[PIERSON:] Let's get started. We are going to talk a little bit about, I'm going to set the table for those two. Mark is going to talk about some of the strategies that you can use. I'm really going to talk about why you should be paying attention to this and perhaps going back to your campuses and saying we should be paying attention to this and taking it more seriously, because for many of you the survival of your schools will be at stake, and I'll explain that in a second. You are looking at a chart here of default from the Stafford Loan Portfolio since the early 1990s or actually the late 1980s and what you notice is that for a long time we saw a decrease in the rate of loan default. Everybody got a little complacent and a little comfortable. What you also need to remember, and you are aware of without thinking about it, is that the volume of borrowing has been increasing, right, over the last 20 years so that the amount of loan default that would be reflected in 22.4% in 1990 is only a small fraction of the amount of loan default next to the number of people and the number of dollars that are going into default now. The rate was real high, but the number of people and the number of dollars were much smaller than they are now. So from the taxpayer's standpoint the integrity of the program and the cost of running the program are much greater now than they use to be. Does that make any sense? And that's one reason why we are here to talk to you about this. The Department also has a dog in this fight or a horse in this race. Let me put it that way.

So let's go on to the next slide. So in effect, there is a changing landscape. Things are not what they used to be 10 years ago. There are many factors that are operating in the environment now of college loans that were not operating 10 years ago. Ten years ago it was Stafford loans basically for most of you and that was it, and the rules were 25% for three years in a row, and you could get into trouble, or 40% for one year. Those rules are partly in effect now but they're going out the window, and we have had for the most part a pretty good economy for borrowers in which to repay, right, so we've been able to keep default at bay. So there are going to be different consequences of loan default. We have a recession and increasing numbers of dollars in default, new servicing partners which will affect the instability, the short-term instability in the change, and the PUT loan process may affect the risk of loan default for some of you or some of your schools and some of your borrowers, and then of course the new three-year calculations, so let's go ahead. I'm trying to go through this, because we only have a certain amount of time, and I want to leave as much time as I can.

You are going to get the picture, and in a way my job is to make you more anxious. I'm hoping that I can do that, and I'm kind of jittery myself, so I hope you build on that. So, loan default is increasing for most schools. How many of you saw an increase from '05 to '06 and '06 to '07? Okay, that's it? So everybody else saw your rates stay the same, or did you just not want to raise your hand? Okay, educational costs are going up and more students are borrowing more money. It's not uncommon to see people who actually graduate, those are the students that we love. Well, we love the people who don't graduate, too. So more people are borrowing more money, so people who stay long enough to graduate even at a four-year school, and I use that in quotes, who graduate in 5-1/2 or 6 years, are leaving school with $60,000 to $70,000 worth of loan debt, that combination of Stafford and private loans, and some of those people are

leaving school, and they are becoming social workers, or art history majors or elementary school teachers, and it's tough even if you graduated to service a loan like that with that much debt, so again we have combinations. How many of you were using private loans 10 years ago on a routine basis? Raise your hands. How about private loans on a routine basis now? Raise your hands. Okay, so maybe a quarter to a third.

One of the things that I have always been curious about is that people generally are not necessarily cognizant of the effect of the Stafford Loan cohort default rate on the flow or the access to private loan capital, and so here's the short pitch that I have about that. Frequently, lenders, private lenders, who are always concerned about the risk of the loans not being repaid will look at your Stafford cohort default rate and make decisions about (a) whether to do business with you as they should, and (b) if they are going to do business with you, where are they going to peg their interest rate to cover their risks? So your Stafford rate will have an impact on the cost of doing business for your school or whether you are going to have access to private loans at all. I'm not against private loans. I mean, there is a reason why they have grown up in the marketplace to fill in the gap between all other sources of aid and what the cost of education is, but be conscious about the effect of your Stafford Loan cohort default rate on the cost to your students later with private loans. Go ahead.

Consequences to taxpayers, schools and borrowers. Let's go ahead. Many of these things you are aware of. How many of you do deal with default prevention on your campus? Okay. How many of you are in the Financial Aid Office to do default prevention? Okay. How many of you do default prevention on the academic side of the school? Okay, now look around, look around, how many hands are up? Very few. Okay, so most of you are doing default prevention out of the Financial Aid Office. One of the messages you'll get today is that Financial Aid has only a small part to do with the risk of loan default. Most of the risk of loan default has been established by whether or not the student has been successful academically. People graduate. If they go out and get a job that's going to reduce the risk of loan default. With the right student with the right program with the right support services leading to employment, leading to graduation and to employment, that's default prevention. Does that make sense? So it's almost impossible to get a handle on reducing the risk of loan default unless you are working with the academic side of the school to help more students be more successful. Okay, Mark will talk about that in more detail.

So let's go back one. One of the things that I think is probably the most poisonous and most destructive one of these is the first bullet, the second part, because even if I default let's say on $250 and it affects my credit rating, right, my credit report, then those people with whom I deal to get credit, could be a credit card, could be a car loan, could be a home loan, could be equity line on my house--because of that default, I'm going to pay a lot more in interest for a long time, so I might default on $250, but I could end up paying tens of thousands of dollars in additional interest for a long period of time, and frequently we don't think about that, but that's one of the things that will happen. The other things might happen, but I can guarantee you with people who are

selling credit to the borrowers that default on loans, they are going to raise the interest rates. Okay, let's go ahead.

Schools: High CDRs may result in adverse publicity and negatively reflect on the school quality, resulting in loss of Title IV eligibility. Maybe as we talked about continued access to both Stafford and private loan capital, and if you are using private loan capital, you probably need it to operate as you do now. What would happen for those of you who use private loan capital if you suddenly did not have access to that anymore? What would happen to your school? Would it look different? Would you have to change the way you did business, maybe? Okay, so that is terribly important, so let's go ahead.

So here's one of the factors that is going on now. The data that you have gotten so far everything up to official '07, it is all retrospective data, and the '07 data was only a kiss on the cheek by the recession, just a kiss on the cheek, so you really will not see the effect of the recession until FY '08, FY '09 and FY '10. That's where you're going to see it. Remember when we looked at that chart early on where you were beginning to see the stair steps from '04 to '05, '06, '07? Well, I think you're going to see more stair steps, and they are not just stair steps to heaven, in '08, '09, '10, '11, so everybody is going to be affected by the recession. Unfortunately, in that third bullet, this is occurring, this recession, and we are not out of it yet and it may take time. They call it a jobless recovery. What does a jobless recovery translate into for borrowers? They have a more difficult time with paying their loans. People are either unemployed or underemployed, particularly people who have just gotten out of school, or people who have dropped out of school. More difficult to repay their loans in a recessionary environment, but unfortunately this is occurring at the same time that we are transitioning from a 2- to a 3-year calculation. Let's go ahead.

