*Mark:* We have got a lot of materials for you this morning. We're excited to have three panelists. John and I are each going to present some information to you. So because we have so much content, we want to give you that first, and we ask you to hold your questions until the conclusion after each of us have presented our material, and then we look forward to having some time at the end for your questions. We've got a couple of microphones set up in the center of the room to handle that.

So without further ado, John Pearson with Federal Student Aid.

*John Pearson:* So it's so nice to have you all here. Default has become a pretty big issue for many schools. I did hear some people talking about gainful employment. Of course, loan default figures into that should we ever do that, but we haven't gotten there yet. But loan default is a big issue now, even without gainful employment. Right?

So I want to present our illustrious panel first. Angela Johnson from Cuyahoga Community College. Linda Sigh from Michigan State University, and Ricky Mitchell from Mitchell's Hairstyling Academy.

And this is where we're going today. And the reason we're holding the questions is because we want the panel to have as much time as possible. This whole presentation will drive towards the notion of targeting default risk on your campuses. Management by exception if you will.

And as Mark knows, and I have my background as a psychotherapist, I would run this whole room as a big group therapy session and we would talk. But we're not going to do that, so you don't have to share. So let's go ahead.

Section 1 we're going to talk about cohort default rate. The overview of cohort default rates. Section 2 we're going to talk about why should you be doing default prevention at all. What's the problem? Why are we here? And then Mark will talk about default prevention strategies. Some of the traditional things that you think of when you think about doing default prevention on your campuses. And we want to then expand your thinking to nontraditional strategies that have to do with student success. Because you can only do so much in the Financial Aid office.

And then we're going to get to our panel, who are going to talk about targeted interventions. Things they are doing on campus

only after having identified where some of the problems are. Focused strategies that deal with specific populations. So let's kick off.

Okay, so understanding we're going to talk about draft and official CDRs, numerators and denominators. The formulas that we use for calculating cohort default rates, and a little historical information.

So CDRs, released twice a year, draft and official. February is the draft. It's not public. Only you know of what your draft rates are. And the purpose of the draft rate is to give you a heads-up about what the official might be, but it's also to correct any information that might not be accurate. And we want you to do that. We want NSLDS to be as accurate as possible. Right? So if you're not going in and looking at your draft information, we want you to start doing that. It's also a way to shave something off your cohort default rate if you find that there are problems. People who shouldn't be in your rate and so forth.

There are no sanctions and there are no benefits. It's a labor of love. Also, it's a labor of compliance. Official, it's public. Sanctions apply. And there's also some benefits that are associated with the rate depending on what your rate is.

Next rate '09 will be released February 14, 2011. That kicks off a period of forty-five days when you have a chance to check your data and correct any data to correct the rate. The official rates are going to be released on September 12, 2011. The formula for calculating the rate, it's a very simple calculation. We look at all the people who went into repayment during the cohort period.

The cohort period is defined by the fiscal year in which somebody went into repayment, and the fiscal year is defined by October 1st. It starts on October 1st and ends on September 30th. So if somebody goes into repayment during that period, we track them that year, and the next one for a two-year rate. That year and two more years for a three-year calculation.

A non-average rate. We have two different ways of calculating cohort default rates depending upon the size of your school or the number of borrowers. We have an average rate that looks at repayment over a period of time for small schools. Schools that have fewer than thirty people that go into repayment in a cohort period. So we'll take that, we'll look at the trend of default over a period of time, and we do that so that the small numbers don't

skew what may look like a very high rate of default in any one period of time. Larger schools, we use a non-average rate, and that's thirty borrowers or more, and we're going to look at an example of that.

Default rates over time. This is where it gets interesting for the department. As you can see, in the early 1990s the cohort default rate's roughly one in five, almost to one in four loans that went into repayment when it did default. It's a very high rate of default.

Through diligent work on the part of schools, on the part of lenders, and very soon after that period of the early '90s, a direct loan program, and guarantee agencies, we began to drive that rate down. We also invited out of Title IV a large number of schools that had excessively high default rates at that time, they couldn't get them down. But we saw that number come down over time until 2003 where we hit a historic low of 4.5%. You notice, though, since 2003 the rate is beginning to creep up again. That's partly what we're concerned about.

The other thing is – and we're going to look at some numbers in a second that illustrate this – the size of the portfolio. You cannot compare the size of the portfolio in the early '90s to the size of the portfolio now. The number of people who are defaulting and the dollars that they're taking into default with them, which is an issue for taxpayers, is huge. Many, many times the number of dollars and the number of people who went into default in the early '90s. So it's really a problem of magnitude as well.

Why talk about loan default at all? There are consequences to taxpayers, to borrowers, and to schools. Taxpayers. Obviously the taxpayer is very concerned about the integrity of the loan program. We want as many loans to be in repayment as possible. Who's on the hook for loans that we don't collect? The taxpayer is. The department is the collector of last resort on the loans that we're talking about today.

The loss to taxpayers currently exceeds $1 billion per year in new loans. That's just new loans. And some of the statistics, I'm going to differentiate, I'm going to tease out some numbers for you as we go forward. So let's go ahead.

Dollars in default. 2003, just in that one cohort period, not historically, not all the loans that went into repayment during prior cohorts, but just associated with the folks that went into repayment during fiscal year 2003, $647 million. That number jumped in

2008 to $1.533 billion. Big loss to the taxpayers. These are nonperforming loans, and the department and the taxpayer own those loans. It would be much better if they were on the performing side of the portfolio.

So volume of dollars in default. Currently it's not used as a measure. Not from a compliance standpoint. Although if you had an excessive number of dollars that went into default, it could invite a compliance review. It could do that even if you had a low cohort default rate. It's one of many metrics that the department uses when deciding whether or not to do a compliance review of schools. So it's out there, but currently there's not a regulatory requirement about that. So you can be a big school with big volume, even though you have a small or a very low cohort default rate, but you could be contributing a lot to the default side from a dollar standpoint. And so we want all schools from that perspective to pay attention to reducing loan default.

