



One Thing 100% of Schools Should Care About: Tending to Your Default Rate

Paul Mittelhammer



Financial Aid Overview

Current National Trends

Factors related to increased default rates:

- More borrowers
- Greater amounts borrowed
- Lower income-earning potential
- Higher default rates
- Shift to 3-year calculation of default rate
- Misunderstood repayment options



How big is the problem?

\$1.2 trillion in education loans*

\$1.08 trillion in federal education loans*

About 39 million individuals hold outstanding student loan debt**

People younger than thirty owe \$322 billion**

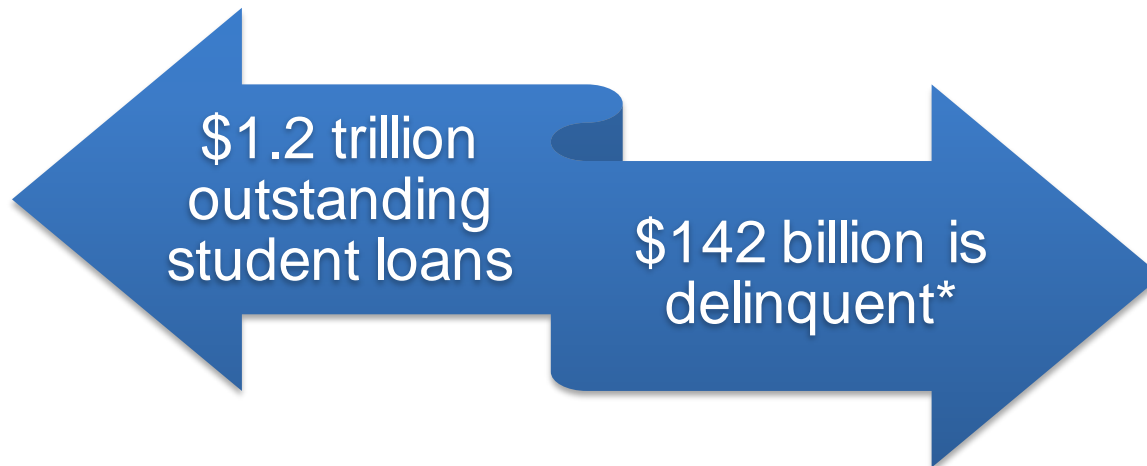
* Source: Federal Reserve Bank of New York Consumer Credit Panel/Equifax

**Source: Federal Reserve Bank of New York, Household Debt and Credit Q4, 2013



Student Loans in Default

How much money are we talking about?

