


Lower Your CDR: Cohort Default Management-Best Practices


Think About Tomorrow®

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Session Highlights


- Cohort Default Rate (CDR)
 - What is it?
 - How is it calculated?
- Determine Your Maximum Risk CDR
- Determine Your At Risk Borrower Population
- Default Management
 - What to do
 - When to do it
 - Best practices
- Working With Your Partners



Cohort Default Rate Definition

In any fiscal year in which 30 or more current and former students enter repayment, on applicable FFEL or DL loans received for attendance at the school, the percentage of those borrowers who default before the end of the second fiscal year following the fiscal year in which the borrower entered repayment.


Total of a three year period now.



How the CDR is Calculated


$$\frac{\text{Number of student loan borrowers who entered repayment during a specific fiscal year and have entered default within the same or following two fiscal years}}{\text{Number of student borrowers who entered repayment during the initial or specified fiscal year}} \times 100$$

Note: this formula is for schools with thirty or more student borrowers who entered repayment.



When Does the Borrower Default?

- For cohort default rate purposes, a FFEL loan is considered to be in default only if the guaranty agency has paid a default claim to the lender holding the loan. The claim paid date, which is the date the guaranty agency reimburses the lender for the defaulted loan, is used to determine if the borrower will be placed in the numerator of the calculation. If the claim paid date falls within the cohort default period, the borrower is included in both the denominator and numerator of the cohort default rate calculation.
- For cohort default rate purposes, a Direct Loan is considered to be in default after 360 days of delinquency (or after 270 days if the borrower's first day of delinquency was before October 7, 1998). If the default date falls within the cohort default period, the borrower will be included in both the denominator and the numerator of the cohort default rate calculation.



Determining Target CDR And At Risk Population.



Determine Your Target CDR

Once you determine the target CDR for your institution, how do you find the maximum number of defaults allowed to keep you at that rate?



Maximum Number of Defaults Allowed

Target cohort default rate:	4%
Number of borrowers who entered repayment between 10-01-05 and 9-30-06:	5,000
Maximum number of defaults allowed:	200
Increase in 2006 cohort default rate for every borrower who defaults during the cohort period:	0.02%

Projecting Your CDR

Default Rate Projection

Cohort Fiscal Year (CFY) 2006

Cohort Default Rate Elements

Borrowers who entered repayment in CFY 2006 and already in default	A	110
Borrowers who entered repayment in CFY 2006 and are \geq 320 days delinquent	B	60
Borrowers who entered repayment in CFY 2006	C	5,000

Cohort Default Rate (CDR) Calculations

Current CDR based on actual defaults	A/C	2.2%
Projected increase in CDR assuming all borrowers \geq 320 days delinquent default	B/C	1.2%
Projected CDR based on actual defaults and current delinquencies \geq 320 days	(A+B)/C	3.4%

At Risk Population

What types of student loan borrowers are considered at risk?

- ✓ Withdrawn students
- ✓ Borrowers for whom you have received return mail (for any type of mailing)
- ✓ Borrowers who have missed their first payment
- ✓ Borrowers who did not complete the exit interview or any other action "required" by your institution



Identifying Your At Risk Population

Work with your partners to insure that you have reports that list your institution's student loan borrowers.

- ❖ All student loans at each stage of delinquency
- ❖ If you have limited time and/or resources, track only those that are in your cohort population
- ❖ All student loans at the point of pre-claim

Your guarantor and servicer should be able to provide you with this information.

Now that you have this information...what do you do with it?



Default Management



Why Do You Want To Manage Your Defaults?

- To assist the student loan borrower.
- To insure future Title IV fund availability to your students.
- To be eligible for loan disbursement waivers and exceptions.
- To insure future receipt of other federal monies (academic grants, research monies, etc).
- It is your fiscal and regulatory responsibility.
- To insure that you are not in a position to be mandated to use a default management plan by the Department.



Can You Make A Difference?

It has been proven in many studies and surveys that the effort a school puts forth in educating and assisting the student loan borrower has a direct and important impact.

As the school, you are the trusted agent from a student loan borrower's perspective.



Best Practices and Proven Impact Activities

- Early education with the student loan borrower
- Continued information and education as long as the student is enrolled
- Early skip-trace efforts
- Active involvement with students that have withdrawn or are delinquent
- Use of policies that mandate collection of information
- Collection of additional information from the student loan borrower by the school (mandated)
- Staying informed as to what your partners are doing
- Choosing partners whose mission is aligned with yours



Early Education Activities

- Work with your institutional partners—make it count!!
- When you have a regulation-based activity—like entrance and exit interviews—use a mandate to insure that it occurs.
- Utilize the activity to gather as much information as you can.
 - Supplemental information sheets (references)
 - Individual or group discussion/meetings
 - Detailed fact sheets about every loan program you have
 - Informational materials for the student loan borrower about repayment and financial literacy
 - Financial literacy programs



Continuous Information and Education

- Take every opportunity to get information to your student loan borrowers, not just at the time of entrance and exit interviews.
- Make sure that the borrower clearly understands what types of loans they have and who they will have to pay.
- Make sure the borrower understands their responsibility.
- Survey your borrowers to find out how prepared they feel for repayment, and then develop ways to help them.
- Work with your institutional partners (BO) who have responsibility for the other loan programs (this is critical).



Early Skip-Trace Efforts

- If a borrower withdraws, do your best to make sure you know how to contact them.
- As soon as the school receives returned mail—for any reason—begin skip-tracing activities.
- Use your supplemental information sheets to obtain reference, relative, and employment information to use in skip-tracing.
- Send default management mailings to the borrower during grace periods and during repayment (three purposes: education, to keep the school present to the borrower, and potential skip-tracing).