Borrowers: Over the last few years, and this is the scope of the problem as the Department sees it. You see your school, we see all of you, so in FY 2003, 115,000 people defaulted on their loans, and in 2007, 225,000, so all these people have had all those adverse consequences or many of those adverse consequences plus the effect on their portfolio. More people and more dollars on the default side of the portfolio, and those borrowers are a cost to the Department. Somebody has to chase them down, and the Department is the collector of last resort, and you know we never get it all back. We just never get it all back. We'd rather that they be in repayment than either the lender or the Department be making something on that performing loan, and that the borrower's life would end up being better for having gotten the loan, but these people are on the default side of the Portfolio. How am I doing on time?

[BATTLE:] You're good.

[PIERSON:] Good. Okay. Dollars in default. This is important. It is not a regulatory issue for you yet. Right, your CDRs are what you are here to be concerned about, but let's suppose that you were…. How many of you have a loan buy-in in excess of five million dollars a year? Will you raise your hands? Okay, so there's a lot, maybe half of

you, and I would bet that the folks who have a big loan buy-in, most of you have a pretty low, relatively low CDR, I would guess. Well some of you, some of you are shaking your heads, you're double winners. So what we know is that schools that tend to have large volume and low CDRs tend not to do as much as other schools, and there are reasons for that. They are regulatory and compliance drivers that push people who have higher CDRs to do more, but here's that last bullet, and I think that they talked about it in some of the earlier sessions, but there is some legislation in Congress right now and passed by the House, it is being considered by the Senate, and so for the first time, the Department and the government are looking at utilizing some of the revenue from the Stafford Loan Program to underwrite new initiatives. It could be an increase in Pell Grants. It could be institutional development grants so that schools that want to build in a greater capacity to have more students succeed might apply for one of those grants and do that, and so for the first time there is going to be a focus on the number of dollars that are on the revenue-producing side of the Stafford Loan Portfolio versus those non-performing loans that are really a drag on the costs. Does that make any sense? So this is something to just file away as something to be concerned about or something to think about and where do you contribute. Do you contribute on the loss side or the revenue side as an institution, and what's the right thing to do? Let's go ahead.

So here are dollars in default, $647 million in the 2-year calculation, and in FY '03, and that increased to $1.279 billion in '07. That's pre-recession, pre-recession. We can only guess what it's going to look like in two or three years. These are non-performing losses. Let's go ahead.

So we have new servicing partners. I think it's great. The Department stepped in last year and started purchasing loans in the FFLE Program so that we could maintain liquidity in the FFLE Program, so then the Department owned all these loans. We bought about 80% of the '08-'09 loans, FFLE loans, and so we have these loans, right, so we have these PUT loans and we are going to service them. We have new servicers, and everybody is just getting used to this, and so you may still be trying to figure out who is servicing loans that were…. How many of you are in the FFLE Program now? Okay, so almost all of you are going to have some PUT loans, so every time you make a change, I consider that a moment of discontinuity, and what I mean by that is that there is uncertainty about, in this case, who do you call, how do you get help, what kind of help can you expect. I mean, all of this is the learning curve that we're all going through right now, and so whenever there is discontinuity, it raises the risk of loan default. It would be no different than if you had a staff of folks at your school who were doing default prevention activities and you changed who those people were. You brought in new people. They could be smart people, motivated people. They could have had experience at another school, but to learn how you do it and to learn how to deal with the borrowers that are at your school, it creates discontinuity and you may see, you may have to work a little harder in the near term so that this does not result in a negative effect on your school. Cindy is going to have a little more to say about the servicers. They're all really good, they have great products, but I think it's really important for you to reach out and speak with them and learn what you need to learn

about the way they are going to do business as contractors with the Department, which may be the same in some instances and different in some instances, so that this does not have a negative effect on your cohort default rate in addition to the recession, and what we are going to talk about now, the 3-year calculation.

We have a transition period. First, we're going to open the tracking window up. I cannot tell you specifically why Congress decided to do this. I can make a guess based upon some interviews that I've heard from Congress people who were involved, and it has something to do with the transparency of loan default in the Stafford Loan Program. I think what Congress, my understanding is, Congress simply wanted to put in a public domain what was already occurring anyway. We have always known there is more default if you look at a 3-year window than a 2-year window. More people default that third year. Of all the people who went to repayment some additional people will default the third year, and it's simply making apparent or public what already was occurring behind the scenes. It wasn't meant to hurt anybody, and what they did, what Congress in its wisdom did, was to raise the threshold for getting into trouble from 25% to 30%, so we would think normally that that would give you all enough breathing room so that you really wouldn't have to be concerned about it. Well I'm not sure about that, and Mark has a really good example that he will share with you so I'm going to leave that, okay, about what the specific effects are, but what I can tell you is for most of you, most of you will see a significant increase in the rate of loan default. If it were me and I had a 2-year cohort default rate in '07 or '06 that was in double digits, there is a chance that you could reach 30% with '09 and '11. There is a chance. It goes down 2% or 3%, probably not, you have to run it through a buzz saw of loan default, and it might push you up over 30% but it is unlikely. I'm talking about sort of a bell curve, okay, if you already have an unusual amount of risk in your school's portfolio and if you are in double digits and if you add the recession and the change in servicers, voila. So one of the things we are going to talk about today is you need to take action now, especially if you are in double digits. It's like living right along the beach during a hurricane situation. I mean, you need to do something now to get away from danger, so you need to move your school away from danger, and there are things you can do, so we have a new set of consequences which we'll talk about. Let's see, there is going to be new disbursement relief. I'm not sure how I feel about that and the effect of that on cohort default, but we can talk about that in a second, and we are going to talk about the transitions into the new rate and list some new calculations, so let's go ahead.

This is a modest example that shows you what could happen between a 2-year and a 3-year calculation, but a 2-year calculation you have people who went into repayment in the blue box and people who defaulted the first year and then in the second year yielding a 7.1% cohort default rate. Our modest example indicates that the same number of people default in the first year and the second year and then you add another 250 people in that third year, and remember things continue to happen to people, right, they get divorced, they get sick, they are underemployed, they are unemployed. All of that continues to happen and it happens between that second and third year, too, and so even with the additional 250 people out of 5,000 that yields a cohort default rate of

12.1%. Mark, I think, has a better real-life example that he'll talk about, so this could be you or it could be worse, so let's go ahead.

This is the transition. We will continue to have a 2-year cohort default rate and the regulations that go with that through FY 2011.

Let's go to the next slide. So we are going to have a little of both for a little while. The 3-year cohort default rate has already started. The first one is FY 2009, all right, that started on October 1, 2008, and ended, that period to create the cohort, ended on September 30, 2009, so those horses are in the barn, right, they're already there, so we are going to track them now for this year and next year, but the good thing is that the first two years you're not going to have any regulatory consequences. For informational purposes, because the 2-year regs continue to be in effect through FY '11, and we're not going to ask you to be responsible for two different sets of regulations, that's already [inaudible] but what happens in 2011? Yes, the regulations will kick in in 2011, which you will receive in September of 2014, a moment which would strike terror in the hearts of some schools, so let's go ahead.