Consequences for borrowers. We've all talked with borrowers about these things before. I've often thought that the most pernicious of these aspects, of the things that happen to people when they go into default, is the first one on the left-hand side. Because Pearson could go into default for $250. Very small amount of money. And if I'd been counseled maybe I would have repaid it, but I've gone into default.

But for years, what will happen is that anybody that I buy credit from, that I have a credit card from, I buy credit to buy a car. I buy credit to buy a house. I'm buying credit, and people are charging me for the luxury of buying their money if you will. And if I default on as little as $250 I'm going to pay top dollar. I won't pay 7% or 8%. I might pay 12% or 14% or 19% to borrow money.

And so there's a penalty, there's a fee if you will. There's a long-term penalty that I will pay, and I may default on $250, but I may pay $10,000 or $15,000 in excessive interest charges for a very long time simply because I defaulted. Sot the borrower is docked if you will. So that's something that I like to think about when I do this work. So let's go ahead, Mark.

Borrowers in default. What are the numbers of people who are going into default? Going back to base year of 2003, 115,000 people went into default in that one cohort period. By the time we reach 2008 that number had more than doubled to 238,000. Our expectation is that we're going to see the same kinds of increases over the next period of time. And you'll see why in a second.

The consequences for schools. Obviously, it's a measure of your administrative capability. The department tracks them. If you have an excessively high default rate, just like with high dollars in default, it could invite a compliance review. We certainly don't want you to have to go through that.

It may negatively affect in the court of public opinion the quality of your school, and you certainly don't want that. Provisional certification, possible loss of title for eligibility in certain circumstances. And even a threat to the access of private loan funds for some schools. To the extent that you use private loans, you have to know that the lenders of private education loans are looking in some instances at your cohort default rates to determine A, if they want to lend money to students, or B, at what rate. And if your cohort default rate is high with the department, your borrowers may be paying more for those private education loans, driving up the cost of education at your school. Something else to think about.

So loan default is going up. These are the kinds of things that keep us awake at night. Educational costs are going up. More students borrowing more money. What they're borrowing. What are they borrowing? A combination of Stafford and private loans. And that cumulative debt is making it harder and harder for people to repay loans. People are staying in school longer. They're borrowing more money.

It's not uncommon for people to actually graduate, those are the folks that we love. And Mark will talk a little bit more about why we love those folks so much. But people are staying in school five years. Right? Five and a half, sometimes six years. What are they doing? They're borrowing more and more in order to pay the cost of education. And people who are staying in school that long sometimes will come out with an aggregate debt of $50,000, $60,000 or $70,000 to repay with a Bachelor's Degree. Very, very difficult. Very difficult.

Of course, part of the changing landscape is the change in the calculation that we're making, and the transition to an all-direct loan origination and servicing scheme. And as you know, it's possible that with all of the transition, with the purchase of foot loans and the transition to direct lending, schools from the Pell community may have experienced, or may be experiencing some discontinuity. Right? You're having to learn a new set of rules. New partners. New ways to do things. And it takes a little while

for those things to set in. So you know, that's just another thing to pay attention to in terms of increased default risk for your school and to the extent that you're concerned about the department and the taxpayer for everyone.

The economy. Obviously cohort default rates are all retrospective. These are things that have already happened. We're looking back when we look at cohort default rates one to three years. Right? And so what we know is that because we've had a tough economy making it more difficult for people to repay their loans, that some cohort default rates are going to be going up in the next couple of years, in '09, in '10 and '11, apart from any change in the way that we calculate rates. So we have that pressure. And then we have the change in the way that we calculate exerting additional pressure on what will likely be increasing rates for almost all of you.

And more schools may face compliance difficulties in the next few years. It wouldn't be uncommon or hasn't been uncommon for us with a two-year cohort default rate scheme, for a two-year calculation to see four or maybe five schools run into compliance issues. And what I mean by are 25% for three years in a row. Right? Or 40% for one year. I don't know if it would be a stretch if we saw hundreds of schools in '09, '10, and '11, under a three-year calculation experiencing that kind of distress. And I think that may be why there's so many people in this room. Remember, it's not going to be one thing that will cause your rates to go up. It'll be a combination of things.

A three-year calculation. We're expanding that window that we track borrowers from two to three years. There's a transition period so that the sanctions that apply to the three-year calculation do not kick in until FY 2011. But there are requirements that come with '09 and '10. The penalty threshold has been raised from 25% to 30%. The requirements that kick in in '09 and '10 we're going to talk about on the next slide.

Compliance issues could begin as early for schools September of 2014, and that presumes that for the two prior years – for FY '09 and FY '10, and a three-year calculation – that you hit 30%. So just like a two-year calculation at 25%, now we're going to be focused on three years at 30% or one year at 40%. So the first year you could hit that would be with FY 2011, which you would receive in September of 2014.

And there's going to be some changes in the disbursement relief and that threshold is from 10% to 15%. We'll talk about that in a second, so let's go to the next slide.

Again, this simply is a graphic illustration in the expansion of the cohort default calculation window from two to three years. We always have that base year of people who went into repayment and that's in blue. That would be our denominator of 5,000. And in our example, we have 125 people in a two-year and a three-year calculation who went into repayment and defaulted in the first year. 230 in the second year. Remember, we're tracking the same group. That same 5,000 people for a third year.

And things happen to people. Right? Unemployment. Underemployment. Divorce. Ill health. Things will happen to that group of 5,000 people that are unexpected, and some of them will run into problems making their payments. And so we simply add that third year on, and you can see the difference between a two-year calculation and a three-year calculation. And this is modest we think.

