



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

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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

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Student Loans in Default

How much money are we talking about?



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

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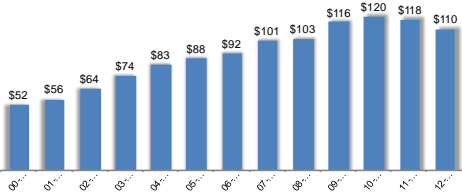
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Trends in Student Borrowing

Amount of Loans (in Billions)



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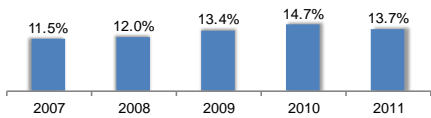
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Trends in National Default Rates

National 3-Year Cohort Default Rate*



*Includes US, foreign and US Territories

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What is a Cohort?

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

Subsidized

Unsubsidized



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The Equation

**Borrowers in the cohort who default
within cohort default 3 year period**
(Numerator)

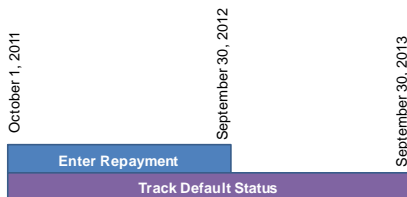
$\times 100 = \text{CDR}$

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

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2-year rate formula



This is an example of what Cohort year?

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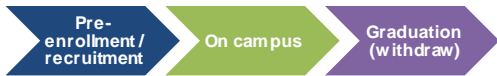


Assembling a Default Aversion Team

19



Creating an Effective Team



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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



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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

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Examine and Understand Borrower and Student Characteristics

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Analyze the Data

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



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DEFAULT PREVENTION AND MANAGEMENT PLAN

28



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)

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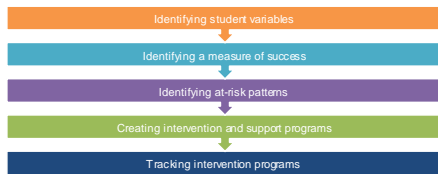
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Creating a Process

We study the past to predict the future.



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Questions?



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Seven horizontal lines for taking notes.



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Seven horizontal lines for taking notes.