



# What is Risk Management

Andy Cho



# *Session 9*

## Agenda

- What is Risk Management?
- Reducing Delinquency and Default.
- Delinquency Patterns and Characteristics
- Tools for Schools to Help Students Avoid Delinquency and Default



# What is Risk Management?

- ◆ Risk Management is the continuous management of reducing exposure of loss from non-performing loans.
- ◆ Includes a balanced review of business results and how to maximize opportunities.
- ◆ Provides the foundation that supports the quality, composition and profitability of loan portfolio.

## Why is Risk Management Important?

- ◆ Department of Education owns or guarantees approximately \$290 billion in outstanding student loans.
- ◆ In 2002 \$56.5 billion was delivered in total new federal aid.
- ◆ There are approximately 22 million borrowers with student loans.
- ◆ As a taxpayer you are a share/stakeholder in the federally insured student loan portfolio, each of you have a vested interest in insuring that “your” investment is managed well.



# Advantages of Risk Management

- ◆ Manages through the life of the loan
- ◆ Identifies borrower attributes throughout the life cycle of the loan that impact performing and non performing loans
- ◆ Prevents a “scatter gun” approach to managing the portfolio, which leads to managing on demand
- ◆ A focused vision and concentrated effort to managing default prevention and reducing the cost to the taxpayer

## Direct Loans

Type of Loans	Number of Loans	% to Total	Total Principal & Interest	% to Total
<b>Consolidation</b>	<b>2,052,633</b>	<b>12.00%</b>	<b>\$ 31,306,165,930</b>	<b>38.79%</b>
Plus	779,486	4.56%	\$ 4,226,983,815	5.24%
Stafford Subsidized	8,820,358	51.55%	\$ 26,192,840,246	32.46%
Stafford Unsubsidized	5,456,330	31.89%	\$ 18,978,602,685	23.52%
	17,108,807	100.00%	\$ 80,704,592,676	100.00%

Average per Consolidated Loan \$ 15,252  
Average per Non-Consolidated Loan \$ 3,281

Source: Credit Management Data Mart - September 2003

## FFELP Loans

Type of Loans	Number of Loans	% to Total	Total Principal & Interest	% to Total
Stafford Sub.	25,388,786	55.59%	\$ 66,233,506,528	32.04%
Stafford Unsub.	13,716,235	30.03%	\$ 48,892,052,890	23.65%
<b>Consolidation</b>	<b>4,152,677</b>	<b>9.09%</b>	<b>\$ 80,672,599,271</b>	<b>39.02%</b>
PLUS	2,023,356	4.43%	\$ 9,658,519,916	4.67%
SLS	388,178	0.85%	\$ 1,264,482,351	0.61%
Refinanced	158	0.00%	\$ 379,705	0.00%
<b>Total</b>	<b>45,669,390</b>	<b>100.00%</b>	<b>\$ 206,721,540,661</b>	<b>100.00%</b>

Average per Consolidated Loan \$ 19,427

Average per Non-Consolidated Loan \$ 3,036

Source: NSLDS - September 03

# Sample Report

## Direct Loans - Defaulted Loans

Direct Loans - Defaulted Loans Comparison - FY 02 and FY 03

State	% Increase/Decrease
AK	-0.14%
AL	7.23%
FL	-0.61%
<b>GA</b>	<b>7.53%</b>
<b>LA</b>	<b>-10.79%</b>
MS	-1.68%
<b>Overall % Increase</b>	<b>2.09%</b>

Note: State represents where the borrowers are residing

Questions we would like to answer based on these numbers are:

1. Type of loan?
2. School Type?
3. Consolidated Loans?
4. Is there a relationship between state unemployment rate to the increase in defaults?
5. Type of repayment plans and amount of monthly payments?
6. Age of loan when default occurred?



# Sample Report - Delinquency

## Overall Rates - Southern States

Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
Consolidated Subsidized, Federal Direct Stafford	14.52%	11.98%
Consolidated Unsubsidized, Federal Direct Stafford	12.32%	10.46%
<b>Consolidated, Federal Direct PLUS</b>	<b>4.24%</b>	<b>3.93%</b>
<b>Non-Consolidated Federal Direct PLUS</b>	<b>9.34%</b>	<b>9.43%</b>
Non-Consolidated Subsidized, Federal Direct Stafford	13.84%	13.74%
Non-Consolidated Unsubsidized, Federal Direct Stafford	13.12%	12.94%
<b>Overall Rates</b>	<b>13.34%</b>	<b>11.99%</b>



