit product.
- There is no single "cutoff score" used by all lenders.
- Lenders may consider other items when making a credit decision, including income, length of employment at present job, and type of credit being requested.

-
- The credit score considers both positive and negative information about the individual's credit history. Late payments will lower the score, but establishing or re-establishing a good track record of making payments on time will raise the score.
 - The credit score takes into account five percentage factors that include:
 1. Payment history – 35 percent
 2. Amounts owed – 30 percent
 3. Length of credit history – 15 percent
 4. New credit – 10 percent
 5. Types of credit in use – 10 percent

Tips for raising credit history scores

- Keep balances low on credit cards and other revolving credit.
- Pay off debt rather than moving it around. Owning the same amount but having few open accounts may lower the score.
- Don't close unused credit cards as a short term strategy to raise the score.
- Don't open a number of new credit cards that you don't need, just to increase available credit. This approach could backfire and actually lower the score.

Additional tips

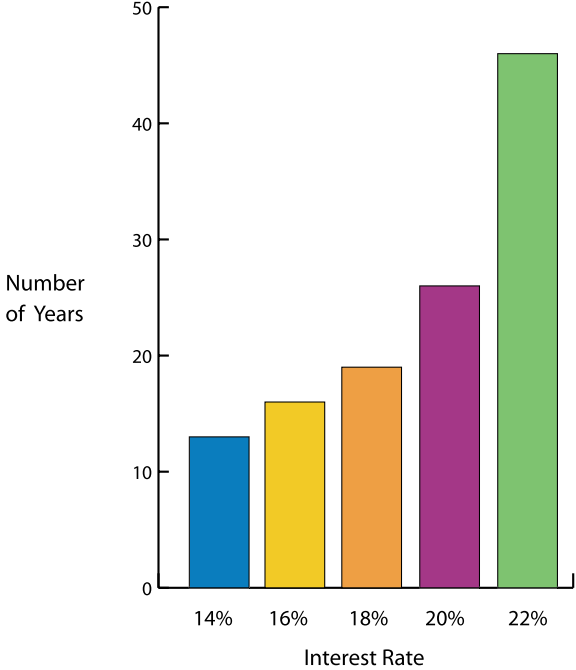
- Review a credit report from each credit reporting agency at least once a year and especially before making a large purchase, like a house or car.
- To request a copy, contact the credit reporting agencies directly:
 - Equifax (800) 685-1111, www.Equifax.com
 - Experian: (888) 397-3742, www.Experian.com
 - TransUnion: (800) 888-4213, www.transunion.com
- Individuals who are turned down for credit have the right to obtain the reason for the rejection within 30 days under the Equal Credit Opportunity Act (ECOA). Also, a free copy of the credit bureau's report can be obtained within 60 days.

The cost of credit

High interest and small payments can keep individuals in debt for years. Credit is not free money. An average daily balance of \$5,000 on a credit card charging 18 percent interest, can amount to \$900 a year in interest charges. Furthermore, an average daily balance of \$5,000 on a credit card charging 22 percent interest can amount to \$1,100 a year in interest.

Example: Timeframe for paying off \$1,000

Following is an example of how long it can take to pay off \$1,000 when paying the 2 percent minimum monthly payment at select interest rates:



Understanding and calculating your debt rate

The debt rate is the percentage of take home pay that goes to paying debts. On average, most Americans have a debt rate of approximately 12 percent.

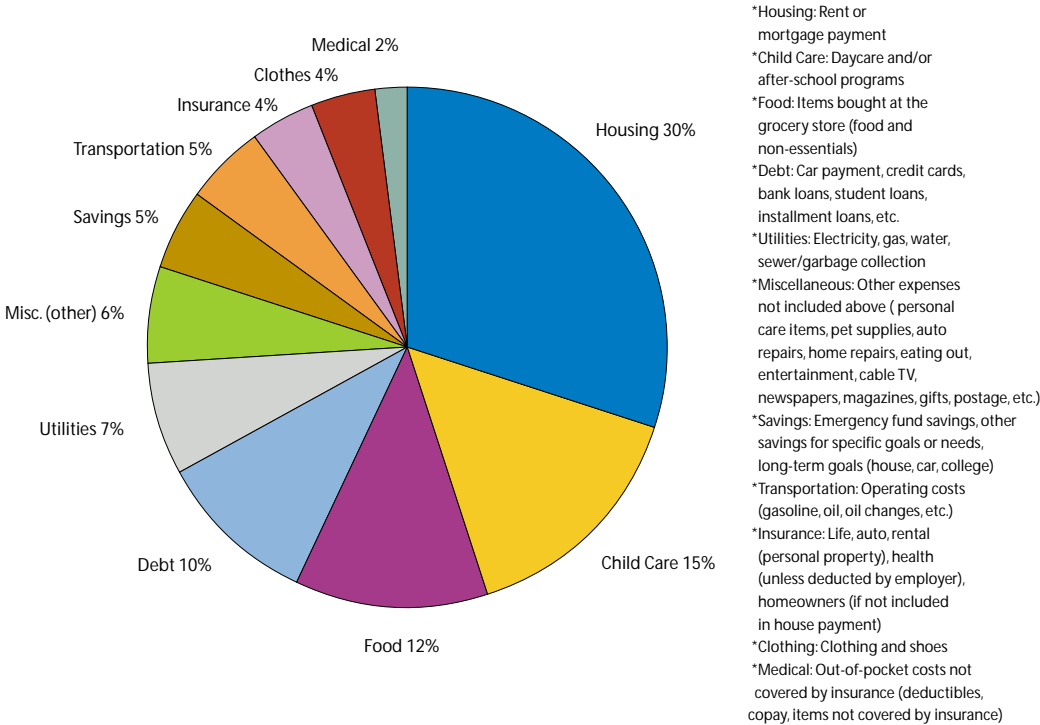
The first step in measuring your debt is to list all your debts including auto loans, school loans, personal loans, time-payment loans, and credit cards. Do not enter your mortgage or rent. Then, enter your average monthly payment for each account. Finally add up the payments.