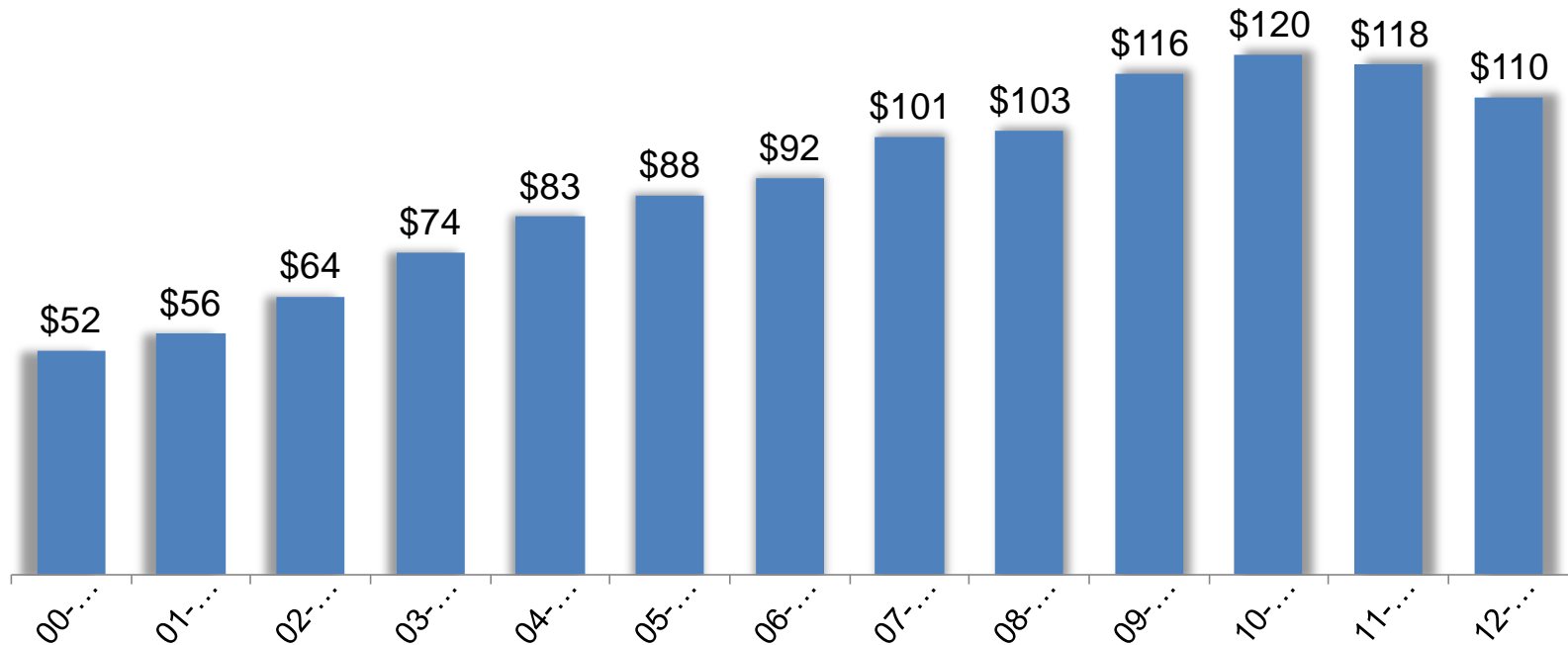


*Source: Federal Reserve Bank of New York, Household Debt and Credit Q4, 2013



Trends in Student Borrowing

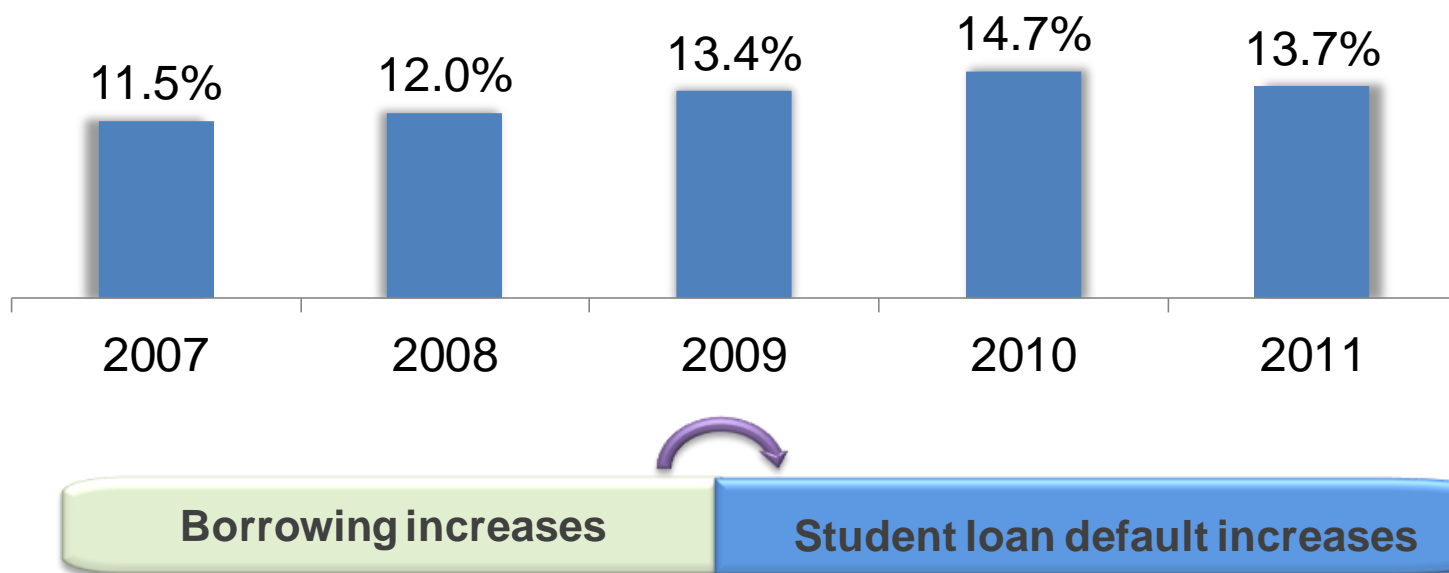
Amount of Loans (in Billions)





