Pat Kennedy: I'm Pat Kennedy and my co-presenter is John Pearson. We're both with the U.S. Department of Education. John's been working in the Default area for a number of years and I used to work at a school in – actually was involved in some Default Prevention initiatives before joining the Department in 2005. As I started to prepare for this session I remember a phone call I received in the Financial Aid office one day. The caller on the phone said, "Good morning. This is the U.S. Department of Education."

Your heart kind of goes mm, mm. I mean you've been there. You've had those calls. Then before I could say anything the speaker on the other line said, "We're calling to help you." I mean you instinctively know it's going to be one of those days. Right?

My mind really works fast sometimes. In the back of my mind there's this small voice that said, "Hang up. Maybe they won't call back." *[Laughter]* But then reality came over me and I answered with a very sincere, "We're glad you called." Actually I'm really pleased to report that that call was of benefit. That caller was in fact John Pearson.

This is basically a true story. I've embellished it a little bit with that phone call but John called about 10 of 12 years ago when I was at a school and John helped us become engaged in late stage delinquency prevention initiatives at our school and also got us involved in some research to better understand who our student defaulters were and from my perspective and almost as important understanding who the students were who were not going into default. So we were looking at both sides of the same coin.

Those 12 years ago I would not have imagined that I would be standing at the 2011 Federal Student Aid Conference and talking on default prevention. Twelve years ago I would not have imagined that in our last award year that we, you and the department would have awarded loans in excess of $100 billion. Who would have thought? Twelve years ago who would have thought that student loan indebtedness would exceed the amount owed on credit cards in the United States. Our OIG mentioned that this morning. So things truly are changing.

That really does bring us to today and what John and I want to do is first, I'll set the stage. I'll talk a little bit about cohort default rates and what the challenges are and the risk. We'll talk about default prevention plans. We'll talk about the timing of the default prevention plans and the requirements for default prevention plans. Then I'll talk about the changes in the CDR regulations. Then

John is going to come up and talk to you about specific strategies that you may want to consider at your school and some specific students' engagements that you may find worth considering. Then at the end of our sessions we'll try to address specific questions that you would have and please have those questions using the microphone. So let's begin with a brief review of cohort default rates or CDRs.

We'll talk about how calculate it, when we deliver the rates, the formulas and a little bit of perspective on the CDR. The Department really provides schools at two times throughout the year the cohort default rate. It's an annual event. In February we provide a draft rate. The draft rate is not shared with anyone but the school. There's no sanctions based on the draft rate and of course no benefits accrue because of those draft default rates. In September we provide the official rate. It is public. It's published on the Internet. It's available for everyone in the world to see. Sanctions do apply to the official rate. Benefits also apply to the schools.

The value to me of the draft rate is two things. Number one, it's predictive. It gives you a heads up where you're likely to be in September. The second advantage of the draft rate is that it gives you a chance to get in and review and make sure that there's no system mistakes in that draft rate. If there's corrections to be made then you've got some lead time to get those corrections made before we do come out with the official rates that will have the impact. We last released our default rate, official rate in September of '12. That was the FY09 cohort year.

The calculation for default rates is pretty simple, pretty straight forward. We'll start with the denominator, the number on the bottom. The denominator is comprised of students who in one fiscal year begin repayment. So borrowers who enter repayment in a given fiscal year are the denominator. In the numerator we'll have the students who enter repayment in that year and in this following year and that's the two year model. We'll talk more about the three year model in a little bit.

So the ratio of the two is the CDR. When we calculate rates we do realize that if you're a small school there can be some statistical abnormalities in the calculation. There are two really formulas that we use. So if you're a smaller school there's a procedure we use to actually increase the denominator and of course that lowers the rate. Most of our schools though use the average rate because most of our schools have greater than 30 borrowers.

I think you've seen this slide before. I know it was presented in a general session. The default rates early in this decade were very good. They were low. But in the last five years the default rates are starting to increase. Right now we're at 8.8 percent nationwide. This slide gives you a little bit of details on those specific numbers. We've gone from 7 percent in the 2008 cohort year up to 8.8 percent in this current last year. The number that really jumps out to me though is this 320,000 borrowers that were impacted that actually went into default. That's a huge increase from the 128,000 in the prior year. So we've got more students actually going into default, a substantial increase.

Now we often sometimes just focus on the negative. There's another number that's not really displayed on the screen but when you think about it 91 plus percent of our students are doing a good job making their repayments and I never want to lose sight of the fact that they are making repayments and that a number of schools, a vast number of schools already have default management plans in place and are taking positive steps to keep the default rate as low as possible. But the default rate is something that we all need to be concerned about. It's something that we can do a better job at.

So why do default prevention? There's really two primary groups of individuals impacted by the default rate. Obviously the borrowers and then you, the schools. For the borrowers you know the consequences, credit report damage. That's probably the first thing that everyone thinks of. I ran across another example of a potential credit report damage a couple days ago. We're seeing my bill from my auto insurance company or the new policy renewal. In the policy declarations there was a little statement, "We reserve the right to check your credit report to partially determine your insurance rates."