So beginning with 2011, FY 2011, schools that are 30% will have to do certain things. These are things we have always suggested that you do as good practices. Congress in its wisdom simply codified them. They wrote them into regulations. These are things you will have to do, so create a default prevention team, and we'll talk about what that means, and from the team create a plan that you will submit to the Department for review. I don't know who you would submit it to. We haven't decided that yet. How we're doing on time? Let's go ahead.

So let's get into more detail with a couple of more slides about the detail of the implementation. So the default prevention plan and task force, and I'm going to kind of lump the next couple of slides into this discussion. What does that mean? It means that you put a team together the job of which will be to determine where the risk of loan default is coming from for your school, so you can't go down and buy a default prevention plan from Default Prevention Plans 'R Us. I mean it has to be specific to your school, and it grows out of where you determine the risk is coming from. Does that make any sense? Certain majors, students who have certain GPAs, people who are in SAT, I mean it's going to depend upon what your investigation reveals about your defaulters and where the risk of loan default is coming from. So, when you determine where the risk is coming from, you will have to develop measurable interventions, things that from one year to the next, you will be able to determine are they working. I'm not going to tell you how to do that today, but you are going to have to do this, and I would suggest that since loan default has something to do with student success that the people who should be on your team, on your task force, should also be inclusive of the academic side and the student support service side of the institution. Does that make any sense? If you end up doing it out of the financial aid office with financial aid staff, you are going to fail. It will never work, so that's partly the message to carry back. The second year, let's suppose that the next year you have a 30% cohort default rate, which is entirely possible given all the circumstances. What do you have to do? The

regulations require that you do the whole thing again, which is a good reason to not have to do it the first year, but you don't want to have to do it again the second year and have to extend the plan to the Department that plans the staff. It's a headache, so there's a headache factor attached to the regulations. The third year you could lose eligibility. The good thing is that the regulations do say that if you have extenuating circumstances that you can appeal, and so as not to lose Title IV eligibility, but put yourself into the seat or in the shoes of somebody who is hearing your appeal, and if you look back in time, you had, you know, with the two transition years in '09 and '10 you had 30%, 30%, in '11 30%, so you formed your team, '12 you did your team again and you had a plan both of those years, the third year you're at 30% again, so what do you think they are going to say? What were you doing the last seven years? This is '09 now and that will be 2016, so what have you been doing the last seven years to resolve this problem and to address it? I'd want to be able to say what I've been doing the last seven years, because it is a regulatory, it's a compliance issue. Remember I said before that the lives of your institutions could be hanging in the balance? That's what I meant. That's what I meant. Not all of you are going to be faced with that, but many of you will, many more than you think. Let's go ahead.

Again, these are the factors to take into account, to identify these factors. How would you do that? Mark is going to talk a little bit about that. In effect, there are two ways to do that. One is to look at who has defaulted and why. Another is to look at relating student default with student success, so you would perhaps overlay any retention and graduation studies that you are doing with your loan default study, and I bet it's productive to do that. Then you want to establish measurable steps or objectives and steps that you are going to take, and of course your plan would identify the actions you will take, and then you would take them and see if they work. Here's the problem. Let's suppose you did wait until your first 3-year calculation to do something with FY '09 calculation. Remember that the way CDRs are calculated there is always a delay in time before you get the data, so that by the time you get your FY '09 data, your 2010 borrowers, that cohort has already been established and we're retracking them, so those horses are already being called into the barn. Half of them or maybe half are already in the barn by then, by the time you find out how deep the hole is that you're in. That's why we are suggesting that you start taking action now if you think you could be at risk, and I think…. Did anybody hear Jeff Baker in the general session announce that you are going to get some information about '05, '06, and '07 in the next week, which I think will be put on the street, but it will be available to you in the next week to help you understand what kind of risk you may be at by we're going to go backwards and look at what your '05, '06, and '07 rates might look like within a 3-year window, so it's going to help inform you about what steps and how aggressive you need to be. Let's go ahead.

Again, these are the disbursement waivers at 15% or greater. I don't know, you can toss this around at your school, but these are things that if you have a default rate under a 3-year calculation of 15% or less, these are the things you could do, but is it wise, for example, to do the single disbursement. Is it wise not to delay? When do people who are going to drop out that first year, a first-time borrower, you lose some people right away. I mean, what's the effect of this on indebtedness and on loan repayment, on

default, the ability of people to service the loan after they drop out. Just something to think about. I think I'm done with this first section. Did I do my job? Did I make you more anxious? Are you a little more anxious now than you were? Will you raise your hand? Ah, man.

[[WALSH:]] Well, good morning. John and I have worked together for a lot of years, and as you've probably gathered already we have different presentation styles. You know, he clips on the microphone, rolls up his sleeves, and comes right out there among you. Now I, on the other hand, feel much more comfortable up here behind this podium, and you all look like real nice people and everything, but John has outlined some challenges for you, so I think I'll just stay up here today. Rather than giving you the example that John mentioned a couple of times, I think we'll just wait until those rates come out that Jeff mentioned to you this morning in the General Session. I believe they will more accurately reflect what you might expect with the change that Congress made from the 2- to 3-year calculation. So we're going to talk a little bit about some prevention strategies. I ask you to remember that we do have limited time, so I can just touch on a few things, give you some general things to look at, and hopefully you will go away with some things that you can do back on your campus.

First and foremost, a default prevention team. We recommend that every school establishes a default prevention team. Now I understand if you are a very small school, you might be the team, but you are usually going to get the best results if you establish a team of some kind. At a larger school, we would recommend that you include representatives from like the Bursar's Office, the Registrar, Admissions, Student Support Services, any of the offices on campus that contribute to helping you develop your plan and implement that plan. Not a full-time job for all those people, but sort of gathering together that collective wisdom maybe once a month to talk about the direction that you are headed. You are always going to get the best results with a team. You're also going to need a default prevention plan. Why is that so important? Because if it is not written down, it may not survive over time. I remember an example I often use. I was at a school in Alabama. It was a career school, proprietary school, and I had sat down with the owner and a couple of financial aid folks, and after a couple of hours of my going through some things, he laid his pen down, he took off his glasses, and he said, you know, Mark, I hear you describe all these wonderful things that we can do, and it occurs to me that we used to do most of these things, and I guess I just don't know why we're not doing them anymore. Well, I had the answer for that. It's because they weren't written down. People change jobs. They get promoted. They, you know, retire. If it's not written down, it's not going to be able to be maintained over time. You won't have that consistency, so a team and a plan are the first two things that we are going to recommend for you.

I also like the idea of a default prevention coordinator. Many schools have somebody whose full-time permanent job is to coordinate their default prevention efforts, and I understand that is not possible for every school and there is always a big demand for those kinds of resources, but again to have someone whose job is to prevent defaults on your campus would yield results for you.