Trends in National Default Rates

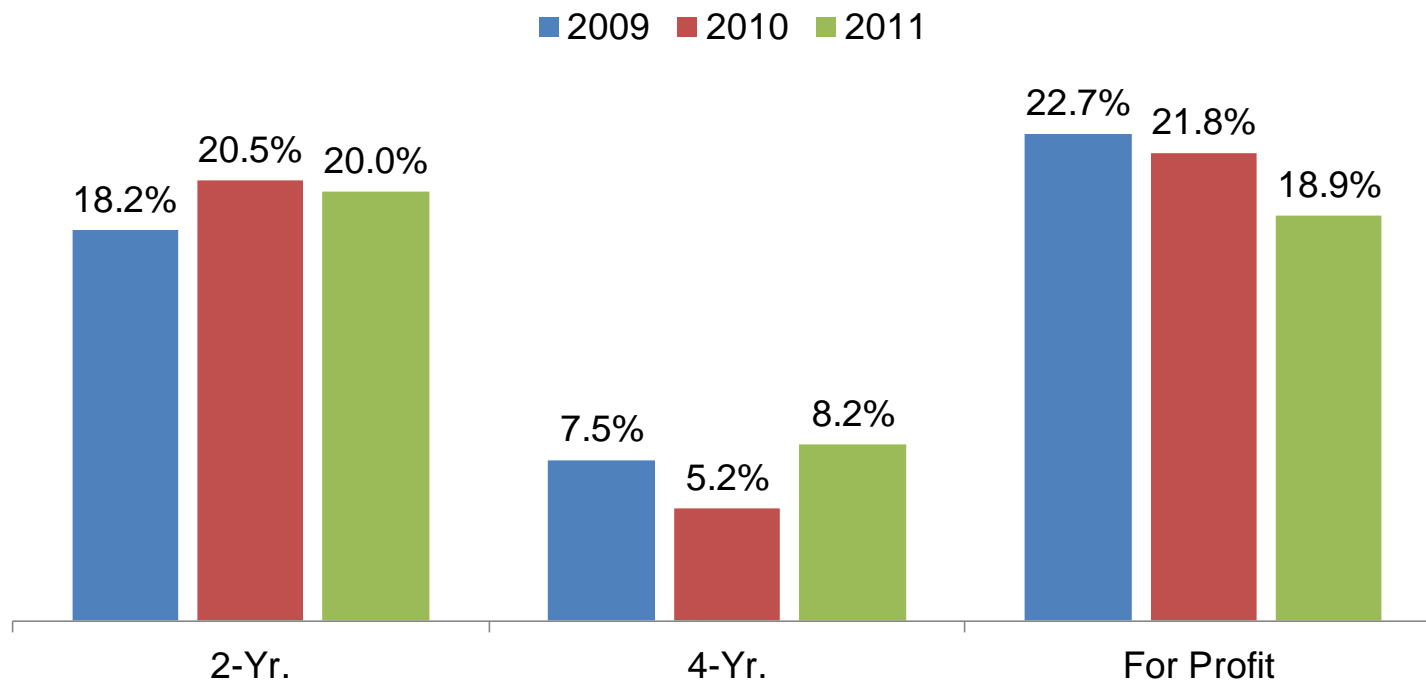
National 3-Year Cohort Default Rate*



*Includes US, foreign and US Territories



Cohort Default Data by School Type

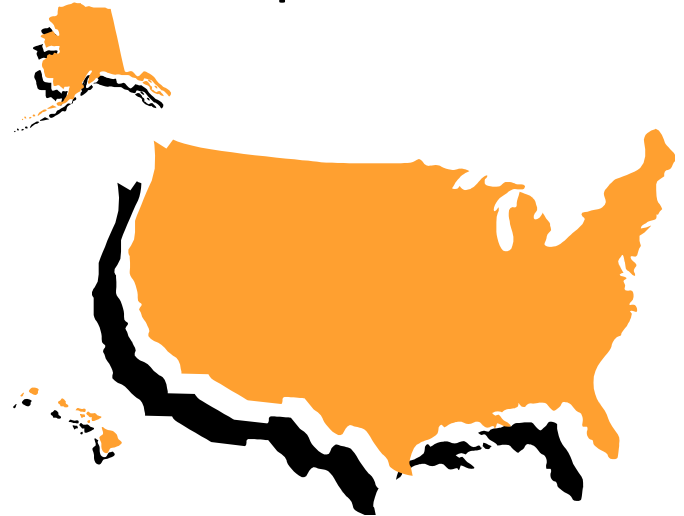




Impact of Loan Default

The impact of student loan default is widespread.