So a student who damages his credit rating by defaulting on a loan will pay a price for a number of years because of their damaged credit. Other impacts, wage garnishments, seizure of federal and possibly state refunds, legal action in courts, Title IV ineligibility. Students may not be eligible for certain jobs because of a default or not be able to obtain certain jobs because of a default. They may not be able to obtain certain licensures required for employment. The cost to the student defaulter is really enormous.

On the school side CDRs are really a measure of administrative capability. It's one of those measures that's a fairly easy calculation to make. We have the data and it can and is viewed as a statement of your administrative capability. In the long term a continued high default rate can resolve in a diminished program certification for a school, provisional certification. Removal from fully certified participate in the benefits that go along with that to provisional certification for your Title IV eligibility. If default rates continue high for a long period of time then sanctions do apply and those sanctions can include the loss of Title IV eligibility.

We have a changing landscape. We've heard various speakers at this conference talk about the increasing default rate. We know that that's happening. Educational costs continue to increase. The secretary addressed that issue. I mean once education costs are increasing and are being compared to medical rate increases it's something that gets everyone's attention. Many students are borrowing private debt as well as federal debt. The fifth bullet on this slide is something also that you need to be aware of. It's a changing landscape because we are changing how CDR rates are being calculated and we're in that transition period right now.

The point I really want to make with this slide is that that CDR rates are really a retrospective statistic. CDR rates are computed based on history. We can't really do anything about history. Once a rate is computed it's set. It's there. It's looked at. In order to affect that CDR rate what you have to do is be active now in the present when the student is in borrowing, when the student is in grace and when they're in the repayment. But affect on the CDR has to occur now so that the CDR when calculated in the future is as low as possible. So we really encourage schools to be active in working with their students when the students are most accessible to them during the in school period.

Default prevention plans, a little bit on default prevention plans. Right now a number of schools are already required to have default prevention plans in place. This year we brought approximately 225 new schools in to the DL program; new Title IV schools, largely proprietary schools, some public, a few private. Those schools when they're newly eligible and participating in Direct Loans are required to have a default management plan in place as part of their entry into the program.

In other situations when a school changes ownership and that change results in a change in control the school is required to develop a default management plan. These are existing regulations. Now the default management plan can be that the school adopts the secretary's plan and we're in the process of revising the secretary's sample default management plan now and hopefully we'll have that available to schools in the next several months. Schools also can develop a custom default management plan and really tailor that plan to the needs of their particular institutions. There's two ways of meeting the requirement.

The changing landscape is that a new group of schools will be required to have default management plans. The Higher Education Act of 2008 sets forth several changes. One being the three year cohort default rate. In schools who have a cohort default rate under the three year calculation of 30 percent or greater will be required to develop a plan. More on the plans and the timing a little bit later.

I'd be remiss if I didn't also talk about voluntary plans. Certainly a set of schools are required to develop plans. More schools will be required to develop plans in the future but we really do encourage schools to be proactive in default prevention. I think a number of schools really are already active in default prevention but you can develop a voluntary plan. It's a good practice and the Department really seeks to work with you if you have questions about that plan or other good practices.

Changes in the default regulations. I really like this slide because it graphically shows the impact of going from the two year rate to a three year rate. The center of the slide is the two year rate. Under both the two year and three year rates the denominator is not going to change. It's still a single cohort fiscal year. In this example and this is totally a hypothetical example the denominator is 5,000 borrowers went into repayment that year. Under the two year plan the first year 125 borrowers defaulted. In the second year 230 borrowers defaulted.

So our resulting rate is 7.1 percent. Under the three year plan we add one more year of student tracking to look for defaults in that third year. The time span to determine if a student has defaulted has expanded. So naturally default rates are going to go up because anytime you increase that numerator the overall percentage is going to go up. So do anticipate that your rates would go up unless you do some intervention.

Okay, we've already talked about the tracking window expanding. The transition period is three fiscal years. The FY09 fiscal year which is already completed, the FY10 year and the FY11 year. We knew that rates were going to go up so we actually raised the threshold against which we imposed a sanction. Under the two year plan, two year calculation it was 25 percent. Under the three year calculation it's 30 percent. Likewise we also increase the threshold for which benefits apply. It went from 10 percent under the two year CDR to 15 percent under the three year CDR.

The first year that a school under the three year CDR that has a 30 percent or greater cohort default rate we're going to ask the schools – well we're not going to ask – you're required by regulation to prepare a default management plan and submit it to the Department for review. That first will occur in September of '12. That will be the first official three year CDR rate released, less than 12 months from now. A year later in September of '13 if your default rate is still greater than 30 percent we'll ask you to revise that plan, go back and analyze your plan and make updates to it to take corrective actions that bring the rate down. You'll have to submit that plan also to the department and we may ask that you include certain items in that plan. Then unfortunately after three years of the three year CDR greater than 30 percent sanctions will be applied.