The two-year calculation was 7.1%. The three-year calculation is 12.1%. It will not be uncommon for schools to see a doubling of their rate. Think about it as a bell curve, and the bell curve is really a curve associated with risk. And so if your school has excessive risk in your population of borrowers, excessive default risk, you might see more than doubling. If you have very little risk, you might not see even doubling, but you'll go up. Probably go up. Very, very few schools will not go up simply because things happen to people, and they keep happening to people.

The next couple of slides are simply a graphic chart or graphic illustration of the transition from a two to a three-year calculation scheme. We'll hold onto that two-year calculation and the sanctions through FY 2011. But there's a concurrence in the calculations. Remember, the same people who went into repayment in 2009 for a two-year calculation are also the people we're tracking for the FY 2009 three-year calculation. The same 5,000 people. It's just that you won't hear about that calculation until one year following when you would normally receive your two-year calculation. Right? We're just tracking it one more year, then we'll let you know what it looks like. Hopefully you're tracking it, too.

Let's look at the next slide. Again, if you look at that right-hand column, sanctions don't kick in for FY 2011 until September 2014.

In your mind, just think those two boxes where it says NA on the right-hand side, two-year calculation sanctions apply. The second line down would be two-year sanctions apply. So it's two-year, two-year, and then three-year sanctions kick in.

Now, so I don't want to mislead you. These are not sanctions. These are requirements. So the three-year calculation brings with it certain things that you must do if you hit 30%. And what is requires is that in that first year of 30%, whatever year that happens to be in the future. Could be 2009 or '10, or '11, or some year beyond that. But you have to put a default prevention plan and taskforce together.

The purpose of that taskforce is to do an evaluation or an assessment to determine where the risk of default is coming from on your campus. You can't go down and purchase it from Kmart. It has to be about your borrowers. Because the interventions have to be about your borrowers. Your plan has to be about what's happening on your campus with your borrowers. And once you know that, once you've done that assessment, that study, that research, then you have to come up with measurable interventions that will get at the problem that your borrowers are having. And you take those measurable interventions and that's your plan. And then you package it up and you send it to the department.

Well, in effect you're done for that year, but what happens the next year if you're unlucky enough to be at 30% the second year? The next year? The second consecutive year. You have to do the whole thing again. You have to go back and study, and figure out where that's coming from, create interventions. There may be some similar interventions, but they might be different. And then you'll submit the plan to FSA. We'll look at it this time, and we may suggest some additional things.

Remember, the clock is ticking the whole time. You get three years at 30%. So that by the time we send you – this is how tricky this is – by the time we send you your second official rate – right? At 30%. You only have a twelve-month window in which to affect your third one. Because it's delayed. It's always delayed. So what you don't want is even the first one at 30%, because that starts the clock. Or if you get one at 30%, you have to jump on it right away.

But schools that have gotten thirty and thirty two years in a row, it's going to be tough – I will tell you right now – to change the

direction that your school has gone in. We're here to help you with that, by the way, and so are your servicers.

Third year you could lose eligibility for participating in Title IV aid. You can appeal it. Same kinds of appeals that you have available to you now. That part of the law has not changed.

Three-year trial rates. Last Fall, last December, we published three-year estimated rates, and we wanted you to know what these might look like. While you can expect an additional year, we've published '05, '06 and '07, you'll see 2008 in January 2011. And it's going to be very, very close to what your official CDR, or at least your draft CDR, would have been were that the first year. Right? Because we're using the same query in NSLDS that we would use to run your data for your cohort default rate. So it's not so much an estimate anymore. So pay very close attention to what that three-year estimate looks like in January 2011.

Other sessions today. Checks go to Session 15 because you may be using the appeals system. Let's suppose that you have gotten your draft rate, and you want to check – or you see data that shouldn't be in there, or it's incorrect in some way, you want to do an incorrect data challenge. You can do it online efficiently, effectively, quickly, by using the ECDR appeals system, and they're going to talk about it in Session 15. And then there's going to be some additional discussion of cohort default rates and the cohort default rate calculations and compliance issues in Session 18. So I think I'm going to turn it over to Mark. Right. He's going to talk about some strategies.

*Mark:* I'd like to thank you all for your interest in preventing defaults, and for choosing to come to our session today. And John and I have worked together on default prevention for about ten years. I often joke about our different presentation styles. He likes to clip on a microphone, come right out there among you. I prefer to stand at the podium. There's a lot of you out there today. It feels a lot safer up here. So I'll just stay where I'm at.

But I'm going to cover a couple of default prevention strategies for you today. And for those of you who have followed along with us over the years, you'll see that some of these sound kind of familiar. These are things that we've talked about in the past, but we're absolutely convinced they're things that schools need to do in order to get the best results.

And as John likes to say in reference to a couple of things he's presented for you this morning, that schools just can't afford to sit on the sidelines anymore. So if you're one of those schools who is not actively involved in trying to prevent defaults, we strongly encourage you to do that.

Let me just review a little bit of what your motivation might be. Is it to help us protect the integrity of our loan programs? Is it to avoid some of those dollars that are going into default? Perhaps to improve your school's cohort default rate. Or maybe it's to save the students the consequences that John described for you if they go into default.

And our loan servicers are among the best in the business, and they do a lot of things to try to help your students be successful in repayment. They make telephone calls. They send emails. They send correspondence. A lot of effort on their behalf. And when you look at those numbers that John gave us, 93% of the students are repaying their loans according to the calculations that we're currently using, but we want to work on that 7%. Try to get them to repay.