- National
- Region
- State
- Community
- Schools
- Individual Programs





Impact on Students

- Unmanageable amount of long term debt
 - Fees
 - Interest
 - Collection cost
- Not eligible for Title IV aid
 - Loss of Pell Grant & Loans
- Degree completion on hold
- Credit Rating
- Decreased ability to buy homes, cars, etc.





Costs to an Institution

- Lost revenue
- Regulatory sanctions
 - Title IV eligibility
 - Single-term disbursements
 - First-time borrower disbursement delay
- Reputation
- Decreased Alumni giving



Sanctions	
30% CDR for one year	Submission of mandatory default aversion plan
30% CDR for second consecutive year	Submission of an additional mandatory default aversion plan
30% CDR for third year or 40% for any one year	Sanctions and possible loss of eligibility to disburse federal funds
Incentives	
15% CDR for three years	Ability to disburse loan funds without 30 day waiting period



Cohort Default Rates

What is a cohort?

- Group of borrowers who entered repayment in a Fiscal Year*

How is the default rate calculated?

- Borrowers entering repayment in a Fiscal Year are tracked over three years to determine if they meet their loan repayment obligations or not.

* Federal Fiscal Year: Oct. 1 – Sept. 30



What is a Cohort?

- A group, similar set of characteristics
- Included loans: Stafford

Subsidized

Unsubsidized





The Equation

**Borrowers in the cohort who default
within cohort default 3 year period**

(Numerator)

X 100 = CDR

**Cohort of federal student loan
borrowers who enter repayment
during cohort fiscal year**

(Denominator)



2-year rate formula

October 1, 2011

September 30, 2012

September 30, 2013

Enter Repayment

Track Default Status

This is an example of what Cohort year?