Dispersement waivers. There is a benefit of having cohort default rates less than the threshold. There's two benefits. One is that you may disperse a single term loan in a single dispersement and then secondly, you need not delay first dispersements to first time undergraduate borrowers. So there's benefits of having that CDR less than the 15 percent and those benefits are actually in place now and they've been in place since October 1st. That's when we made the change from 10 percent to 15 percent.

The five things that we'll ask you to do if your CDR rate is greater than 30 percent is, first, establish a default prevention task force or default prevention team. You'll need to conduct an analysis of your specific institution and determine the sources of your default risk. You'll need to create measurable interventions and steps and action plan. Map out exactly what you're going to do, who's going to do it and where the resources are coming from. You'll need to commit that all in writing and create a written plan. Then obviously step five is submit that to the Department for review.

Just I like this slide because it kind of recaps the timeline that we're working with in this transition period. This is really the two year CDR rates. Right now we have recently released the 2009 CDR rate. That was released in September and sanctions do apply to that. We have two more years in the transition so the FY10 and FY11 are going to be released in September of '12 and September of ’13 and the sanctions will be – sanctions in those years will be based on the two year rate.

This is kind of an overlay that goes with the two year plan but this is the three year CDR rate calculation. Right now for the FY2009 cohort default year we will release the first three year calculation in September of ’12, again, less than 12 months from now. There’s no sanctions tied to those except keep in mind plans may be required. Plan’s not really a sanction. We don’t view it as a sanction. The second year will be released in September of ’13 and the third year of the transition period FY11 those results we’ll release in September of ’14 and as you know sanctions do then apply to the three year CDR rate.

One of the things I have found very helpful in working with schools is to help you project where you will be in the future. What the Department has done is develop a trial three year CDR rate. It’s available to you. It’s a very handy tool. It gives you a heads up on what to anticipate. You can compare the three year rate to your current two year rate.

You can find this trial rate under IFAP or if you do what I usually do just Google FSA Data Center. It will take you right to the data center and the default information’s readily available. If there’s one take away from my part of the presentation is I really want every school to go out and identify what their trial three year CDR rate is. It’s based on the best information we have. It’s not official rate. There’s no sanctions based on it but it does really give you a heads up on where you stand.

Now John and I are going to transition. John’s going to come up and talk about strategies and engagements. While we’re changing you might note these other sessions that are available.

John Pearson: So good job Patrick. So Patrick set the table and we’re going to talk a little bit about, “So what can you do?” He’s basically said, “This is what the problem is.” We were just chatting before it seems like there are more community colleges here than ever before and that’s not a coincidence because there’s more borrowing at community colleges than we’ve ever had before. So where there’s more borrowing there’s more default. So it looks like almost everybody in the portfolio now is looking to try and figure out what they can do to reduce default risk, reduce default rates partly to protect their borrowers, partly to protect the institutions. So let’s take a look at the next slide.

So when you think about why you do default prevention I just want to quickly run down this. How many of you do default prevention to protect or ensure the integrity of the Student Loan program? Okay. So maybe 30. How many of you do default prevention to save tax payers from the loss associated with loan default, when loans go into default? So they're non-revenue producing loans.

How many of you do default prevention to keep your rate down? Okay, almost everybody. How about to save students from the consequences of loan default? Great. So we're working backwards on this.

So people, of course, are self-interested. You want to protect your students, protect your schools but the first two are also very important because you never know what Congress is going to do. If default rates go up too high, if they get out of control who knows. So I think we all have a mutual interest in protecting the loan program, its integrity and the balance sheet.

So here's like the high level, 10,000 feet. This is what we suggest. We want you to have a default prevention team. We're going to talk about each one of these things in order over the next set of slides. We want you to develop or adopt a default prevention plan and there's detail associated with each one of these that we'll talk about.

We want you to have what we call a traditional financial aid office based strategy. That's what people typically think about as you'll understand when we walk through this. Then we also want schools to include in their strategy a student success strategy because the risk of loan default is partly driven by what? How successful your students are academically, whether they graduate, whether they complete, whether they leave your school and go get a job. We think that a good plan will reflect a combination of both of those strategies but we'll talk about that.

So a default prevention plan. We think that having a plan, a written plan is a good way to go. Why is it the best way to go? What happens if your default prevention plan isn't written down, it's in your head and what happens if you leave or get promoted gratefully to a job that doesn't include default prevention which many of you I think would aspire to after you do default prevention for awhile? "God give it to somebody else."

But having a written plan assures continuity and that's partly because the plan – what is the plan? What is the plan? It's a statement of who's defaulting, why and what we're going to do about it. That may take more than a page to describe that. We will have a sample plan. We have an iteration of the secretary's sample plan that dates back to 2005. We have a new version that we expect to come out after the first of the year just in time hopefully for the publication of the draft rates in February and that we hope will include a turnkey plan that a school could simply pick up and adopt that would have all the best elements that we think should be included in a plan.