Example:

Student loan	\$300
My credit card	\$100
Car payment	\$250
Total monthly debt payments	\$650
<hr/>	
Monthly take-home pay	\$3,000
Total monthly debt	\$650

Divide your monthly take-home pay by your total monthly debt to calculate your debt rate: $\$650 / 3000 = 22\%$

The average American family's take-home income should be allocated close to the following breakdown each month:



A federal student loan is a better option for students needing to finance educational expenses.

Typically, students will seek to finance their educational expenses through different types of educational debt. In general, the federal student loan programs provide the best option, in terms of interest rates and repayment options, available to students. In counseling students, campus administrators should encourage student to seek federal student loans before seeking other forms of educational debt. A brief description of the federal student loans follows:

Subsidized Federal Stafford Loans – These loans allow the federal government to pay the interest on the loan while the student is attending school, during grace periods and deferments.

Unsubsidized Federal Stafford Loans – The borrower is responsible for paying all the interest that accrues during school, grace and deferment periods. Unsubsidized Stafford Loans are available to dependent and independent students who do not qualify for Subsidized Stafford Loans.

Federal PLUS (Parent) Loans – The borrower is the parent, who is responsible for paying all the interest that accrues.

More expensive loan options

- Credit Cards – Credit card companies do not offer deferment benefits and are also more expensive in the long run because of high interest rates charged.
- Alternative (private) student loans – Alternative student loans, also called private student loans, should be used as a last resort. Students are encouraged to apply for federal student loans before considering an alternative student loan. These loans typically offer higher interest rates than those offered by the federal student loans. Additionally, alternative student loans are based on credit and borrowers must generally meet the following eligibility requirements:
 - Be an undergraduate student enrolled in a degree or certificate program
 - Be enrolled at least half-time as defined by the school
 - Provide proof of enrollment
 - Meet credit requirements
 - Have a satisfactory credit, residence and employment history of at least two years
 - Have proof of current income
 - Be a U.S. citizen or permanent resident and have resided in the U.S. for the previous two years, or be an international student with a qualified credit-worthy U.S. citizen or permanent resident co-signer

Student loan cohort default rates and implications for the campus and students

A critical step in managing student loan defaults is to ensure that all campus administrators understand what a cohort default rate is and how it can affect the school and its students. Traditionally, campus administration has charged financial aid administrators with all matters regarding student aid. However, it is important that all campus administrators understand that relatively high cohort default rates can affect an institution's participation in the federal student loan programs. Because students are highly dependent on student loans to help pay for their educational expenses, institutions at risk of losing eligibility to participate in these programs may jeopardize their future student enrollments.

Institutions with excessive cohort default rates face sanctions when the rate exceeds 25 percent for three consecutive years. Additionally, institutions are subject to greater scrutiny when this occurs. For instance, a high default rate can trigger a program review from the guarantor and/or the U.S. Department of Education.

Summarized below is an explanation of how cohort default rates are calculated.

Note: Although cohort default rates are based on a two-year assessment period, it is important to understand that default prevention efforts should not exclusively concentrate on this two-year assessment period, but expand beyond this timeframe.

Cohort period definition

Cohort Year	Repayment Dates	Calculation Date
FY 2003	10/01/2002-09/30/2003 This includes borrowers who left school from 04/01/2002-03/31/2003.	09/30/2004
FY 2002	10/01/2001-09/30/2002 This includes borrowers who left school from 04/01/2001-03/31/2002.	09/30/2003
FY 2001	10/01/2000-09/30/2001 This includes borrowers who left school from 04/01/2000-03/31/2001.	09/30/2002
FY 2000	10/01/1999-09/30/2000 This includes borrowers who left school from 04/01/1999-03/31/2000.	09/30/2001

As a general rule, the repayment date equals the out-of-school date plus 180 days (6 months' grace).

Calculating the cohort default rate

Numerator / Denominator = _____ percent

Numerator – The number of borrowers entering repayment in the cohort fiscal year as defined above and who defaulted before the calculation date.