# Sample Report - Delinquency

## Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
AK	Non-Consolidated Subsidized, Federal Direct Stafford	10.31%	9.60%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	9.71%	8.91%
	<b>Non-Consolidated Federal Direct PLUS</b>	<b>5.34%</b>	<b>4.08%</b>
	Consolidated Subsidized, Federal Direct Stafford	12.14%	11.14%
	Consolidated Unsubsidized, Federal Direct Stafford	9.78%	7.92%
	<b>Consolidated, Federal Direct PLUS</b>	<b>2.86%</b>	<b>0.67%</b>
	<b>AK Overall Delinquency Rate</b>	<b>10.09%</b>	<b>9.24%</b>

# Sample Report - Delinquency

## Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
AL	Non-Consolidated Subsidized, Federal Direct Stafford	14.71%	14.66%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	13.82%	13.65%
	<b>Non-Consolidated Federal Direct PLUS</b>	<b>10.23%</b>	<b>10.13%</b>
	Consolidated Subsidized, Federal Direct Stafford	13.07%	10.71%
	Consolidated Unsubsidized, Federal Direct Stafford	10.46%	9.33%
	<b>Consolidated, Federal Direct PLUS</b>	<b>4.49%</b>	<b>4.19%</b>
	<b>AL Overall Delinquency Rate</b>	<b>13.82%</b>	<b>12.24%</b>

# Sample Report - Delinquency

## Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
FL	Non-Consolidated Subsidized, Federal Direct Stafford	13.72%	13.81%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	13.39%	13.24%
	<b>Non-Consolidated Federal Direct PLUS</b>	<b>9.73%</b>	<b>9.55%</b>
	Consolidated Subsidized, Federal Direct Stafford	14.46%	11.69%
	Consolidated Unsubsidized, Federal Direct Stafford	12.79%	10.47%
	<b>Consolidated, Federal Direct PLUS</b>	<b>4.41%</b>	<b>4.41%</b>
	<b>FL Overall Delinquency Rate</b>	<b>13.44%</b>	<b>11.84%</b>

# Sample Report - Delinquency

## Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
GA	Non-Consolidated Subsidized, Federal Direct Stafford	12.56%	12.49%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	11.97%	11.91%
	<b>Non-Consolidated Federal Direct PLUS</b>	<b>8.46%</b>	<b>8.95%</b>
	Consolidated Subsidized, Federal Direct Stafford	12.33%	10.26%
	Consolidated Unsubsidized, Federal Direct Stafford	10.23%	9.25%
	<b>Consolidated, Federal Direct PLUS</b>	<b>3.72%</b>	<b>3.41%</b>
	<b>GA Overall Delinquency Rate</b>	<b>11.92%</b>	<b>10.78%</b>

# Sample Report - Delinquency

## Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
LA	Non-Consolidated Subsidized, Federal Direct Stafford	16.65%	16.12%
	Non-Consolidated Unsubsidized, Federal Direct Stafford	15.92%	15.56%
	<b>Non-Consolidated Federal Direct PLUS</b>	<b>9.31%</b>	<b>9.93%</b>
	Consolidated Subsidized, Federal Direct Stafford	18.31%	15.97%
	Consolidated Unsubsidized, Federal Direct Stafford	16.98%	14.01%
	<b>Consolidated, Federal Direct PLUS</b>	<b>5.29%</b>	<b>4.09%</b>
	<b>LA Overall Delinquency Rate</b>	<b>16.62%</b>	<b>15.07%</b>

# Sample Report - Delinquency

## Direct Loans - Delinquent Loans Statistics

State	Loan Type	% Delinq. Loans	% Delinq. Prin.&Int.
MS	Non-Consolidated Subsidized, Federal Direct Stafford	20.06%	19.52%
	Non-Consolidated Unsubsidized, Federal Direct Staff	18.78%	17.62%
	<b>Non-Consolidated Federal Direct PLUS</b>	<b>13.38%</b>	<b>11.68%</b>
	Consolidated Subsidized, Federal Direct Stafford	20.15%	18.03%
	Consolidated Unsubsidized, Federal Direct Stafford	18.66%	15.30%
	<b>Consolidated, Federal Direct PLUS</b>	<b>6.67%</b>	<b>3.94%</b>
	<b>LA Overall Delinquency Rate</b>	<b>19.42%</b>	<b>17.43%</b>

# Why is Risk Management Important?

As a taxpayer you are a share/stakeholder in the federally insured student loan portfolio, each of you have a vested interest in insuring that “your” investment is managed well.