One of the things that's also true about having a written plan is that you're enabled once you have a written plan, once you've walked through that process of developing a plan you can go back and look at it. You can always have in front of you all of those things that are being done to reduce default risk many of which you will discover from this session will not happen in the financial aid office and you'll be able to assess over time whether or not they're actually working. You'll pick up the phone and say, "Well element five in the plan over in the admission office or in the student support services area is being handled by XYZ office or XYZ person. How's that going? What are the results? What does it look like from last year to this year based upon the metrics that you're tracking?"

Because, heaven forbid, you would continue to do something that you would first adopt something that you would first adopt something that was appropriate to another school and not yours that didn't work for you or that you kept doing something that didn't work. I mean no one has the time for that. No one has the money to do that and certainly because of the way the regulations are constantly rolling forward on us that we have to make sure that whatever we're going to do works and having a written plan will do that.

So a traditional approach for doing default prevention this is what most people think about when they think about default prevention this is probably with the president or the director of your school or the owner of your school thinks about. It's the financial aid centric set of activities. That includes understanding loan repayment, entrance and exit counts and any other augmentative activities that you will have to help people understand what their roles and responsibilities are.

Financial literacy, making sure that people understand what it means to have a loan. What does it mean to repay a loan? What does it mean to have a checking account? What does it mean to have a budget? What does it mean to buy things and pay for them and to be responsible?

Updating enrollment status changes. Finally engaging with at risk borrowers at various points. There really when I think about this really for a financial aid office this usually happens when students are either in grace or in repayment where you've identified people who are at risk of default.

So let's talk about the entrance and exit counseling or the part of the typical strategy, the traditional strategy that has something to do with helping borrowers understand what their rights and responsibilities are. We have Web based entrance and exit counseling. We are just about in the spring, late spring we'll have a new product that will be sort of an interim counseling vehicle that you'll be able to use. It's not mandatory like entrance and exit counseling but it will provide another vehicle that you can direct your students to during the second year, the third year before they graduate that will give them information about their indebtedness. There will be a financial literacy component to it. It'll be a review of their rights and responsibilities as borrowers. It'll just be an all around good vehicle as a refresher or as a reinforcer that will be available on the Web in addition to these two websites.

Entrance loan counseling. These are the top things we think that should be included. Job opportunities and salary information. Some of this may only be available through your school. I mean you may have to tailor because you know what kind of educational programs you have, what you're preparing people to do and so having this information available is crucial so that people can make informed decisions about how much they're going to borrow, what programs are going to go into, are there jobs, are they going to be able to repay their loans.

Information about estimated loan repayments, providing loan service or contact information which will be increasingly crucial as we add loan servicers. We'll talk about that in a moment. Obtaining good borrower contact information, self-help via NSLDS. How many of you have your students under your supervision go to the NSLDS students website and walk through that process and learn how to access their information?

How many of you take the time to do that because that's the portal that they're going to need forever. That's where the data will be stored. That's where we aggregate the data from fail loans and Direct Loans. Then finally a piece that many schools don't include but we suggest is for students who are going to drop out, who aren't going to complete encouraging them to come back. Say the door is always open if it is. I mean you may not want them to come back and that's also possible but in which case you wouldn't say that.

So FSA exit counseling. It has a PIN access. Calculators are available. Calculators will be available in this additional interim counseling product that we're going to make available. It links to the loan holder sites. It's available in English and Spanish. You can download reports from NSLDA that verify exit counseling completion.

How many of you now check to assure yourselves that your borrowers are applying with exit counseling requirements? Well that's pretty good. That's pretty good. This is actually a more active group than we had yesterday because very few people in yesterday's session raised their hands for that. The reality is that unless they go and do this online you don't really know. Particularly for who? For which borrowers? People who walk away, people who drop out and may even have an attitude problem. They just disappear. So you don't know whether they ever went through this. In many instances they don't so they don't get that information that they need even though they're at the highest risk of default because they didn't complete their academic programs.

NSLDS for students. We're constantly developing this. We've actually had some focus groups while we've been here where people have given us some ideas about how to upgrade this and make it more student and borrower friendly, increasing the kinds of information that's available and the look and feel of the website to make it more attractive to borrowers.

Financial literacy. We know that there's – it's not a direct cause and effect but there's a correlation that exists between how informed people are and how financially literate they are and whether or not they're likely to repay their loans. How many of you have a financial literacy component that you make available or deliver to students at some point during their enrollment? Okay, I would say roughly 20 percent. This is important. We will deliver some of this in this new counseling vehicle that we'll make available to you. Many more resources available for this that are free, free resources. So we recommend, for example, that you make it part of the first year curriculum.

How many of you have first year experience programs? FYE for students who are going their first year, people who transfer in from another school? This is a good place to put that to make that part of your first year experience program. We recommend that you offer if you can, if you have the ability to do so to offer a credit course and that way you can really beef it up. In most cases there are enough vehicles out there, enough curricula out there that you don't have to create this yourself. You can simply get it and deliver it.