Withdrawn Students & Delinquent Borrowers

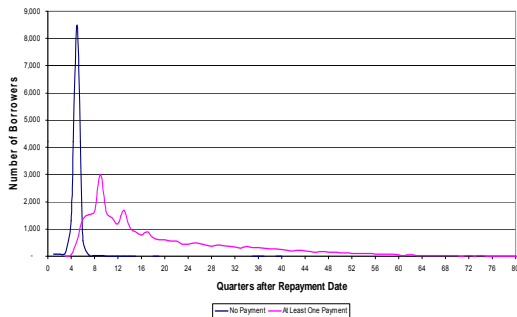
Students that withdraw before completing their program of study, and student loan borrowers that first become delinquent are your two highest risk categories within your Cohort population.

- ➔ Focus your default management efforts on these two groups of student loan borrowers.

This is the most effective strategy in terms of resources and results.



Figure 7a: Timing of Defaults of All Borrowers



Policies That Mandate Collection Of Information

- Many schools have policies that mandate collection of information or regulatory requirements.
- Often it done through the office that has responsibility for collection of monies owed to the institution.
- If a borrower does not provide the required information when they are a student, there is a much higher likelihood of delinquency and default.
- Because of the higher risk with these students—education and information becomes critical.
- Work with your partner offices to develop and/or utilize the best policy for default management.



Collection of Additional Information

It is imperative that a school collect information from a student loan borrower that can assist both the school and its partners in default aversion and management.

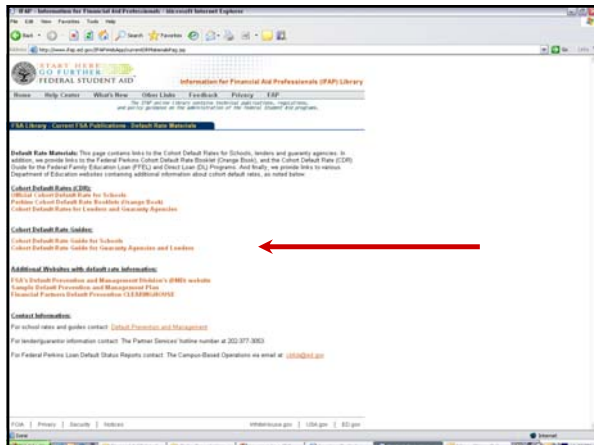
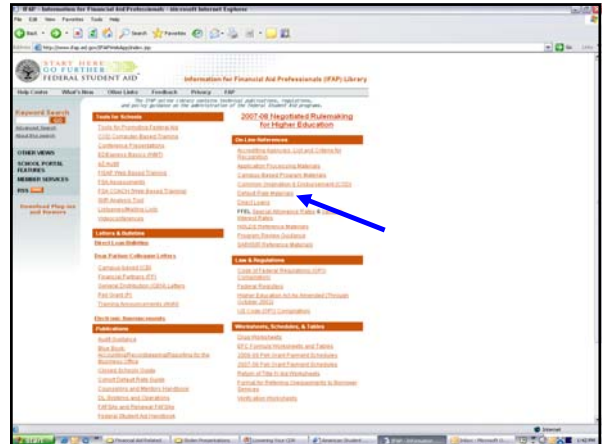
- Address—both current and permanent
- Parent and grandparent names, address, phone numbers
- Employment information—student and parent
- References, at least three to five—each year if possible
- Listing of other institutions where the borrower has received a student loan, and what type



What Are Your Partners Doing?


- Find out what your lenders, servicers, and guaranty agencies are doing in terms of student loan borrower education and default management.
- Each entity has regulatory requirements—it varies a great deal in terms of what is required and also the effort that each puts forth.
- School can coordinate its activities with those of their partners.
- Find out what types of “scripting” your partners use with the borrower for: telephone calls, letters, messages, etc.—it varies greatly.





Every Partner Has A Different Role


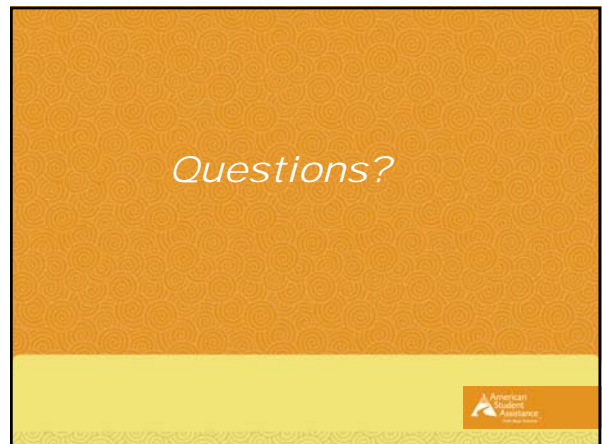
- ✓ Each partner has a different role, and each has specific regulatory requirements in terms of default aversion and default management.
- ✓ Choose partners whose mission is aligned with yours.
- ✓ The lender and servicer have very small windows of time to affect default aversion.
- ✓ Guaranty agencies have a longer period of time.
- ✓ The school can have an effect until a claim is paid—which could be many months depending upon borrower payment history.



Partner Level of Responsibility

Each partner has specific regulation-mandated activities it must conduct when a student loan borrower becomes delinquent.

For complete details see: [34 C.F.R. 682.400 ---]

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