# Risk Management: Reducing Delinquency & Default

Tim Fitzgibbon, Iowa College  
Student Aid Commission



# Default Aversion

- Required by Regulation
- Pre-claims Assistance
- Supplemental Pre-claims Assistance
- Default Aversion



# Student Loan Outfitters

- Referral service for “high-risk” borrowers
- Early awareness and delinquency prevention
- Available to all Iowa colleges and universities
- Interactive web site



# Disaster Relief Grants

- Funds available to students and families affected by natural disasters – later expanded
- Matching funds from colleges and universities
- Recipients agree to limit borrowing
- 2,100 recipients – Grants average \$1,400



# Foster Grants

- Funds available to students formerly in foster care
- Recipients agree to limit borrowing
- Support from colleges and universities, and Iowa Dept. of Human Services
- 60% completion rate
- \$3,000 average award



# Default Reduction Grants

- Funds available to promote innovative default prevention programs at the campus level
- Competitive application process
- Tiered award levels
- Guest speakers, academic courses, community programs



# Student Assistant Grants

- Funds provided to hire “peer advisors”
- SAs trained in financial aid, student loan, and debt management basics
- Increase awareness, communication on campuses
- Refer students to FAOs, ED, lenders, or the Commission



# Agency Servicing Center

- Iowa-based default prevention call center
- Based on Commission theme of lowans-helping-lowans
- Expanding Iowa work force