3-year rate formula

October 1, 2011

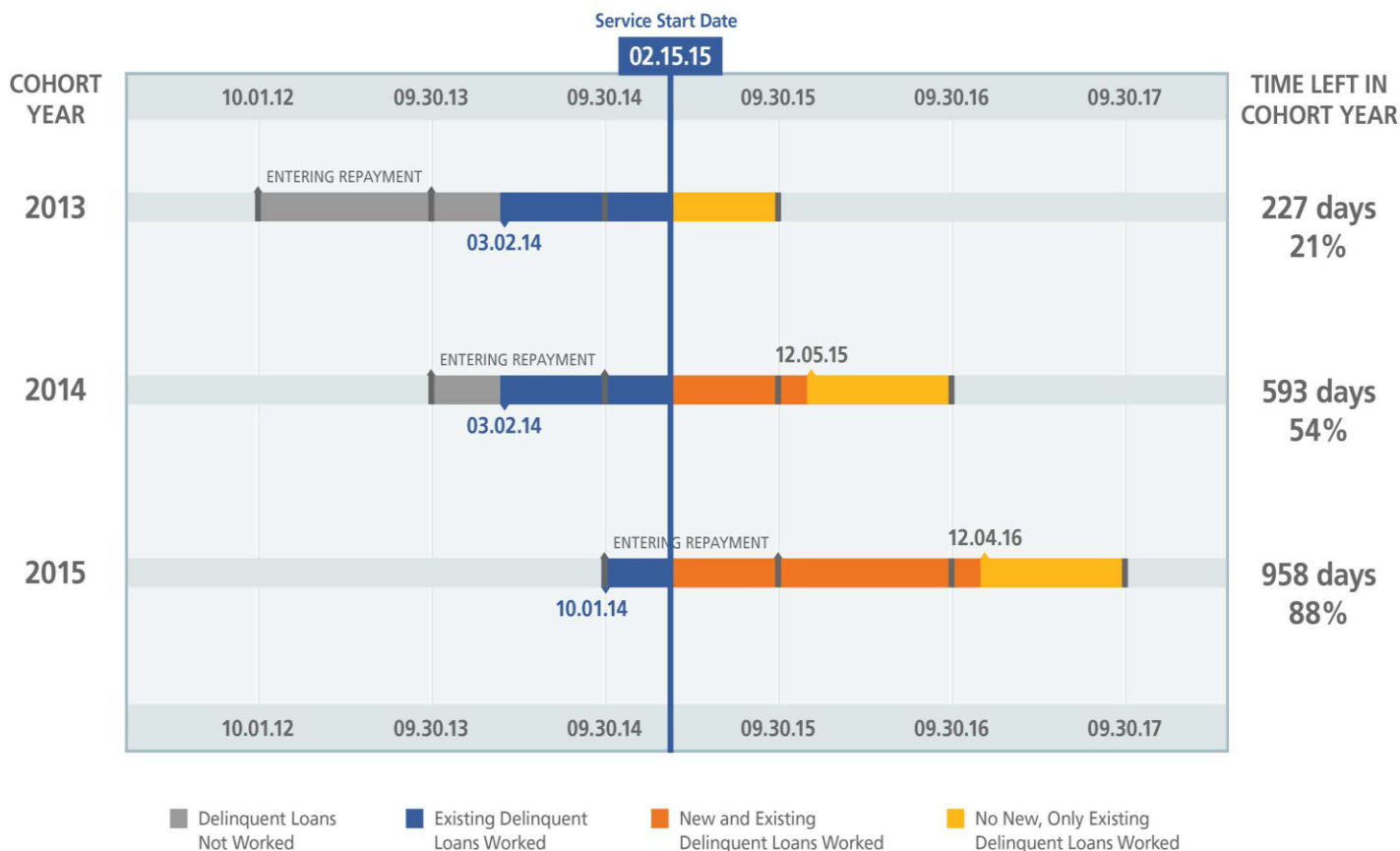
September 30, 2012

September 30, 2013

September 30, 2014

Enter Repayment

Track Default Status





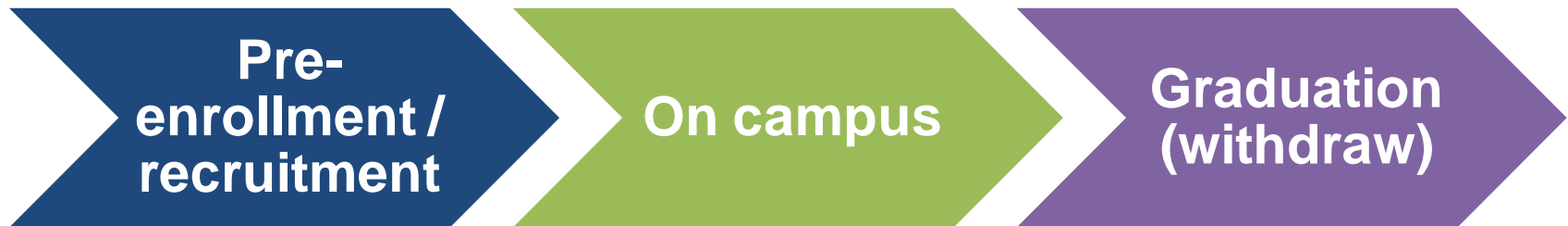
Attacking The Problem



Assembling a Default Aversion Team



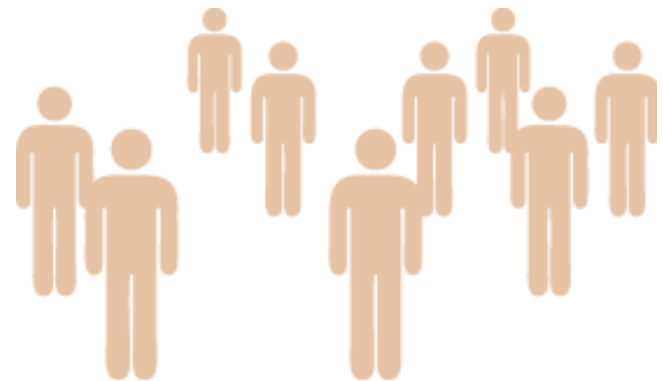
Creating an Effective Team





Creating an Effective Team

- Get buy-in from campus leadership
- Represent all parts of the institution (including management) which can contribute to default risk reduction activities





Activities for your Team

Study your student population

Build on activities already in existence

Discuss current strategies

Make sure your communication and materials are current

Create clear and precise procedures with a timeline for appropriate actions



Examine and Understand Borrower and Student Characteristics



Analyze the Data

- Understand the factors that:
 - Impede student success
 - Contribute to loan default





Common Data Points - Defaulters

- Completion
- First generation
- Remediation
- Major or course of study
- Number of terms completed
- Financial need