How many of you use online financial literacy training? Okay, so the rest of you do it face to face onsite. Okay. Here are some free sites. These are federal sites. The one that I would add to this is the National Endowment for Financial Education or NEFE, N-E-F-E.org. How many of you use NEFE? How many of you know about NEFE? Boy oh boy, so just a couple. So it's free and they have great products. The nice thing about NEFE is once you are vetted by them you can brand their financial literacy material to your school. I mean they provide it. They develop it. It's both web based and non-web based but it is a great resource to use. So I would encourage you to take a look at that.

Protecting the grace period. Remember on the traditional strategy we talked about enrollment updating. So this is what we know. Who does your enrollment updating at your school? How many have enrollment updates done by the registrar's office? Okay, so most. How many have some - somebody else does it? Occasionally we run into a school where they do it in the financial aid office because there aren't enough hands, occasionally in the business office.

So this is what we know about enrollment update changes. What happens when somebody drops below halftime or leaves school? What's trigger? Grace period. People are heading now towards repayment. Who needs to know as early as possible that I have dropped below half time, I've entered the grace period and I'm heading towards repayment? My servicer. In this case we're talking about the federal loan servicers. It could be a lender in the fail program.

So what happens during the grace period between the servicer – we're going to look in more detail with that – and the borrower? The whole purpose of the grace period is to get somebody ready to go into repayment, to make it a successful transition into this new life where they're actually repaying the loan. We really want them to repay the loan even though part of that conversation between the servicer and the student will be, “Are you going to be able to repay the loan? Are circumstances such that you’ll be able to support that? If not, what decisions do we need to make now so that you don’t end up delinquent and defaulting on the loan later on?”

So what happens is that the larger the school and this is almost unavoidable unless you’re paying attention to it that if there’s a delay in updating NSLDS either through the SSER report or the clearinghouse the more delay there is between the date that the person leaves school and drops below half time and the notification that eventually gets to the servicer that I’ve left school or dropped below half time and am in grace the greater the amount of time the higher the risk of loan default. Does that make sense?

In some cases the delay is so great and I’m thinking of big schools where you only update NSLDS, whatever mechanism you use three times a year. A lot of schools don’t do it every month. So you might miss one of those thrice annual updates and so it doesn’t get picked up for five or six months later. So what happens is the first time the servicer finds out that I’m in repayment I’m already in repayment and I’ve started to miss my loan payments.

So the first contact I have with the servicer is, “You’re delinquent on the loan. In fact you’re three payments delinquent on the loan. You already have an outstanding principle balance. You’re already in arrears.” That’s a shock to people.

It’s particularly likely to happen with the most vulnerable people when it comes to repayment and those are people who walked away who didn’t tell anybody that they were leaving, who didn’t graduate and who may be cranky about the fact that they went to your school at all. They may not want to repay the loan. So there’s a confluence of factors here that make it very important that you update those enrollment changes as quickly as you can so that people who will be working with me when I’m going into repayment can reach me soon, early and get me ready to go into repayment and have those crucial conversations.

This is what the servicer will talk about. They’re going to establish that if they can, if they know and if they can reach the borrower. They’ll establish the relationship, they’ll look at the correct repayment status, they’ll discuss the appropriate repayment plan if there’s going to be one. We’ll help the borrower become used to using the Web based products for accessing their information and managing their loan account.

They'll use that as the opportunity during the grace period for updating and enhancing any borrower contact information that they can get because what happens if you've been in the Direct Loan program for any length of time you know that the EMPN can get pretty stale. It has a shelf life of ten years. So when that information finally gets to the servicer the references that are on the EMPN they could be quite old. They may not work much. They may not be useful. So contacting the borrower before they go into repayment gives the servicer the opportunity to collect something that will be useful if it's going to be needed.

Here are the servicers we have. How many of you have been to a servicer session so far? We certainly recommend it and the reason is because we're going to be adding servicers. These are the current servicers. We're going to be adding as many as 15 additional or 16 additional servicers beyond this. So there are going to be a lot of servicers on the bus and when it stops at your school they'll all get off. Not just one. They'll all get off at your school. So knowing who they all are is going to be very important to you.

How many of you have taken the opportunity to get whether you're a former fail school or a Direct Loan school you're all on the same boat. You're all having to get to know our servicers perhaps anew. How many of you have taken the time to call them and say, "What do you have for me? What products and services do you have and who will help me to keep my default rates in check?" So we encourage you to have that conversation with each one of the servicers.

They're all different and they're different by design. We hired them because they're good at what they do and we wanted them the way the contract is structured to compete against each other to keep default rates down and to have really good customer service survey results. So we want you to be pleased. So they're going to behave so that you're pleased. They're also going to behave so they're going to keep your rates down. But part of your job will be to get in touch with them and say, "How can you help me?" They want you to call. They want you to reach out to them.

Our servicers under the contract that we have all exceed the minimum due diligence requirements. They send out scores of letters and e-mails and make hundreds of phone calls to borrowers who are in delinquency. Why do they do that? Because they make more money. This is the point. They make more money. They get more loan volume the lower their cohort default rate is and the happier you are. So they're aiming to please. They're acting in the right direction.