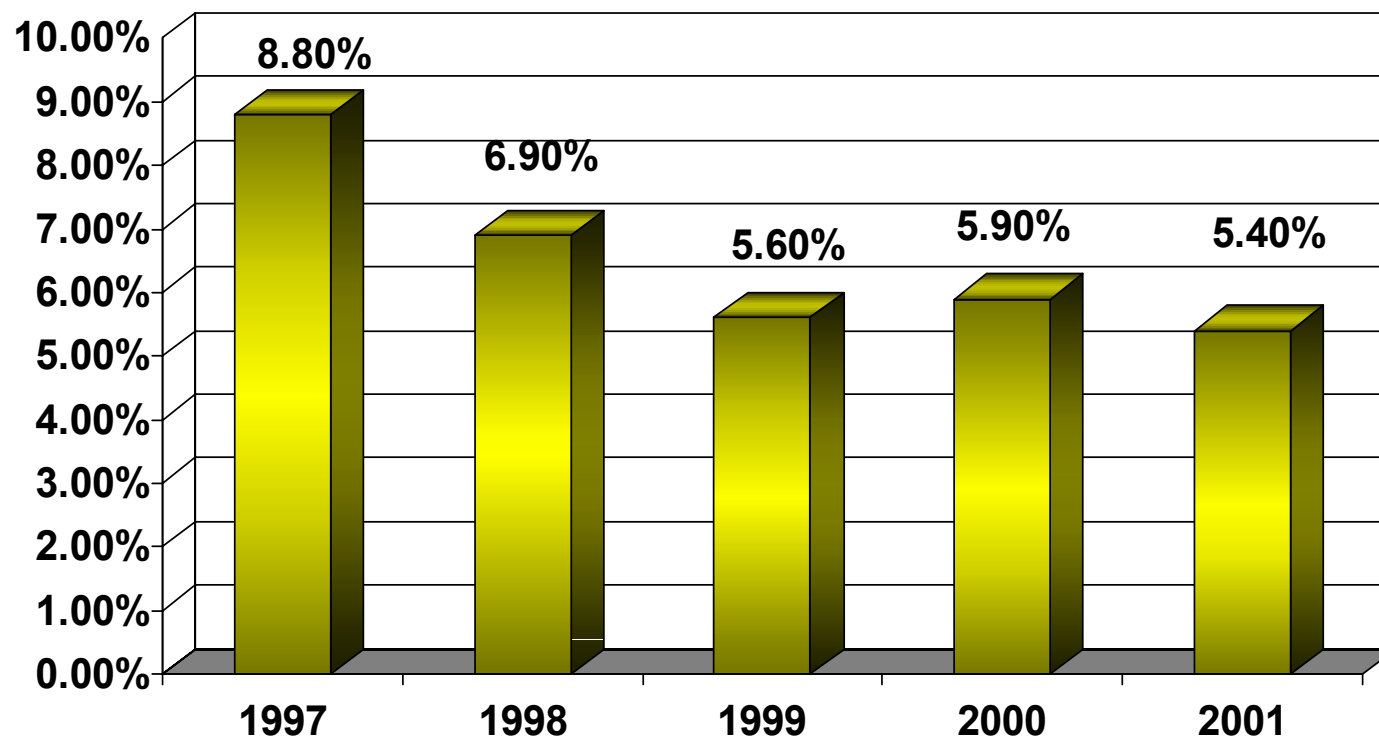




# Stafford Late Stage Delinquency Assistance LSDA

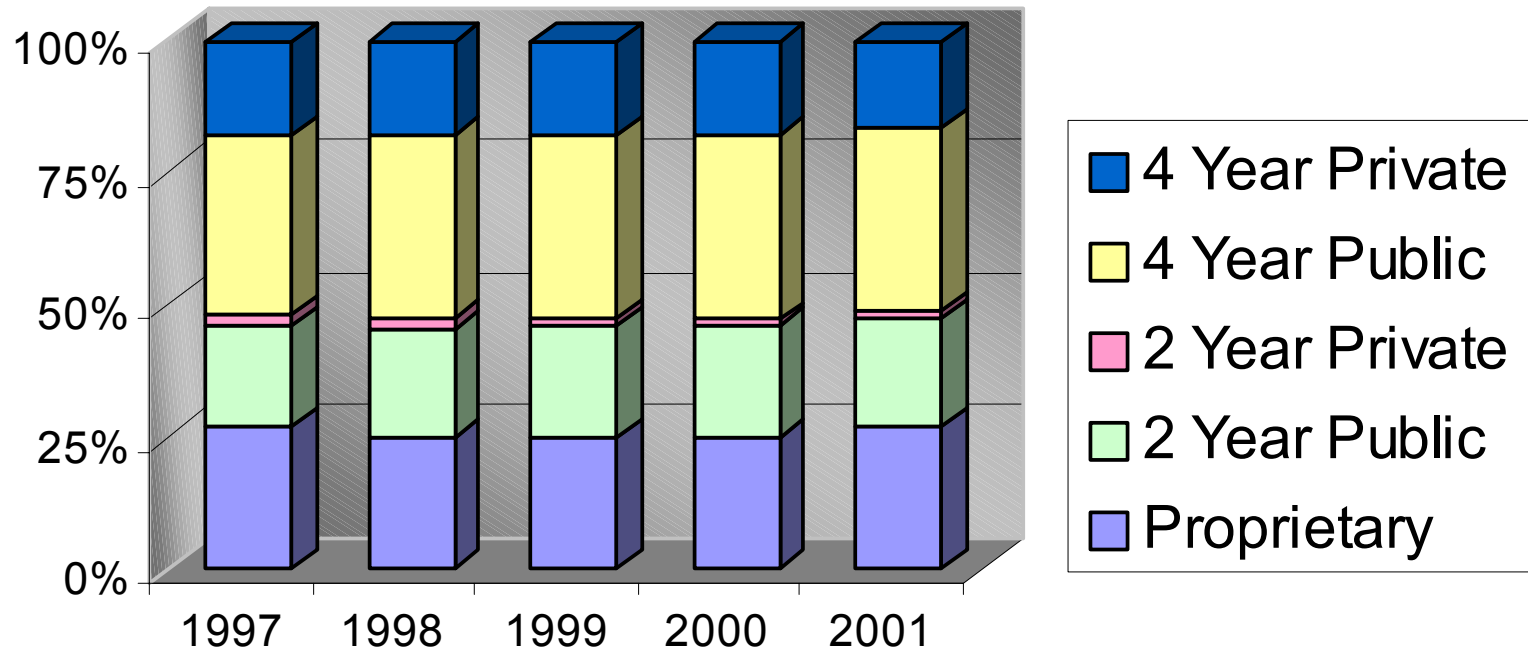
Ben LeBorys

# Official Cohort Default Rates

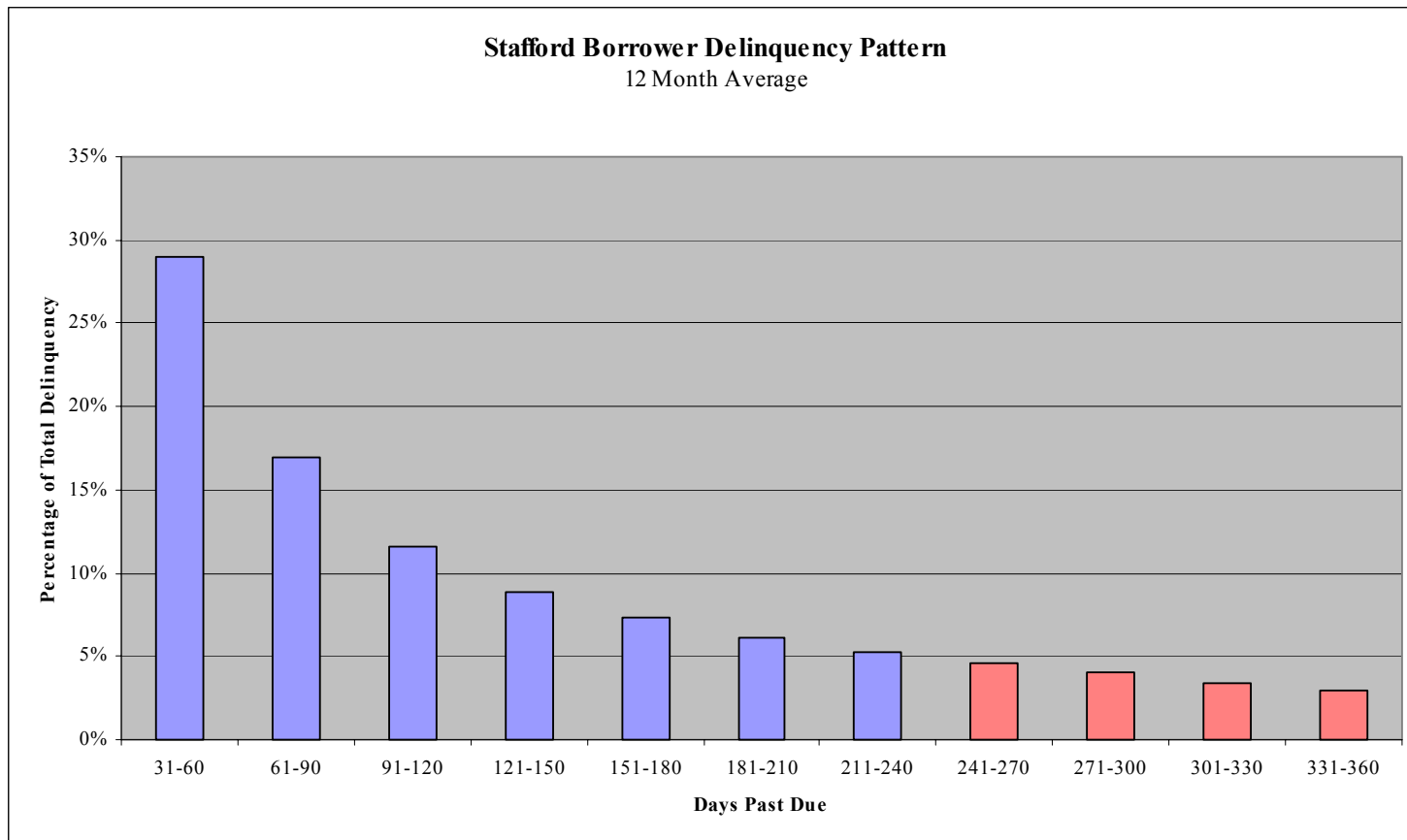


# Makeup of Cohort Rate

Cohort Default Contribution by  
School Type



# Borrower Delinquency Pattern





# Defaulter Characteristics

- 84% do not receive the advantage of the full 6 month grace period as a result of late enrollment notification
- 71% have withdrawn from school and did not complete studies
- 43% have had bad telephone numbers at the time of default
- 58% have not successfully been contacted by telephone during the 360 day collection effort during delinquency

*12 month average of Stafford borrowers - all cohort years*



# Schools Can Help

- Assist the severely delinquent borrowers in establishing communications with the Service Center
- There is a small subset of borrowers that have not responded to our attempts to communicate and help them resolve their delinquency
- These borrowers will frequently respond to school outreach



# How It Can Work

- Identify the Borrower