We are going to talk about a couple of different kinds of strategies. We are going to talk about what we refer to as traditional strategies for default prevention, and John did a bit of foreshadowing I think about that, and then we are also going to talk about some non-traditional strategies, those student success strategies, and we are going to suggest that you use a combination of these things to the extent that you're able to have effective default prevention going on on your campus.

The traditional approach might be better described as the historical approach, kind of the way it's always been done, you know, and that's in the financial aid office, and certainly if your default rate pops up, the president or the school owner, that is where they are going to call is financial aid to find out what the heck is going on. So the work has always been done in the financial aid office, and the focus has pretty much been to try and develop a healthy relationship, and have that student develop a healthy relationship around their loans, because that's what you do in financial aid. You make sure that they have the funds that they need to start or continue their education. Some of the things that you do out of financial aid, first it is very important that they understand their responsibilities when it comes to repayment. First, that they have loans and that they will have to be repaid, and this is what it entails. I also believe that you teach them financial literacy. It may not be a real formalized process, but I know when you sit down and talk with students, you give them some great guidance about handling their finances and certainly handling their student loans, so you do a bit of financial literacy training as part of your job in financial aid. We are going to talk a little bit more about that in a broader perspective in just a minute.

Updating enrollment status changes: Very critical. We are going to spend a couple of slides talking about that because it's so important. Then finally, to the extent that you are able, reach out to students who are having some trouble, who are struggling at school. We are going to talk a little bit about trying to overcome obstacles to their persistence. I'm going to tell you why that's so important, because what we've learned is that obviously those successful students are in the best position to repay their loans, and those that fall short of that have a lot of factors that are working against them. I'm going to go through some of those, and I suspect you could probably add to that list, but we'll talk about reaching out to those students. It may not be your job in financial aid. If it's not, make sure somebody on your campus has that responsibility. As I say we'll talk about that in more detail in just a minute.

I understand that this publication that I have been recommending wholeheartedly is kind of out of print at the moment, but it's an excellent publication in that it provides a lot of good details for students about their loans and their responsibilities, and there is a little bit about private loans and so on.

Entrance Counseling: One of your more important responsibilities. One suggestion is if you are not doing so already to try to tie future job opportunities and salary information to what it is they are training to do. Sometimes we see a wide range of what the student will actually earn compared to what they have to repay, so if you can give them a clear

understanding of that, it would be useful. My own opinion is that career schools may do the best job in that, because if you are studying to be say a beautician, they can pretty easily tell you what your salary is going to be when you complete your certification or program or whatever. I know for me when I was at a 4-year university, my salary was a little more mysterious, because I hadn't decided right away what I was going to do, but if they have a course in mind and you can connect that, I think that's a real critical thing to do these days. Certainly we want them to know what their estimated monthly payments are going to be. We want them to know how to contact the servicer, because if they struggle a little bit in repayment, that's where we'd like them to reach out, so the servicer can help them work through that difficult time. We also want you to get good borrower contact information and update that at every opportunity. You know, I talk with Cindy's folks at the Direct Loan Servicer, and they tell me that when they can talk to the borrower, they can resolve a delinquency about 98% of the time, so what we find is that borrowers don't know that they have options available other than defaulting on their loans, and if we can't talk to them, we can't help them. If we can't find them, we can't talk to them, so good borrower contact information, and I'm going to talk with you in a couple of minutes about creating something just kind of unique to your campus to help you gather that information better.

Self-Help for NSLDS: It's a way for them to take responsibility for their loans. It's open 24/7. Be sure and include something about NSLDS for students in your discussions. This was kind of a new one for me. I've heard it from some of the financial aid folks. I heard it from students on a panel discussion here a few months back at the [inaudible] Conference, the notion of returning to school because they are not prepared to repay their loans; and, you know, on the surface, returning to school could be a fine idea if it is a well thought out decision. You know, gee, you know, the job market is so tight, I'm going to go get my master's degree, and then that's going to make me in a lot better position to go out and land this great job, but just to come back to school to avoid repayment, I'm sure you would agree, is not the best course of action. It's kind of a new thing I'm starting to see.

This is sort of a little advance notice of what I'm going to talk about next, and that's the big picture financial literacy. I want you to understand that there are a lot of Federal resources out there that are free and available to your schools. When I encourage you to talk about financial literacy and try to teach that to your students, you don't have to reinvent the wheel. There is a lot of good free information out there. Certainly, from our standpoint we believe if students are better consumers of credit in general, they are going to be better repayers of their student loans in particular, so to the extent that you can contribute to that process, we would certainly appreciate it. Let's look at the next slide.

We know that a correlation exists between increased financial literacy and decreased defaults, and as I say, the schools can play an important role in helping with that education process. You are really doing a tremendous service for your students if you can contribute to their understanding of their finances. If possible, make it a part of your first year curriculum. Offer a class for credit. A number of schools offer either a 1-hour

or a 3-hour course for credit that has to do with personal finances. Of course, there is a healthy dose of understanding their loan obligations and so on in there, wise use of credit cards, the kinds of things that students can get in trouble over. Again, there are a lot of free resources. The Federal loan servicers, there are non-profits, many great non-profits with their information available to you over the internet. Of course, the lenders and guarantors have some robust financial literacy programs. A lot of resources to choose from out there, and if you are already doing some things like that, that is tremendous. We appreciate that. You are doing good work. Just think if there is anything that you can do to enhance what you are currently offering, okay.

Private Loans: We have seen a decrease in students taking out private loans over the last six or eight months, but they might still spell some problems for your students, particularly if they use them either in lieu of or prior to exhausting their student loan eligibility, because they are not student loans, they are consumer loans. They have their place. I know at some of your campuses the amount of Federal funds available to students does not cover the entire cost, so they often can bridge that gap for students, but the data that I am referring to here is actually Department data, and it was used by the project on student loan debt to come up with a couple of statistics that I think are worth mentioning. In 2007-2008 one in four, one in four private loan borrowers did not take out Federal loans, not any Federal loans. I imagine probably the best marketing technique might be you don't have to complete the FAFSA, because sometimes there is fear about the complicated FAFSA which as you have seen in this conference we are working very hard to make it simpler. They also found that 91% of private loan borrowers at community colleges in 2007-2008 did not exhaust Federal student aid first. As I said the volume is decreasing. The Secretary has a little bit of responsibility over them now, so perhaps not as big of a problem as it was even six or eight months ago, but still something to watch out for.

A few of the differences: Private loans are marketed directly to students. Oftentimes you don't know that that's even occurred. They are often based or usually based on factors such as the school attended and the credit score. They have variable interest rates with no caps. The highest rate I've heard of is 20%. That is a very high rate. That's like high credit card interest. Private loans have no loan limits or restrictions on fees that can be charged. They do lack borrower protections that are offered by Federal Student Aid. They can't be consolidated. They typically go into default more quickly, and Congress is taking some steps to regulate private loans, so we'll continue to watch to see what happens with that.