So here's some of the basics. We really encourage you to have a default prevention team, and more about the composition of that team in a couple of minutes. But a default prevention plan, something your team can work with. We encourage you to use a couple of different kinds of strategies. What we would call the traditional default prevention strategies, or maybe historical. There's a better way to describe that. And then some nontraditional strategies which focus on student success and retention. And of course, the best option is to use a combination of these kinds of strategies, and we'll talk a little bit about that here in just a minute as well.

We believe and have seen evidence from schools that the best success is achieved when you have a plan, and that you follow that plan. Bring people together with a common goal of trying to reduce default on your campus. You just need that for consistency sake. That's what gives you consistency over time.

We have a secretary. Secretary's default prevention plan that's available for you. It's kind of a everything-but-the-kitchen-sink approach. There's many more things in that plan that you possibly do, but the idea is to review some of those things and see what will work best for you on your campus.

And also that plan should not remain static. It's an evolving thing. You know, discard the things that aren't working so well for you, and you try to add in other things that will give you more success. We know that all schools, in your offices you're being tasked to do a lot more things all the time. Sometimes you're not able to replace staff. We know that this can be hard work sometimes. So it makes sense to focus on the things that will give you the best results. And these are a couple of those things that we're talking about here this morning.

What we like to see you do I pull together some of the other people on your campus. Now if you're a one-person operation, at least try to get a couple of other folks that could work with you, but it's a good idea to try to pull other folks into what you're doing. People like a senior school representative that would maybe have the clout, high enough up the food chain to kind of help you get the resources that you need. Representatives from the different offices on campus. Admissions. Registrar. Bursar. Whoever can contribute.

And regularly scheduled meetings. We believe this should be kind of a formal process. Not just cobbled together, but meet regularly. Take minutes of the meeting, and make sure that you put those out to folks following the meeting. Work from an agenda. Just do what you need to do to make this a pretty formal arrangement. So that again, you get the best results.

As we talk about including some of these other folks on campus into our default prevention efforts, a lot of times these folks do not know a lot about default prevention. They don't know what's at stake for the school. Again, some of the things that John referred to during his presentation. So you may have to do a little training upfront with these folks so that they buy into the whole concept of the team and working together.

And then of course, you should evaluate your progress, adjust the plan. We recommend that you celebrate successes. That you try to call as much attention to what you're doing as you possibly can in your school newsletters, those kinds of things. Heighten awareness for default prevention, and the things that are at stake.

I mentioned the traditional approach which is again kind of a historical approach. And it's the way that we've always done things. Financial aid has sort of been the focus for default prevention. And what you do in financial aid is to pretty much help the borrower develop a healthy relationship with their loans.

You give them the money. You turn them loose on campus to pursue their education. And have really kind of limited control over what happens after that. Again, the idea that default prevention is a school-wide responsibility. Not just something for the financial aid office.

But some of the things that you do is you help them to understand loan repayment through the entrance and exit counseling that you do on your campus. And in some cases financial aid is involved in financial literacy training, which we continue to believe is a very important thing that schools can do. You also update the enrollment status changes. Another very critical factor in the financial aid office. Hopefully when you know that borrowers are at risk, you engage those borrowers and try to help them.

A quick look at our entrance and exit counseling products so you can see where those are available for you. And we also wanted to just highlight one of the sessions, Session 19, which is offered over the next three days and that outlines all of our counseling products in greater detail.

We recommend that you introduce schools to NSLDS For Students. It’s a really great way for them to kind of take responsibility for their own loans. They can get in there 24/7. So please introduce them to NSLDS For Students.

I mentioned financial literacy. I was reading an article the other day. I don’t recall who did the study, but essentially the study found that 49% of schools are offering some kind of financial literacy training to their students. So if you’re in that other 51%, please consider what you can do to help them. We know that a correlation exists between increased financial literacy training and decreased defaults. And schools can play a very important role. It’s something that will help them for the rest of their lives. Not just with loan repayment.

I’m sure you all have read the same articles and news clips and such that I’ve read. A lot of young people especially are challenged when it comes to understanding even some of the basics related to managing their personal finances. If you, we can teach them to be better consumers of credit, that’s going to help with loan repayment, it’s going to help with the rest of their lives. So consider if you might be able to make this a part of your curriculum.

Some schools offer financial literacy for credit, which is a great thing. There's a lot of free resources out there. I'm going to touch on a few of those for you. And certainly there's some good online financial literacy programs. And if you're in that 49%, is there something you can do to enhance the literacy training that you're already providing? See if you can't bring it up just another notch. There's a lot of Federal financial literacy information out there. It's all free. It's all free.

Now we're going to shift gears. I'm going to talk about protecting the grace period. As you know when a borrower completes or withdraws or drops below halftime, that six-month grace period kicks in. We had an opportunity to look at many millions of borrowers, and we've identified certain characteristics that we find pretty common among those who default.

And one of the things we find is that most borrowers who default did not receive their full six-month grace period. Now when I say they didn't receive it, they actually did get it, but some portion of it elapsed before they knew about it. And the problem has to do with schools not reporting in a timely and accurate way to NSLDS. Let me just give you a quick example.

Let's say that the student comes back for the second semester in January, let's say a traditional calendar, and about February 5th or 8th or something, they decide to leave. Now they don't always come down and tell you that they're leaving. Sometimes they just kind of bail out. Well, if you don't find out that they've left until like May when you're watching for them to reenroll or some other thing, then a significant portion of their grace period has elapsed and they may not even know about it. So it's important that schools learn when students leave campus, and then report that very promptly to NSLDS. Why is that important? Well, our servicers have a lot of things that they do to try to prepare your students for successful repayment.

The first thing they're going to do is reach out to the borrower and try to establish a relationship with them. They're going to make sure that they're in the correct repayment status. They might help the student change into a different plan. They're going to discuss their self-service products where students can take some responsibility for their own loans. They're going to update and perhaps enhance the borrower's contact information. Kind of a recurring theme as if we can't talk to them, we can't help them. And sometimes we lose track of borrowers, as you all do at the schools.