Denominator – The number of borrowers who entered repayment in the cohort fiscal year as defined above.

Example:

ABC School had 120 borrowers entering repayment between 10/01/2000 and 09/30/2001. Of the 120 borrowers entering repayment, 20 borrowers defaulted between 10/01/2000 and 09/30/2002.

FY 2001: $20/120 = 16.7$ percent

Customer service skills

Campus administrators who practice good customer service skills will be increasingly successful in reaching out to college students and having an impact on how well students learn to manage their educational debts. Students come into contact with various offices on campus every day, giving campus administrators an opportunity to exchange information about proper debt management. If customer service skills are applied correctly, campus administrators can have a significant impact on students' understanding of their debt obligations. Whether communicating in-person or by telephone, it is important to be mindful of the manner in which administrators communicate with students.

The following are key principles that campus administrators can employ when communicating with students. Applying these techniques in all communications with the student can facilitate meaningful conversations with the student regarding his or her educational debts.

Keys to customer service

- Go above and beyond as an advocate for each student. If you do not know the answer to a question, find someone else who can help.
- Listen actively and empathize with genuine concern. Discussing financial matters can be difficult for many students, therefore avoid embarrassing or scolding students for bad decisions.
- Deliver accurate and complete information. If you are not directly involved with student financial aid, take the initiative to learn more about the services offered so that you, too, can help students with good information.
- Maintain a positive, service-oriented attitude. The student should never be an inconvenience. Students should be treated with respect and taken seriously.
- Serve with a unified voice. Be a team player and refrain from blaming others on campus for misinformation.

Customer service is good business

Numerous resources on customer service exist for businesses and corporations. And keeping college students satisfied with services at the institution is just as important as providing good customer service in a business. Many of the customer service principles in business are applicable to institutions of higher education. Without students, campuses would not exist. Furthermore, students unhappy with a campus environment can have a significant impact on enrollment, retention, and graduation rates. In turn, this can mean fewer students on campus, which translates into less revenue for the institution. Taking it even further, fewer students graduating means fewer alumni contributions to the institution. Therefore, it is important for campus administrators to treat students with courtesy and respect in all communications.

Practicing proper telephone etiquette

Communicating with students over the telephone is not always easy. Several techniques that should be followed when communicating with students over the telephone include the following:

- Avoid background noise, including radios, newspapers and other distractions.
- Speak warmly and with a pleasant tone.
- Be sure not to use jargon, interoffice codes, and abbreviations when speaking with the student. A good rule to follow is that if someone you know outside the office wouldn't understand it, don't use it with a student.
- Always be sure to ask the student if it's alright to place him or her on hold, and don't leave the student on hold for an extended period of time. Be sure to check back and provide a progress report every 30-40 seconds.
- When transferring a student, explain the reason for the transfer and let them know who you will be transferring them to. Make sure you know the transfer instructions for the telephone system you are using so you don't disconnect the student.
- Keep your voicemail message professional and up-to-date. A student may call during hours you are not in the office. Your outgoing message should provide the student with pertinent information before he or she is prompted to leave a message.
- Be patient, stay cool and collected under pressure, or when facing an irate student. Your ability to stay calm reflects positively on the institution.

-
- When receiving calls for someone else who isn't available, be sure to offer assistance. However, avoid making commitments for others. Say, "I'll give him your message when he returns," rather than, "He will call you as soon as he returns."
 - Take accurate and detailed messages. Be sure they are legible and include the date, time, and the best time to reach the student.
 - When documenting information, be sure to obtain the correct information from the student. This includes the caller's name and spelling. Also be sure to repeat the information you are receiving back to the student to assure accuracy.

Exercising effective listening skills

Developing effective listening skills helps you be more productive and efficient. It shows students that you are serious about helping them, and it fulfills their need to be heard. Additional tips for effective listening are provided below:

- Try not to formulate questions or remarks while listening to a student, as this will distract you.
- Be sure to listen to what the student is saying, rather than listening for what you want to hear.
- Try to think like the student. His/her needs are important. Limit your own talking and concentrate on what he or she is saying.
- Don't interrupt, and do take notes during the conversation. This will help you remember important points.
- Ask the student questions if you feel you have missed important information. Be sure to react to ideas, rather than to the person you are speaking with. Ask focusing questions.
- Recognize when you are not using effective listening skills. For example, you may find yourself doing unrelated projects while talking to a student, making assumptions about the problem, and tuning out, or daydreaming while he or she is speaking.

Learning how to properly ask questions

In some cases, the student may not know how exactly to ask a question. Always keep this in mind, and help the student ask what he or she really wants to know by using the following probing techniques:

- Use both open- and closed-ended questions. Open-ended questions usually start with words like **how** or **what**. They are used to get a person to give more information.
- Avoid using questions that start with **why** because it may put the student on the defensive.
- Closed-ended questions can be answered with yes, no, or a short answer. They are used to get specific information and often start with words such as **when**.