So we know that they're doing more than they might otherwise do. They're working real hard. They do outbound target calling for particular groups of borrowers where they might have high loan balances or where there's delinquency. They use all sorts of electronic communications and what they want to do is work in partnership with you having identified after you and when you've identified your specific needs they can tailor their services to you and they want to do that. So it's a matter of developing your plan and your strategy and finding out how you can leverage what they have for you.

How many of you have used NSLDS reports? We're going to talk about NSLDS reports in just a minute. So NSLDS provides broad reports. Individual servicers have reports of their own. Again, this was one of the things that we looked at when we hired out loan servicers. What kinds of detail can they provide schools about borrowers who are in repayment? So they provide a lot of custom reports. They can deliver reports. You can order them. They can tailor them to your needs but it's usually something you're going to have call them and ask about or tell them what you want.

Here are the servicer strategies. Again, this is the future, multiple servicers in the Direct Loan program. Historically we only had one and now we've moved to five or six and we're going to be over the next two years transitioning to a larger number of servicers. Here are the servicers that we have. I would add Mohila to this list.

Okay, so contacting delinquent borrowers. This is another part of that financial aid centric strategy that typically we think about that happens in the financial aid office. What we know is that borrowers who default usually had a bad phone number and at least in the Direct Loan program and this is where we would be tracking, this is where we get our data about who defaults and what happens to them that – and this what we find when we talk to servicers in the fail program, guarantors in the fail program it lines up exactly. So this is not unique to the Direct Loan program.

What we find is that during the whole period of delinquency and in the Direct Loan program it's 360 days that servicers have never talked to people who default one time. Something in excess of 90 percent of people who default have never been contacted one time by the servicer. It's not because they're not trying. Remember what I said about that stale contact information that's on the EMPN?

So how can you help? This is an opportunity. This is one of those niche opportunities that's available to schools to make a contribution to add value. This is what we suggest that during the admissions process that you collect augmented or enhanced contact information. Do it at admissions. If you try and get it at exit especially for the people for whom you will most need it you're not going to get it. They won't even be there to ask and they may not be interested in giving it to you. They just want to leave.

So we suggest that while you have leverage to ask for things, that you make this part of the application process if you can, just another form to fill out. What we mean when we say contact information all the borrower's e-mail addresses. All the borrower's phone numbers, cell phone numbers, landline numbers. Any social networking sites that they use. A number where the borrower can assert to you where they're looking into the future and you say to them, "Give me the name and phone number of somebody who will always know where you are." There's going to be somebody. They'll have somebody in their mind who that will be.

What schools tell us is that this is a useful question. "Who can always get in touch with you?" Then contact information for siblings, parents, anybody else that's related to them that may have gone to the school. Why is this good? Because if you can't find me and you know how to get in touch with my parents or a sibling you can call up and say, "Where's John? We need to get in touch with him. We're trying to find him."

Why is this important? I may have as part of my default prevention strategy that I'm going to do some outreach with particular groups of students, either people who are in the very later stages of delinquency before they default or people in the early stage of delinquency who are at great risk of default, certain subgroups of borrowers. I want a way to get in touch with them. This contact information will be crucial.

What's the other thing you need to pay attention to? You're going to get this information at admissions but what you want to do during the course of enrollment – what's the half life of this information? How many months is this good for even if you get it at admissions? Six months, maybe. All of it? Some of it's going to begin to change right away. Student changes a phone number.

They add an e-mail address. They start using a different social networking site. So part of the trick here is periodically updating this information, bringing the borrower in and saying, "How has this changed? Since we're going to do another dispersement come on in. We do some other loan counseling. Let's take the opportunity for you to update this information. If you need to take it home and bring it back but this is what we do at our school and we need you to do this." Believe me; it's going to help you if you have this part of your strategy reaching out to the borrower during the grace period or during repayment. You'll have a ready way to get in touch with them.

What can you also use this information for if you don't want to do that? You can give it to the servicer. Since they're going to do the heavy lifting seven days a week, 24 hours a day if they have better contact information you're less likely to see that borrower delinquent six months from now. So this information can be used by you or the servicer.

How much time? Fifteen, okay. So we actually had less time for this session. We had more time during the first two so I'm going to hurry to get through. We have just some contact information or contact tips about reaching out. How do you reach out to borrowers? Letters, e-mail, phone calls. If you decide to use a letter personalize it. If it looks like a form letter people probably won't use it or won't even open it.

NSLDS Reports. The one that we didn't include which is sort of the mother of all reports is the portfolio report. How many of you have used the portfolio report on your campus for some purpose? Like four hands went up. It's a great report. It's a great report. It has all your borrowers that we associate – all the borrowers in NSLDS associated with your school past and present. Once you have that information you can use it to go in and look at various – you can slice it and dice it and it gives you the loan status. You can use it to estimate your default rate on a monthly basis if you want to do that because we refresh it continually. You can download this as many times as you want.