Okay, I've got scattered among the next few slides some statistics for you, and some of you have seen these statistics in our previous presentations. We still think they're powerful. The percentages haven't changed very much, and they offer some really important clues for us about what causes borrowers to default and which borrowers in your school will default. How we accomplished this is we looked at the Federal Direct Loan Portfolio, which we think is representative of what we would see on the FFEL side. At the time that we last did the analysis, which was August of 2008, and again these numbers just have not changed much over time, seven million borrowers in the

Portfolio. What we found was that of those borrowers who defaulted, 91% did not receive their full 6-month grace period, and unfortunately that particular burden of updating NSLDS rests on the shoulders of the schools. If you don't tell us that they have left your campus, that they have withdrawn or just bailed out, then we don't know, and sometimes what happens is the student is just sort of already out there. Their grace period is elapsing, and we don't know that that's occurring. Why is that important? Well, there are a lot of things that servicers do, and I think this is representative of what all the servicers would do. During that 6-month grace period, and again we'd like them to have that whole timeframe, they reach out to the student. That's the first thing that they do, and try to establish the relationship with the borrower. All these things I'm going to talk about are in the interest of setting the borrower up for successful repayment. This is how they go about it. They make sure they are in their correct repayment status. I'm sure sometimes they reach them and they're back in school someplace. They discuss the appropriate repayment plan. They talk about self-service opportunities through the websites that they have for students. They update and enhance the borrower contact information, and of course we want you to do that also. If we can't find them, we can't help them, and if it is appropriate, they will discuss consolidation options with the borrower during this sort of break-in period, you might say. Two more characteristics that we found out from analyzing the Direct Loan Portfolio: The majority had contact issues. Again, we couldn't reach them and 49% had bad telephone numbers, and that's the actual population, not some guess that we made, but that's the actual population; 49% had bad telephone numbers. Even more scary, 95% were not successfully contacted by phone during the entire 360-day collection effort, not once; we never talked to them; 95%.

Okay, so let's talk about what we can do about our inability to reach them. Sometimes the references that are on the MPN are just inadequate. All of you at one time or another have tried to locate students after they have gone, and we just don't always have enough information to do that, so what we are recommending is that you create a form on your campus, and give it to the student early in the process, perhaps at admission, and ask for additional contact information. Find out how to reach mom and dad and their siblings and anybody else that you think would be useful to you. Now when I started thinking about this, John and I started talking about how we might approach this, we thought well let's check with policy and make sure that we can kind of add this step on the front end, so we got a hold of Jeff Baker's shop, explained what we wanted to do, and the only concern that they had was that schools not make receipt of the loan funds contingent on completion of any extra form. I don't think they are going to even question it, and remember our goals are noble. If they get into trouble, we want to be able to locate them, so John and I are suggesting that you create a form, and you have the students give you that kind of information. I know these kinds of things take extra time, but default prevention is going to take some extra time.

I've talked about NSLDS for students. Let's move on to the next slide.

I'm not going to spend a lot of time on the reports that are available through NSLDS. This slide is just to remind you that there are 11 of them. There are some reports from NSLDS that you can use for your default prevention activities.

[PIERSON:] They talk about them more in Session 33.

[WALSH:] Session 33 they will go over them in more detail. That's also about cohort default rates primarily and probably a little sprinkling of default prevention in there as well.

[BATTLE:] They didn't.

[WALSH:] They didn't? Okay, but we still must move on to the next slide. Cindy is going to talk about late stage delinquency assistance in greater detail, but I want to give you just kind of the gist of it, and the gist of it is the notion of schools reaching out to borrowers who are very late in a stage of delinquency. We consider that to be 240 days or more. Now I would be absolutely remiss if I didn't recommend that you work with students all along through the process, but if you absolutely can't do anything else, if you identify your borrowers who are seriously delinquent and you make a concerted effort to reach them and connect them with the servicer, you will reduce your default rate. It's pretty easy to get started. It doesn't take a lot of time. It's usually a matter of assigning the responsibility to maybe one or two folks. The starting point is, of course, that contact information. You know, you've all hunted for them. If you can't reach them, you can't do any of these other things. Then you want a list of the delinquent borrowers that are in your current cohort. If you are a Direct Loan school, we provide you with a delinquency report that's sortable like six or seven different ways, and that will tell you who your borrowers are that are delinquent. If you are a FFEL school, reach out to your guarantee agency, tell them you want to participate in the process, and if you are not already receiving something that will help you identify those delinquent borrowers, ask them if they can provide that for you. Then certainly some training, you know, this doesn't take a lot to do this. We actually even have a late stage delinquency guide that is available through the servicer or if you want to reach out to one of us, we will be glad to attach it to an e-mail and send it to you. Some schools in the beginning felt at least like this is kind of a cold call or something, so we even put together a sample script just to get you started.

Let's switch to the non-traditional approach, which is really a student success solution. It's more holistic. It involves the whole school. It involves everybody on campus, and I gave you a couple of big goals there about increasing program completion rates, decreasing the length of time that it takes, you know, helping non-completers find a job. That is something I think we are going to start exploring a lot more. We all tend to try to place our graduates, but perhaps there is something we can do to support those students who weren't so successful.

Okay, if I have a slide of the day, this is probably it, because if I put you to sleep at this point, please wake up and pay attention to this one. Again, the Direct Loan Portfolio,

seven million borrowers; of the borrowers who defaulted, 70% did not complete their academic program. That is a huge clue. Those are the borrowers that are going to come back and haunt you as defaulters. Why? Let's look at the next slide, and this is the slide where I bet you could add to this for us if we gave you the time.

Borrowers who did not complete did not achieve the academic credential they were seeking. They did not get their degree. They did not get their certificate. Whatever they were after, they didn't get. We can reasonably conclude that they will have less earning power because they didn't achieve what they were after. They may not benefit, usually don't benefit, from school job placement. Now they've got one or more loans to repay. They may not receive exit counseling. They may not respond to communication attempts from the servicer, and finally they may lose part or all of their grace period due to that failure to report timely and accurately to NSLDS. Now I know it's hard to know when they've left, and I don't know how to solve that on your campus. You know, if you are a big university and the dorm director calls and tells you that their room is cleaned out, that's probably a pretty good clue, okay. If you offer mid-term grades, and somebody has a responsibility to look at those, and you see a student with 3 D's and 2 F's, that's probably a pretty good clue they might not be coming back, okay. Attendance, I know, attendance--taking attendance is ready tough, but again that gives you a very quick picture of what's going on in the classroom, whether or not the student's there.

That's what this is about, this next slide, an early warning system of sorts. Again, make it somebody's responsibility to reach out to those borrowers who have bailed out, you know. Find out if you can get them to come back, first of all. That's the ideal situation. Some folks that make these calls tell me that once the borrower understands that they will still have a loan to repay, then they decide to come back and get something for that money. Sometimes there is an obstacle that you can identify and help them overcome, and you could probably tell me a lot more reasons why they don't succeed than I could come up with, but if you can get at what those reasons are or what that reason is for that student, perhaps you can help them persist, and again this is driven by that 70%. Let's go to the next slide.