Common Data Points – Success

- Higher high school GPA
- Higher ACT scores
- Have a career goal in mind
- Campus engagement
 - Activities
 - Living arrangements



Reports

Report	Description
School Portfolio Report (SCHPR1)	Provides school users with information about all Direct Loan and/or FFEL program loans for a specified school
Delinquent Borrower Report (DELQ01)	Provides school users a report of borrowers who have been reported as delinquent in making loan payments to one of the federal loan servicers
Cohort Default Rate History Report (DRC035)	The Cohort History Rate Report (SHCDREOP) provides school users a report of borrowers who have entered repayment within the designated cohort year and those who have defaulted.
School Specific Information	Demographic information on your student borrowers that can be found on your schools information system



DEFAULT PREVENTION AND MANAGEMENT PLAN



Solutions

Default Prevention Plan

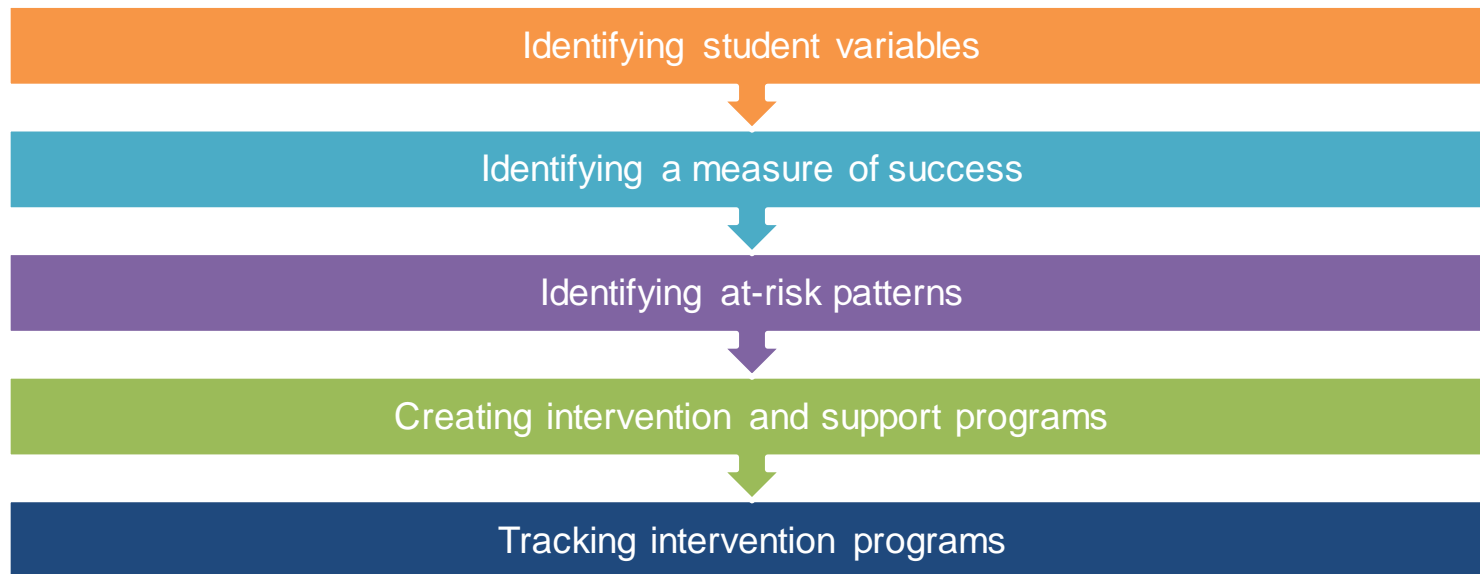
Basic Elements:

- I. Periodic review of data
 - a. Analyze defaulted loan data to identify defaulter characteristics
- II. Early stages of enrollment
 - a. Early identification and counseling for students at risk
 - b. Financial literacy education for borrowers
- III. Late stages of enrollment
 - a. Exit counseling
- IV. After students leave school
 - a. Early Stage Delinquency Assistance (ESDA)
 - b. Late Stage Delinquency Assistance (LSDA)



Creating a Process

We study the past to predict the future.





How can you help the student?

- Analysis of data
- Provide Financial Education Programming
- Monitor student progress in school
- Watch the warning signs
- Loan repayment counseling
- Build a plan to measure results





Financial Education



Balancing

The value of education and the reality of debt management



Questions?





Paul Mittelhammer

Vice President



404.929.0251



paulm@inceptia.org



Inceptia.org

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