All these other reports are important. How many of you use the NSLDS delinquency report, the DLQO1? What that will show you rather than having to go although we want you to establish relationships with all your servicers you can use the DLQO1, the delinquency report which is an aggregation of delinquency information from all the servicers so you have one place to go to get a list of the borrowers who are delinquent for loans that are owned by the Department and being serviced by the Department. It's a good report. Go to the NSLDS updates particularly two and three. Of course, if you're a gainful employment school, if you have gainful employment programs you'll want to go to number six as well. So

Student success. So all that being said, if it's true that successful students tend to become successful borrowers and that part of your strategy to reduce delinquency and default is related to how successful your students are we know that roughly across the portfolio 7 out of 10 people who default on loans are people who were not successful academically. They enrolled in school, got a loan, abandoned their education and had a difficult time repaying their loan.

So conversely we know that if people actually succeed they complete, they graduate, they get the certification, they go out and get a job they're more likely to repay the loan. That makes sense, right? So why wouldn't I as part of my default prevention strategy leverage institutional efforts to increase retention, graduation and employment? So this needs to be part of your default prevention plan, your default prevention strategy. This is how I think about it. Those traditional strategies, the financial aid centric strategies generally are clean up for what isn't working here. Does that make sense?

Schools that don't do such a good job in the enrollment, education, student support services, graduation and helping people find jobs or preparing them for jobs that actually exist that will show up as loan default, as default risk. When you do your analysis of who's defaulting and why you're going to run into that. So part of your plan has to be to deal with default risk up front before it turns into delinquency and default. Default risk is the first thing that happens, then delinquency and then default. Helping students be more successful reduces default risk.

So this is what we know. People don't get the academic credential, they have reduced earning power, they may not benefit. How many of you provide placement or employment services for students who don't complete? Okay, so I would like you to rethink that. If the people who don't complete are more likely to default and if they can actually get a job it's going to increase the likelihood that they'll repay the loan. If I have the ability to do that at least for targeted groups of people why wouldn't I do that as part of my default prevention strategy? Then of course, they may not receive exit counseling, people who walk away who didn't even participate in exit counseling and they may lose part of the grace period.

This is what schools tell us, what schools report are typical characteristics of people who default or who don't complete. So they have unmet financial need. They have relationship issues. Things happen while they're enrolled in school. They might have physical or mental challenges. They have childcare issues. Transportation, housing, the difficulties in making the transition from work to school or unemployment to school. Poor study habits. They're underprepared. They don't have the basic skills. We have many community colleges in here and I know that the first stop for many students who are attending community college is what?

Developmental studies. What community colleges tell us is that many students who test into developmental studies never make it out of developmental studies. They've gotten a loan and they take a crack at math, they take a crack at English or reading and they may take two or three cracks at it and then they abandon it and they don't make the jump into the regular curriculum. For community colleges that probably is a source of default risk for you. We're going to talk about how to deal with that.

Identifying students in trouble. How many of you have an early warning system in place that help you identify people who are likely to drop out and who are academic problems that then turn into default problems later on? So we encourage you to have some sort of early alert system that allows you to connect services with people who are likely to drop out so they don't drop out. Helping students in trouble. This would be student support services. So we have a couple of sections left.

Gainful employment. How many of you have gainful employment programs? Okay, so a lot. So here's the rule of thumb. It's not the same because reducing loan default can include deferments, forbearances, special loan repayment plans that don't meet the test for gainful employment. Gainful employment, the standard is making payments on outstanding principle balance, making payments.

So the strategy for reducing loan default for gainful employment is getting people to actually repay the loan, actively repaying the loan. You can still though under the cohort default rate regulations be very successful with people who are in deferments, forbearances or special loans where they're not actually making payments. So you can be successful in one place and actually work against success in gainful employment if you're successful with one versus the other. However if you set your sights on having people repay their loans and not just avoid default then you're going to be successful in both programs. Just another way to think about it.

Gainful employment sessions. How many of you have gone out and used the FSA Assessments Default Prevention Module? I encourage you to go out. This is a good way to get your school involved in doing default prevention. There are exercises that you can walk through, that you and your colleagues can walk through that lead you to some good places. It helps you have the kind of conversations on campus that you need to have.

Targeted school engagement. So the big question is who's defaulting and why because you can't develop a useful default prevention plan and this would be the task of that team, right, of the taskforce or the team to develop the plan but the task, the purpose of that first job is to figure out who's defaulting and why are they defaulting because unless you know why people are at risk of default you can't develop a strategy. You don't know when to intervene and how to intervene. That's another reason why developing a plan and walking through those first steps of looking at who your borrowers are and who's at risk of default using legacy information about who's defaulted in the past, who's dropping out, who's not completing depending upon what strategy you're looking at whether it's financial aid centric or student success. That all has to go into the mix. So understanding who's defaulting and why, crucial steps. Understanding then from that when I can intervene and how I'm going to intervene in a timely way.

Pat mentioned in the outset that you're most likely to be able to change the future for somebody if you have access to them. Typically you have access when they're enrolled, maybe during grace if you can get in touch with them, maybe during repayment if you can get in touch with them. That contact information piece comes in during grace and during repayment. So you can influence them but you have in school, in grace or repayment. What would it look like in school? Well what if you knew that at your school that the people who are most likely to default make a stop on academic probation, that they share that in common?