Here's kind of a quick hit list of what we'd like to see you do if you can do it. I've been mentioning that the non-traditional approach or a student success approach involves everybody, and the goal is to help those students be successful, because we know successful students are more apt to repay, and it's cheaper to keep them. We know that, right? I'll just let you look at that for just a little bit. Some of the things that get in the way of students' success, factors that I am sure you are already familiar with. You see these kinds of things play out on your campus all the time.

Promoting Student Success: What we're asking you to do is explore the unique connections between loan default and student success on your campus. Now I can and have told you some things that we see in the very large portfolio, but you have to understand that there are probably some unique factors at your school. I talked to a school awhile back in downtown Chicago and one of the issues they had that interfered

with students' success was parking. You know, have you tried to park in downtown Chicago? Students drive around, drive around, and then go home, so once you can figure out what issues might be preventing their persistence, then you can resolve those problems.

A couple of little take-home messages that we just like to give you. As John pointed out, the rate, the number of borrowers, and the dollars in default are increasing. We have got the recession for that "perfect storm" scenario where we have different conditions, a combination of things all coming together at the same time--the recession, faltering economy, and the changes that Congress made in how we will calculate cohort default rates going forward, so we ask you to take a look at your own CDR history. If you are not familiar with that, come visit us in the Default Prevention booth in the PC Lab. We can give you your default rates for the last three years, so you can kind of see where you are and where you've been. Look at your degree of risk. What do you think the next couple of years might mean for default at your school? When we send you these sort of practice rates, take those seriously. Maybe that is something that you want to take to the president or the vice-president. Maybe this is the time to try to get some additional resources devoted to default prevention on your campus, and then of course take some positive steps to reduce defaults.

Essentially, here's a quick list of some things that you can do. You know, we are always concerned about the integrity of our student loan programs. John talked about the big dollars. He talked about the impact on schools and students. You know, there really is a lot at stake here, and we appreciate your commitment. I think you demonstrate that by coming to this session today. You know, I think we are pleased to see so many of you here, and unfortunately even had to turn some folks away, so thank you for that. We appreciate your commitment, and I think that's it. This is how you can find John or me, and we would be delighted to talk with you any time that you have a question or if there is something that we can do to support your efforts at your school. Please reach out to us.

[PIERSON:] We're not done yet. We have Cindy yet.

[WALSH:] We have one more.

[PIERSON:] My phone number is different.

[WALSH:] I'm sorry, John's new phone number is 974-9315. Jot that down so you can reach out to John, and the area code is the same, 404. I'm going to turn it over to Cindy.

[BATTLE:] Okay, so before I begin--we talked about a team, we talked about a plan, and I'm going to go into the tools that the servicers bring and some of the techniques that they do from a servicer perspective. Are there any questions about anything that John and Mark have reviewed before we get started with servicing? Do you want to do

the mic to help me? We need to speak into the mic. Well, they are taping this session, so we need to use the microphone, so let me do that.

[AUDIENCE:] Thank you. Could you offer some more concrete examples of how the advising staff, faculty members, could help us with the retention of students and their completion rates?

[PIERSON:] Great question. Do you want me to take it?

[WALSH:] Certainly.

[PIERSON:] Okay. You know you could hunt high and low in this Department and try and find an office currently or historically that has had the job of advising schools about how to increase retention and graduation rates. You wouldn't really find anybody, but there are lots and lots of entities out there that your schools may already interface with, may work with. For example, the National Resource Center for the first year experience in students in transition at the University of South Carolina. If you Google "first year experience," that's what you'll get. It is a national organization, it is a research clearing house, they do conferences. That's what they will talk about. The question was, how do we determine, how can we identify more things that we can do on our campuses to help more students persevere, stay long enough to graduate and actually graduate? That's what they talk about, so if you wanted to come and speak with Mark and I, we probably have some more resources that we can refer you to, but that's a great question, because that will come into how successful you are in developing a plan and a plan that will actually work. Good.

[WALSH:] That's a great question. The other thing that I might add to that is if you remember I talked about having a team, particularly on a large school, have a team and you have that collective wisdom. I think what you will find is that as you discuss problems like, how do we know when the student leaves campus, you'll find that those other folks have something that they can contribute. They have some kind of rapport or requirement for students or whatever. Just like, you know, the dorm director idea, you know, not something I would have thought about right away, but sure if that room's empty, they are probably gone, so we have said that they are your allies on campus, and they will have things to contribute if you pull them together and have the conversation with them.

[PIERSON:] There was a slide that Mark had that I might have expanded. In fact, I think in other presentations we had a follow-up slide, and Mark mentioned something about early warning. You know, how do you know when somebody has left school? Well, I would expand that notion to how do you know when someone's getting ready to leave school? How would you know that? Well, typically people are getting ready to leave when they show you that by their behavior starting to deteriorate and stuff like that, right? They stop showing up for classes. They may get hauled off by the security people. They may have an alcohol problem. They may, you know, I think people start to behave in certain ways that are predictive of "I'm not staying," or "This isn't working

out for me," or "I don't know how to do this," all right? So there are early warning systems that schools can set up so that you can capture those people and identify the problem and deal with that problem for that student, so they don't become an academic casualty and then a default casualty later on.

[BATTLE:] Okay, any more questions before we move on to servicing? Okay. There are a couple of presentations at the conference today that talk about servicing and then how we're going to handle a multi-servicer environment, so we're going to walk through those, and those generally stimulate a lot of questions. I want to give you time to ask your questions about what we look like in a multi-servicer environment.

Today, John and Mark have talked about default and delinquency and started talking about the Direct Loans, so I want to start there first, talk about Direct Loan servicing with a Direct Loan servicer, realizing that many of you already have loans that have been put to the Department in the FFEL world, so we're just going to talk briefly about some tools and services that the current Direct Loan Servicer offers, and then I'll talk about some of the tools and services that are available for the multi-servicers.

Today we talked about reports and what is available to schools. Entrance counseling, we talked, about is key to default prevention, exit counseling. You can also receive Portfolio reports if you are a current Direct Loan school as well as delinquency reports. The reports today can be, the frequency depends on how often you want to work those reports, and you can either receive them through the SAIG mailbox or you can actually go to the servicing site itself, slice and dice how you want and manipulate the data in the way that you would prefer, and it's just basically there to help you monitor your borrowers.