And then finally, consolidations are not quite as popular as they were a few years back, but if a consolidation might be appropriate, then they'll discuss the consolidation with them. So again, the servicers have a lot of things that they try to do, and we want to make sure that they have that full six months in order to do it.

Another shameless promotion for one of our sessions here. The essentials of Federal student loan servicing is Session 3, and it's offered over the course of all three days this week – Tuesday, Wednesday, Thursday. You can check your agendas for times. And then I'm very excited about this. You actually have the opportunity to attend a session by each of our servicers separately. And there are the session numbers and the times, and I would encourage you to attend as many of those as you possibly can so you can see about the good things our servicers are doing.

I'd like to mention how our contracts are kind of structured because it's a little different than what we've seen in the past. Our servicers are essentially competing with each other, which is a healthy thing. They're each one trying to do the absolute best they can to provide service to you and to your students.

And the way that we evaluate them is based on two things primarily. One is customer service, and we get that information by sending out surveys to those of you in the schools and to your students, and some of us in Federal Student Aid that work with them. That's the customer service component. And the other way we measure them is according to their ability to prevent default. So they have a vested interest in trying to work with us and with you to help those students avoid default.

And the prize, essentially what they're competing for, is more loan volume. So we're all working in the same direction. It's a really good situation I think. The winners are the schools and the students, and the taxpayers.

Another sort of big picture statistic is contacting delinquent borrowers. Again, we've looked at millions of borrowers and here's just a couple of quick characteristics that we identified for you. Half of them had bad telephone numbers. Of those borrowers who defaulted, the vast majority of them were not contacted even one time during a 360-day collection effort.

What we generally find is that borrowers don't understand that there are options available to them other than default. And if we

can't have that conversation with them, we can't tell them about those options. So this is a little homework assignment if you're willing to take it on. What we're encouraging schools to do is create a separate borrower contact sheet. And the goal is to supplement the information that we get in the MPN, but create your own sheet. Maybe get this information during the admissions process. And if you want to improve the accuracy of the information, tell borrowers that you will spot check or verify some of this information, or you may do this and try to do it if you can.

And before John and I ran around telling everybody to do this, we decided we should check with our policy folks to make sure that was an okay thing to do. So we explained what we wanted to do and the only issue is that you cannot make receipt of financial aid contingent on the borrower completing this particular form. But this information is absolutely solid gold.

So it doesn't have to be too complicated. Take a form and cut and paste your logo at the top of it, create some fields for information that would include all of the borrower's email addresses. Contact information for the siblings, parents, grandparents. Include email and cell phone numbers.

As we've been talking about this, we've had several schools that have offered some additional tips, and this third bullet is one of those. Ask them for the number at which they can always be reached. You know, that could be Uncle Joe. That could be their best friend from college. But ask them for the number and the cell phone, email, whatever you can get, for the one person through which they can always be reached.

And another suggestion from the schools is ask them to identify the social networking sites where they have an account. I've listed just a handful of either no-cost or low-cost methods for trying to locate your borrowers. I learned just recently that number five, use of social networking sites, there's a little litigation springing up around that. Just starting to hear a little litigation. Don't really know the details, but obviously be cautious of your use of the social networking sites. It might be a good idea to run it by your legal counsel if you're doing anything especially creative there. I know that a lot of schools have reported to us that they've been successful in locating borrowers through those sites.

Now we're still talking about reaching out to borrowers. We're talking about the ones that are delinquent, usually seriously delinquent. We've found that telephone calls are the most

effective. Ideally get hold of the borrower, do a three-way call, get the servicer on the line, and let them talk to the borrower about the options that are available to them. We've had schools report great success with that.

It's a light touch. You know, we're not asking you to collect loans. That's not your role. But it is a useful thing if you can facilitate that connection again between the delinquent borrower and the servicer.

Letters and email. I mention handwritten notes. We've had some schools that have had good success with that. The only thing that I would mention is that by the time the student gets very delinquent, the servicer has used a lot of written communications in an effort to connect with them, and they haven't been successful. So maybe you will.

If you are going to send a written communication, let's do something different that's going to get the borrower to open it. Okay? Because a lot of times what we find is you know, it'd be naïve to believe that they're just behind on their delinquent loan, their student loan. They're probably behind on other things as well, and they may be in that stage where they're not opening correspondence.

So forget about the white business envelope. Think of maybe something colored. You know, blue or yellow, or you know, it might be interpreted as free food. Borrowers would always go for that. We recommend that you don't run it through a postage meter. Put a stamp on it. Do everything handwritten. Put a little personal note in there. Again, the idea is to just connect with the borrower, and get them to call you back so that you can help them with their loan.

I'm not going to go over these. This is just a reminder for you that we do have some good default prevention reports available to you through NSLDS. The nontraditional approach is different in that it focuses not on that healthy relationship with their loan that I described, but a successful education, a completed education as ideal. Students who are successful tend to repay their loans. I mean, not in every case, but as you can imagine, they're in the best positions. So leverage whatever efforts you have ongoing at your campus to try to increase retention. Graduation is a good thing, and some help with employment.

We've seen this time and time again. Looking at those millions of borrowers, the majority of the borrowers who defaulted did not complete their academic programs. I just can't stress that enough. Whatever they were after – a Bachelor's Degree, an Associate's Degree, a one-year certification of this or that – the borrowers who default typically don't complete that program.

And that fact alone puts them at high risk. Just a handful of things here to remind us of what they're facing when they don't complete. They didn't get the academic credential they were seeking. They may have reduced earning power. They will have reduced earning power more than likely. They probably didn't benefit from school job placement, because most of the schools I've talked with offer that service to their graduates. Now they've got one or more loans to repay.