Why would you use that stop on academic probation to deliver some sort of default prevention solution to them? That could be some loan counseling. It could be financial literacy. It could be collecting contact information if that's whose likely to default on your campus. That's where you would do it. Maybe you don't need to get it from everybody but you need to get it from those people. You've identify that group.

Maybe it's students who express an intention to withdraw. They start talking about it. Students who may be enrolled in certain programs that have a disproportionate number of defaulters. That could be for a community college. It could be developmental studies. Right? Other students may not need this kind of intensive interaction around loan default or the risk of default but maybe your developmental study students do. This is where you focus your efforts. It's management by exception.

For people in grace what might I do? I might validate contact information, offer reenrollment assistance, transfer assistance. May I wasn't the right school and maybe my job and maybe default prevention takes the form of helping them find another school that's better suited to their goals and objectives and their resources. Preparing the bar for repayment. Providing employment counseling and job placement assistance that can happen during the grace period all of which for certain people who need it can reduce the default risk.

During repayment Pat talked about late stage delinquency assistance which is only – it's a recognition that after a certain period of time and we draw the line at 240 that if you servicer has failed, if they've not been successful for eight months in trying to get Pearson to make a payment on the loan they're unlikely to be successful over the next 120 days. So all that means is that if the school can get in touch with the borrower at that point you may be able to add value.

Your job then is not to solve the delinquency. The servicer could do that. The school's job is to reach out, get the borrower and help them talk to the servicer, build the bridge, construct the bridge. Servicers can fix the delinquency just like that but what they have a hard time doing with certain borrowers is getting in touch with them. If you can add value by getting in touch and delivering the borrower that's a huge effort.

Early stage delinquency assistance. Let's suppose that you know at your school you've done the analysis. You know that people who drop out are more likely to default on a loan or people who were enrolled in a certain program. Well if you noticed by looking at the DLQO1 report, the delinquency report that a group of students who were kind of on that list of people to keep an eye on in repayment, those high risk borrowers, people who dropped out or people who had been in developmental studies if you saw that they were 30 or 60 days delinquent why not reach out to them early because they are likely to continue to be delinquent?

So reaching out to them early. Don't wait until they're 240 days delinquent if you know that they're more likely than other people to default. So you can target. It's really trying to target your efforts so that you're not wasting time and not wasting resources.

Okay, here's a take home exercise. You can certainly call me to talk about this if you want to. I'm happy to talk to you about it but this can help you create the conversation on campus. "Do I have the right team in place?" How many of you have a default prevention team? Okay, a minority of the group here.

So the first question might be, "How would I put a team together," but it is, "Do I have the right team in place; do I have the right people on the team," knowing that when you do your analysis it's going to show that student success is an issue. So you need people on the team who can intervene. You need people on the team who can make decisions about resources, who can say, "We will do that. You will do that." If that's where the path leads you need somebody from administration who can make decisions about resources.

You need to have a conversation about your data. "Am I likely to be at 30 percent in September of 2012? Am I likely to have to create a plan anyway? What's coming? Am I tracking my CDRs? What's the source of my default risk?" This takes a little time to start with but it's valuable information because it directs everything that you do. It'll direct everything that you do.

"What strategies am I going to use? Are they going to measureable?" We did talk before about measurability. I want to know that whatever I'm going to choose to do I want to know how to know that it's working so that we don't end up doing something for the next three or four years that didn't work anyway. So you want to build in a measurable – thank you.

What traditional strategies are you going to use and is there a student success focused strategy that's part of your plan? If you don't have a student success piece in there, if you don't at least tip your hat to the reality that most of the people who are going to be at risk of default will be students who were not successful academically then you’ll always be behind the curve by trying to clean that up in the financial aid office or during the grace period or during repayment.

Then you’ll be able to have this conversation. You’ll be able to say, “My default prevention team includes the academic affairs people or the students support services people or career placement or admissions. Do we need to tighten up admissions?” The buck stops where? You’ll be able to identify who the person is on the team who has that ability to say, “I’m making the decision on it. I’ll make the call. We’ll make it happen.”

Our traditional strategies are, our student success focus strategies are – here’s what we’re going to do. We’re going to create a liaison with the enrollment management team with the first year experience folks so that we can leverage what they’re doing to help reduce default risk. Here are the things that we’re not doing that the data suggest that we do. Here’s a list of things that we haven’t done yet and that we will do. Here are the steps necessary to complete our work.”

So some final thoughts. You have to have leadership buy in. It doesn’t get done. We can help you with that. We can help you have conversations with institutional leadership, to help them understand why this is critical. Default rates are going up. It’s going to get worse in ’10, worse in ’11. I don’t know how to predict ’12 yet but I can tell you that the data doesn’t look good and it’s going to get worse for everybody. No one will be spared.

Here are some resources. This brings us to the end of our session. Here’s our contact information. Did you want to say anything at the end Patrick? Okay, so do we have any time for questions? We’ll be up here if you have questions. We’ll be happy to stick around. Happy default prevention. Good luck.