So how do we do that? What does the servicer do to help the school or to prevent borrowers from going into delinquency and default? They absolutely are going to educate and inform them about the tools and options to assist them, so whether it's changing a repayment plan, maybe they have enrolled on say a standard repayment plan with a 10-year term, can't do that. They are going to counsel them as to the repayment plans that best fit their needs. Recently, we implemented what is called the IBR Plan (Income-Based Repayment Plan) and that is something that can be utilized either whether you are a Direct Loan or a FFEL borrower, and it is based on income and family size; and we see a number of borrowers, although the volume hasn't been significant, we have seen a number of borrowers that are going into say the IBR Plan, so we are going to counsel them on repayment tools. We are going to counsel them on whether they need to change their due date, and of course we are going to counsel them on deferment and forebearances. We get questions a lot about whether the servicer just meets the minimum requirements or whether they exceed them, and we want to tell you that absolutely the servicer is not only meeting them but exceeding the regulatory due diligence requirements. Then Mark and John both touched on late stage delinquency and the partnerships that we have with the schools, and I'm going to have a slide on that as well.

So what do we do to exceed? The servicer, the Direct Loan servicer today, has pre-repayment counseling, meaning that they are making calls before the borrower enters repayment. They are going to send e-mails. They are going to do whatever they can do in the earlier stages to make sure you understand you have a loan and that this needs to be repaid back. In the event that they become delinquent, because often times they don't realize once they go into repayment I need to repay that, we are going to begin a series of phone calls starting at day 31, and then we'll begin a series of letters to make sure that they understand again what their tools are.

There are specific call campaigns that are initiated. Two of the ones that are more often used are around high balances, so we are seeing more and more debt, borrowers having more and more debt, so they have ways to identify borrowers that have high balances, and if they have a high balance, they are going to get a different series of calls, as well as if they fall into a current cohort. We are going to pay particular attention to those particular borrowers.

Late Stage: So late stage delinquency, or LSDA as we call it in Direct Loans, is reaching out to borrowers in the later stages of delinquency. Whether you are a Direct Loan school or whether you are a FFEL school, all of the lenders have something like that where they provide tools and services to help you identify borrowers in the later stages of delinquency. What Mark and John have talked about is that the servicers are doing a good job of reaching the borrowers in the earlier stages; so day 31 all the way up until around 200, we can usually reach them and cure the delinquency, but once we hit the later stages, 240 and beyond, the servicer does not have as much luck, so we provide reports and tools for the schools so that they can sometimes reach out to the borrowers and have more luck. If you do reach a borrower, you can contact the school servicer's line, have the borrower on the line, do a 3-way call. We can get that delinquency cleared, put it in deferment, forebearance, change their repayment plan, whatever we need to do in order to cure that delinquency, and that's very high level what we do today, so we are going to talk about what we look like in the multi-servicer environment.

As everyone knows, because of ECASLA the Department had to handle the volume of FFEL loans coming to the Department, so we had to take on additional servicers. We now have five new servicers, so as of September, the four new servicers have now taken on PUT loans in addition to our current Direct Loan servicer. So what does that mean? When ECASLA was implemented, our servicer is ACS, and they are the ones that handle both our Direct Loan Portfolio and a portion of that PUT, so as of September the four new servicers were able to come up and they are taking on additional loans, and it is about three million borrowers that have now been PUT to the Department. In the very near future, by August of 2010, the four new servicers will also accept Direct Loans and that will come through what is called our Common Origination and Disbursement System, or COD, and that's the way we are going to distribute the loans across the servicers. So who are they? Our current servicer, as I mentioned, is ACS. We've now taken on Great Lakes, Nelnet, Sallie Mae and AES/PHEAA, all of which are

here with us at the conference, and they are in the PC Lab, so if you want to know specific information about their tools and services, they are there to assist you.

So what does that mean? One of the things that we want to relay to the schools is that our allocation of volume, how we distribute loans to the servicers, are performance based, meaning we are looking at the default management piece as one of the key elements to determine which servicer is doing a good job, so we took a step back and said we want to keep borrowers out of default, so in that vein, we're going to make sure that the servicers are doing everything that they can to do that. We're going to evaluate how well they keep borrowers out of default and out of delinquency. In addition to that, we also are going to use customer service satisfaction tools and surveys to survey not only the schools and the borrowers but FSA, so they are on a quarterly basis. The Department is going to go out to schools on a random basis, going to go out to borrowers, and then they are going to solicit the feedback from FSA to say how well are they doing. So if they are providing you comprehensive tools, resources that you use, then you give them a higher satisfaction survey. Based on that information, we will distribute volume to those servicers based on that information.

The last part of that slide was we hope to, the reason that the contracts were awarded in this manner is that we hope to build a healthy competition amongst them. Okay, so what do they offer? Are we losing out on any benefits? The answer would be no. They, too, are exceeding the minimum regulatory due diligence requirements. They are going to do the same thing. They are going to educate and inform borrowers about the tools. They, too, are going to provide outward call campaigns, and they are going to use their existing communication methods, some of which are best in business, and we are very pleased with some of the things that the new servicers are bringing to the Department, to you, and to your borrowers. So they have multiple repayment options, they too can send bills electronically, self-service tools for borrowers, and they also have a dedicated school services line to help manage delinquency, so today if you are dealing with just one entity, you will be able to do that in a multi-servicer environment.

Again, we talked about default management results will be published, so as we find out exactly how these servicers are doing, we are going to publish those results so that you can see exactly how well they are doing.

Again, the servicers will partner with financial literacy advocacy groups to educate borrowers and assist schools, and each servicer is encouraged to continually improve and compete, and we talked about that. So what does this mean? Mark had a favorite slide. I don't know if this is my favorite, but it does sum it all up for you. So will schools have to work with multiple servicers? Yes, they will. Will they likely have different reporting formats? Yes, they will. Can a school designate which servicer they want to work with? No, they will not. And how do you know where your loans are? Right now we're looking at NSLDS, so maybe this is not as good news as you want to hear at this point, but one of the things that I've learned, the Secretary early on talked about how we want to receive feedback and listen to what works and what doesn't work and how can we improve in the Department, so over the course of the days I've heard a lot of

feedback about how we can do things better in the delinquency area. So even though we say will schools likely have a different format, and the answer today is yes, they will, we are taking that back to look at how we can standardize. Maybe there is some way that we can standardize reporting formats to make it more easy and more seamless to the schools, so there is some good feedback that we have received during the course of the days that we have been here that we are taking back and looking at. Delinquency is one of those areas.

We talked about financial literacy materials. What's the next one? I'm not sure who has the handouts, but the next series of slides are all of the contact information. If you haven't received the communications or you don't have the information that is displayed in NSLDS, it's in the presentation itself. Any questions about servicers? There are a couple. I knew. We need the mics. We have a couple of hands. I knew it was coming. Okay.

[AUDIENCE:] Just want to know how were the servicers selected or what are the criteria that you guys put up to select these five servicers?

[BATTLE:] How we selected? There was an actual RFP that went out, and they were selected amongst a panel, so it was based on performance and cost, so it was an actual solicit that went out, yes.