Oftentimes they don't receive exit counseling. Generally you send the information, if you can't connect with them, but it's certainly questionable whether or not they're reading it and understanding it. They may not respond to communication attempts from our servicers, which is not good. And if the school doesn't update NSLDS in a timely and accurate manner, then we have that grace period situation where some portion of it may have elapsed, and the student might not even know.

I imagine if we had the time, you could double or triple my little list here, but here's just a few of the things that put your students at risk. It could be any one of these things. It could be some combination of these factors.

I mentioned earlier that I thought it was important when you got so many other things to do, to focus your attention on the things that will give you the best bang for the buck. And knowing when they leave and taking some steps to work with them as soon as possible is going to be one of the best things that you could do at your school. First you have to know when they leave. So here's some questions to ask.

Do you take attendance? I know it's not practical at every school, but they do have some electronic capabilities now where even a large school can take attendance if they wanted to. If you issue midterm grades, that can be a good indicator of the student who's having trouble. You know, if at midterm they have three Ds and two Fs, what are their chances that they're coming back? Those students we should be in contact with to find out what their intention is and see if we can assist them in some way.

Do you receive alerts from anybody else on campus? What you don't want to let happen is to let academic problems or social problems translate into a default risk. So this is what we encourage you to do. When you have a student that's in trouble – and this could be somebody that's just kind of struggling on campus, or maybe they've already left, but when you have a student in trouble, try to reach out immediately.

The first choice is always going to be to help them stay in school. I think this should be somebody with a good degree of skill, reaching out to these students. Usually they're going to be off campus. It would be not as common to be able to offer assistance while they're still there unless you have some kind of a coach or mentoring program that would come up. But for most schools, the first time they know is after the borrower has left class. So my recommendation is have someone or some folks with a fair degree of problem-solving skills and have them reach out to the borrower.

Now we're not talking two, three weeks down the line. We're talking about two or three days after they've missed several days of classes. And maybe the conversation sounds something like this. You know, gee, Charles, we see you missed class Monday, Tuesday, and Wednesday. Is everything okay? And then you listen. Is it a transportation issue? Maybe you can help resolve that. Did they miss a couple of classes due to illness and they're thinking they won't return because they can't catch up? Then the offer is, well let's find out Doctor so 'n so or this instructor's office hours and let's get some time booked in there with you.

It's a problem-solving thing. The communication to them is this is not insurmountable. You can come back and we'll help you be successful. Again, that student's success.

And if you cannot get them to return, for heaven's sakes, at least make sure they have a clear understanding of their responsibilities, because my belief at least is these borrowers who bail out don't complete are the absolute least informed of any borrowers when it comes to understanding their repayment obligations. Some of them don't even think they owe any money.

And then finally, if you can't get them to come back, see if you can at least learn why they left, see if you can determine some kind of a pattern or something that would let you help other students.

Now, that's all I've got for this morning. We've got three panelists. I'm going to give John a couple of minutes to kind of set that up for you.

*John Pearson:* Great. So what Mark has been talking about, especially in the last part of his presentation has been what steps can you take to understand better who is likely to default from your current student population. And we find that out by looking at people who've already defaulted.

We know some general things about people who have defaulted. People who don't succeed academically primarily. And so you can better understand who may be at risk of default in the future by looking at who's defaulted already. It's sort of like epidemiology. Right? You've got to look for patterns of healthy repayment and unhealthy repayment. And so once you know that, you can begin to target who is likely to default, and those are the folks in your current student population you may want to reach out to.

So let's go to the next slide. So here are the questions. Who are my at-risk borrowers? Learning to identify risk factors. Now if you were at 30%, you'd have to do this anyway. But we're suggesting that this is a way to not become one of those 30% cohort default rate schools. So you want to identify who your at-risk borrowers are.

Then you have to determine when should I intervene, and how? What steps should I be taking? The right time and the right strategy. Understanding who's likely to default or is at risk of default and why.

Next slide. When would I intervene? It could be in school. It could be during the grace period. It could be in repayment. But you're tailoring your activities. It's not one-size-fits-all. You're tailoring your activities, and our panelists are going to talk about how they have tailored their activities. Because you don't have unlimited resources, and unlimited staff, and unlimited money. So you have to focus your efforts on those people who are most likely to default.

These are simply examples. The next slides. Examples at in-school, at-risk borrowers. Targeting people who are in school, certain people in school with extra loan counseling. Financial literacy. Collecting additional contact information. Which ones? Why would you do that with certain people? Because they might

be students who are at risk because they're on academic probation. Not people who aren't on academic probation, but those who are.

People who have expressed the intention to leave. They may not have left yet, but they may be saying I don't know that – this might not be right for me. They may have come in and spoken to somebody about the fact that they're a little shaky. They're just not sure. And you know, people make a decision to leave early on, they just don't leave for six or eight months until later. Until they've really ruined their academic credentials.

Let's look at the next one. You might choose to reach out in the grace period. Another very profitable time to reach out to borrowers. But very specific interventions. Validate contact information, reenrollment assistance, and so forth. Job placement assistance. But this could be for certain borrowers. Not everybody. Let's say people who didn't complete again, but you're reaching out with a certain set of activities.

Or you may choose to wait until they go into repayment, or you may add this. That second bullet is very common. Targeting borrowers who are 240 or more days delinquent. Because your servicer probably has failed with these borrowers. If they're delinquent after eight months of the kind of medicine that the servicers have for them, they're unlikely to respond after that. That's when you can make a difference. And I know you can do it. I know there are many people in this room who've done it.