[AUDIENCE:] Hi, I have a question concerning the servicers and like references and everything. Are they still only going to require two references, because doing default prevention, I've done it for like 19 years, my success depends on my references. I mean if you don't have good references, you're not going to be able to get in touch with those students, and I always wondered why the servicers have only required two references instead of, I require six from all of the schools that I handle their default prevention, and I wonder why the servicers don't also do this. Another thing is, why not go on Facebook. The servicers need to have a Facebook, because all these students and the younger ones coming up they have Facebooks. That is another way to contact them, and also they have to have their schools require that these students have e-mail addresses. These students move around a ton, and the e-mail address is one of the ways that I am able to contact these students. Like you said earlier, if you cannot get a hold of the student, your success rate goes down dramatically.

[BATTLE:] Okay, so I have Facebook, two references, because generally the references are being accepted as part of, I guess, exit counseling and some of the other, so I have two references, Facebook and e-mail addresses. What was your fourth one?

[AUDIENCE:] Emergency contacts. They usually put a different person down for that. That's the closest person to them. Their cell numbers and other things they don't change that as often as they use to, they use to change them a lot, but now you can go from servicer to servicer and keep the same cell number, but that's how I see that I've

been successful. You have to move with the times. Facebook is a huge issue and you have a ton of students that's on that.

[BATTLE:] Okay, one of the things that we are doing is updating the exit counseling, so exit counseling will be available on the NSLDS site, so that a borrower whether they have a FFEL or a Direct Loan can go to one source, so we'll add some additional data elements to collect that.

[AUDIENCE:] Thank you.

[BATTLE:] Thank you. There was another question?

[AUDIENCE:] I just want to understand. We are a Direct Loan school and always been Direct Loan, and we have always used Direct Loan servicing, so does that mean that now our Direct Loans will actually be serviced by other servicers besides Direct Loan servicing?

[BATTLE:] Yes, it will. Yes, so today you have one Direct Loan servicer, right? In the future you will likely have up to five.

[AUDIENCE:] And so, how do we know which loans will be assigned? Is it just random, is it….

[BATTLE:] It would be random. The actual distribution is going to be based on borrowers, so the goal that the Department made is that we want to make sure that the borrower remains whole and in one servicer, so we are going to evaluate where the borrower is before we distribute to a servicer.

[AUDIENCE:] So our current borrowers should remain with Direct Loan servicers?

[BATTLE:] Correct.

[AUDIENCE:] You are looking at maybe incoming freshmen…

[BATTLE:] Incoming borrowers that come in…

[AUDIENCE:] [inaudible]

[BATTLE:] Yes, and we will look at the, there is what we call a Loan Distribution Engine created that will route the borrower to a servicer, so we are going to look at where that borrower resides today and keep all of those borrower's loans together.

[AUDIENCE:] So if we have a student that transfers in that had previously had FFEL loans, then they might go with that same servicer that they had in the past.

[BATTLE:] Yes, but we're talking about federally held debt, so we're talking about Direct Loans, okay…

[AUDIENCE:] I understand that.

[BATTLE:] Okay, all right, so a borrower that has a FFEL loan that belongs to servicer A, and then has a loan that is PUT to the Department and then a Direct Loan will be, because those are now federally held debts, will be together.

[AUDIENCE:] Okay.

[BATTLE:] Okay. It could be different than the FFEL.

[AUDIENCE:] Would they try to keep the same servicer before they do this?

[BATTLE:] They are trying to keep the borrowers together.

[AUDIENCE:] Thank you.

[BATTLE:] Yes, and we know that we have a condition today where we are dealing with borrowers that are amongst all of the servicers, and they have a way or the Department is looking at ways to identifying who those borrowers are and getting them to one servicer. There was another question. Yes.

[AUDIENCE:] Currently we do have financial aid literacy programs where we have our guarantor come in on a quarterly basis, and they will give certain presentations. Now we, currently you were telling me before because of the lender issue with the conflict of interest, now that they are servicers, are we going to be able to have them come in and speak to our current students? Are they going to be able to educate them? That's the first question. And the second question is, we have a lot of continuing education opportunities through our guarantors at no cost to the school. What is going to be, are these servicers now going to be taking on that responsibility that the guarantors currently are using to educate us and at no cost to the school?

[BATTLE:] Okay, so let me talk to the first one and make sure that I am understanding your question. Today a servicer or guarantor comes in and presents financial literacy to either the schools or to the borrowers.

[AUDIENCE:] That's guarantors. We have never used…our lenders can also be our servicers, so we have stayed away from that. We have only used a guarantor.

[BATTLE:] Okay, so today the way the contracts are written if they are providing a service today for the schools, they can still do that. It is going to be up to the servicer. The contract doesn't prohibit or ask them to come into the schools and actually perform that service.

[AUDIENCE:] Okay.

[BATTLE:] So if it's done by a guarantor, I'll take it back to see how we are dealing with that, but today the servicers can. If they are doing it today, they can do that.

[AUDIENCE:] Okay.

[WALSH:] Also, they are not limited to any other entity that they might want to get.

[BATTLE:] Right. She's saying they come in today and do it for free.

[WALSH:] Right.

[BATTLE:] And they are not prevented from doing that, and then the other part was…

[AUDIENCE:] Right now the guarantors we have, I want to say every quarter they will have sessions offered to the universities for free. We get tons of literacy information to help train our staff, and what's going to happen with that if the guarantors are eliminated from the whole process, which it looks as if that's going to be….

[BATTLE:] Yes, the guarantors can still do that. There is nothing that the Department is doing as far as what the…

[AUDIENCE:] I'm saying if we go to Direct Lending, because why would the guarantors offer something if they are not even a part of Direct Lending.

[BATTLE:] I'm not sure yet.

[AUDIENCE:] Is the Department of Ed going to be offering that through these servicers, is my question.

[BATTLE:] Is the…. I'm sorry.

[AUDIENCE:] Is the Department of Ed going to require these servicers to then take on the role that the guarantors are doing right now with educating us for no cost to the university?

[WALSH:] It is not required, but they may do it.

[BATTLE:] They may do it, but it's not required.

[AUDIENCE:] Okay, because our biggest concern with our university is that the fact that with going to Direct Lending, you are basically taking away the education that we are currently getting from our guarantors.

[BATTLE:] Okay, I will take it back and see how we resolve that, but again we are not, the servicers are not required to take on that role, but if they are doing it today, we are not going to prevent them from continuing that relationship, and I'm not sure…

[AUDIENCE:] [inaudible] no reason to continue…

[WALSH:] Why?

[BATTLE:] They do have it, they do have it, yes. They do have a reason to continue it, not the guarantors.

[AUDIENCE:] The guarantors, I mean once you take them out…

[WALSH:] There is an ongoing discussion about trying to preserve some of the services that guarantors offer, and you know, we'll just have to wait and see how that plays out, but that is my understanding. You know, we certainly, John and I certainly value their contributions in the area of default prevention, and I know they do a lot of things for the schools in the area of default prevention, so we'll just have to wait and see if some of that service will be preserved in the new environment.

[BATTLE:] So we don't have an answer today about how we are going to handle the guarantor. I think we're over time, aren't we? Are we over time? Okay, where's my questions? Thank you for coming.