But here's a different way of thinking about that end repayment status early in repayment. Why would I do that? If I knew that there were certain borrowers who have gone into repayment who didn't complete, people who dropped out, they're already at higher risks, and so maybe you want to intervene with them early in repayment. Don't wait until they have eight months of delinquency.

So target, understand, target, be active. And now our panel will discuss with you some of the things that they're doing. We're going to start out with Angela. Angela Johnson.

*Angela Johnson:* Good afternoon. As John and Mark had mentioned, I'm with Cuyahoga Community College in Cleveland, Ohio. You do have a copy of the one-page summary that I provided. And just to give you some background, our default diversion project came out of our two-year Ohio project on default diversion, so it's a two-year

community college sector. We thought it was important for us to really focus on default diversion in a really strategic way.

There are twenty-two community colleges in Ohio, and fourteen of those schools were involved in the project. So what we did is we took a look at some of the datasets about our students and our students that were in default and we began the project back in 2005. We looked at our cohort default of students from ’02, ’03, and ’04, and tried to look at some common denominators across those groups of students.

And then for Tri C, which is what we call ourselves, we took a look specifically at how does that data that we know about our defaulters in those years compare to our current student data so that we can understand who our students are in a different way.

And there was a lot of information we had already knew about our students because our institutional research department does lots of very specific targeted data analysis. So one of the things that we knew that was really important that I’ll discuss with you today is that 60% of our students tested to developmental education English, and 80% into developmental math. And so what that really means for us is that it’s going to take our students a lot longer to finish. They will have reached 150% or more of their standards for progress for academic progress for stats.

And we also know that of course, and even mentioning earlier in Tony Miller’s comments, that one in seven students take more credit hours, borrow more money, or have more Pell grants before they actually finish and graduate.

We also know that 70% of our students are first generation college students. 50% of our students receive some type of financial aid. We have 33,000 students. And about 25% of those students receive student loans. We also know that in the years when we began looking at the research and looking at the project, there’s a lot of changes in our state and our state economy which meant community colleges no longer had state aid. So we saw about a 13% to 20% increase in student loan borrowing.

We also knew about the students in terms of as I mentioned their developmental English or math. Those students are more likely not to finish or not to graduate. So our target and our focus for that group specifically was a mentoring program to help those students really get focused and stay connected with school, and really

having someone at the institution who cared about their academic success.

And the mentoring program has been in place now, I think we're going into about our eighth semester. Our spring semester, this coming spring will be our third year. So we haven't seen the graduation rate from it, but in terms of retention, we have four distinct campuses, but we know that between 4% and 25% of our students have a higher retention rate that are involved in the mentoring program versus those who are not. And it varies from campus to campus, and it varies from term to term, just based on what term they're enrolled.

So our focus has been continuing our efforts on our mentoring program, which is also a part of some of our initiatives from a national perspective for community colleges and our Achieving The Dream initiatives. So there's some community colleges in the room. You're probably very familiar with Achieving The Dream. We are one of five Achieving The Dream schools in the state of Ohio.

So I just wanted to share with you as it relates to dissecting the population of students, understanding your students and default rate compared to your current students, and how you can really use past data to really inform what strategic plans and what steps you should take to help your students who are currently enrolled stay focused, graduate, and obviously repay their student loans. Now, I'll let Linda share her story.

*Linda Sigh:* Thank you. Hi, I'm Linda Sigh from Michigan State University, and we're a pretty big school. 46,000 to 47,000 enrollment. Our default rate is 1.7, which is pretty decent, and you might say well, you know, that's good. Why do you need to do anything? But we're a big school, and we lend big dollars, and so that's the impact we have on default. Even though our rate is not that bad, there's lots of dollars.

We did $260 million in sub and un-sub loans for '09, '10. And our average undergraduate student graduates with a $21,000 staff or loan debts. So it becomes important to educate our students on debt, and to minimize the amount of borrowing they do, or at least make sure they understand what they're getting into when they do all that borrowing.

So a little bit of history. In June 2003 we were invited to participate in a Department of Ed initiative on default diversion, and we actually had that as our QA assessment project that year.

And there were two parts to it. Confronting loan default at the end – towards the end at late-stage delinquency when the students were getting ready to default, and then a more proactive approach of trying to you know, intervene at the very beginning. And we did do late-stage delinquency for quite a few years. That involves contacting the students as they're nearing the stage when they're going to go into default, and trying to intervene and offer them options. But that's pretty labor intensive because it does involve trying to find the student, call them, and work with them. And so we had some research problems and finally had to give that up, although it was successful while we were doing it.

So instead we focused on trying to intervene at the beginning. And we analyzed our defaulters for the prior three years, which is a very good thing to do, so you know where to focus your energy if you have limited resources. We decided that based on that analysis, we were going to focus on our freshmen and sophomores who seemed to be struggling academically.

Once again, we had to come with a way that we could do this without too much staff resources because of our limitations so we developed an online financial counseling website. I say develop. It's our own website, although we kind of stole text from a whole bunch of different sites and put it all together, and made our own with a quiz at the end.

And so at the end of every semester, we identify students, these freshmen and sophomores who were struggling academically, and sent them the email that said we're not going to disperse any further loans to you until you take this online counseling site – take the quiz at the end.

And in addition, those students also had to meet with their academic advisors so those two things – they had to take our financial counseling online, and meet with their academic advisor before we would release future loans for the next semester.

The issue we had with that was that the academic advisors got backlogged because for Fall there would be about 400 freshmen and sophomores that fell into this category. And so there was this bottleneck and, you know, we usually disperse loans ten days before, and the students could buy their books.

So by year two, we kind of refined that a little bit and said okay, we're going to also develop an academic counseling site. Things on study tips. You know, academic success. Time management. And the student will have to take both of those – do both of those counseling and take both of those quizzes before we release their loans to them.

And on the one page handout that – on my one-page handout there's two websites. There are demo sites for the academic counseling, and the financial counseling. So there may be some you know, things that need to be updated because this is just a demo site that we let other schools and folks look at.

So we have been doing this now for probably six or seven years. Our default rate now is – it started at 2.8 when we began the project. It's down to 1.7. It's been steadily going down. It's been 1.7 for two years now. So we're kind of considering it a success because we're keeping the default rate down.

You know, one of the things I would just encourage you know, is find the group you want to focus on. You might not be able to work with everybody, as we found out, but you know, you can find the group that you really need to work with. And you may need to adjust the plan every year. We did. And in fact, for this upcoming year, we've decided that we want to include our juniors and seniors. There's not going to be that many of them. It may add a couple hundred to our population. But we think it's a good thing that you know, if they're struggling academically. Also, as a junior or a senior, they could benefit from this, too.

So we're constantly looking at what we're doing, how we can do it better with our limited resources, and I would think that that's what you need to do. You need to find the group you want to focus on if you can't focus on everybody, and do what works best for your students and your staff that you have in your office.

So that's where we are now. We're expanding our population and continuing with our default diversion plan. Thanks.

*Ricky Mitchell:* Hello. I'm Ricky Mitchell. Mitchell's Academy in North Carolina. We do not have 47,000 students. We have four small schools. Being a small school has its own unique set of challenges as any size or type of school has that's represented in this room.

For example, the unlimited staff that John referenced earlier – I'm it. One thing we've always attempted to do, even being small, is to try to communicate individually with each student in every aspect of their school. This is time-consuming but we've found that in doing so our students are much more open to approaching us later should they have concerns.

Like most schools, the majority of our defaulters are simply those who withdrew without completing the program as Mark referenced earlier. Because of this, we focus our efforts very heavily in the pre-loan time period. We want to ensure that the student realizes that they will be taking on debt. I'm still amazed how many view the loan the very same as they do a grant.

Their responsibilities, consequences of default, as well as several other issues that are loan related. All this is done right upfront fairly extensively. However, as most of you in this room will probably realize, no amount of counseling will ensure 100% understanding.

During this time we also gather much more personal information that was also mentioned earlier on each borrower. Much more than is considered normal entrance counseling. We truly do get the names, addresses, phone numbers, emails of people that are very close to the student. We even get to the grandparents whenever possible. This can be very handy later on.

Sometimes shortly after the midpoint of enrollment we contact each borrower by email to ensure that communication of some type has begun with the direct loan servicing center, or direct loan in general. This could be anything. To check to see if they've simply logged onto the website to look at their own information. Anything at all. We just simply want that communication line to be open.

We want them to feel comfortable in communicating with direct loan. Any students who withdraw prior to graduation, though, are definitely a top priority with us when it comes to default aversion. We make every effort to contact each one that withdraws within a week of their last date of attendance. We're required to take attendance, so we know each week exactly what's going on.

The initial attempt is made by email. However, if we don't get a response, that's when the telephone calls start, and the phone calling is very effective – at least it has been with us. And that's

where those other references that I mentioned earlier can come in very, very handy.

And as also was mentioned, never are we trying to ever come across that we're attempting to collect funds. We're just trying to help them prevent problems. All students, whether graduates or withdrawals, go through our own version of exit counseling, which differs from the conventional exit counseling as we all know and relate to it. Our version includes the student's personal review of the schools. Suggestions or any recommendations they may have on the curriculum. We get much more personal with it.

We also inquire about their future plans. Graduates, we want to know about employment. Withdrawals, are they looking to continue their education elsewhere? We try to get this information at that time.

Also, updating personal information. Their addresses. Numbers. Emails. Personal references. Isn't it amazing how their contact information changes almost monthly? Cell numbers. I'm sure you guys have, too. I've received messages, a voicemail on my phone. You know, Ricky, can you please call me about whatever it may be, and they leave a number. I call the number back in five minutes. It's disconnected. It happens all the time.

Now within ninety days of their last date of attendance, we contact each student normally by email just to simply make sure that the servicing center has been in contact with them, or vice versa. Many times this could be when our first intervention is done. We answer questions. Calm their fears. That's the time when the song that was mentioned earlier, When You Wish Upon A Star. The song at that point changes to hakuna matata. No worries. You know, calm their fears. Reassure them that we are there to help them.

Basically we simply want them feeling comfortable with direct loan. After that point, we basically have no contact with the student for a fairly extended period of time. Hopefully never again for this reason.

But when their name – or I should say, should their name appear on the late stage delinquency assistance list, that's when we pick up the ball again and we start contacting them. We have found that direct loan has been, at least in our personal experience, has been very effective in contacting the student and avoiding problems.

But when they do appear on that list, we can safely assume that all reasonable methods of reaching the student have most likely failed. That's where we feel being a small school really does have a big advantage. Because at this point, we get on the phone, we start contacting these people, and at that point most of the different family members already know me in some fashion. The parents know me. The spouse knows me. And so they're very willing to talk to me in most situations. And that's where I attempt to contact them, truly have them on the phone, get a three-way call with the servicing center and then link them up together.

I know that all this probably sounds very, very time consuming. In reality I'm spending less than thirty minutes a month on default prevention. That's it.

I'm not 1.7. I have three different default rates. A high of 3.6, and a low of zero. So it works.

*John Pearson:* So it's 12:15, and we're hoping to have time for questions, but as you can see, we had a lot of information to deliver. All of us have included our contact information. Feel free to reach out to any of us. Mark and I will be in and out of the PC lab. Call us. Email us. And our panelists have even said reach out if you want to learn more about what they're doing in their own targeted ways to reduce delinquency and default.

Thank you for coming.

*[End of Audio]*