- Contact the Student
- Schools have additional tools to locate Borrowers (i.e. Alumni Association directories, putting holds on records, etc. )
- Use email addresses and references you have
- Schools are not collectors but counselors

# 2003 Cohort Year Delinquency Detail



You can work as little or as much as you want

Detail Report										
<div> <div>More Information</div> <div> <div>Page-by</div> <div> <div>Delinquency Bucket: 271 - 360</div> <div>GO</div> </div> </div> <div> <div>Paged by: Delinquency Bucket: 271 - 360</div> <div> <div>Page 1 of 3</div> <div> <div>1</div> <div>2</div> <div>3</div> </div> </div> </div> <div> <div>271-360</div> <div>115</div> </div> <div> <div>Last update: 9/15/2003 12:46:55 PM</div> <div>Rows: 1 - 50 of 116 Columns: 3</div> </div> </div>										
Reporting Period	Social Security Number	Last Name	First Name	Work Phone	Home Phone	Cohort Default Year	Cohort Default Indicator	Days Delinquent	Past Due Amount	Number of Accounts
August 2003	222-77-7777	FRESHMAN	FRANK			2003	Y	337	\$ 300.12	1
August 2003	111-22-2222	SCHOOL	SIRENA		666-777-4444	2003	Y	358	\$ 2,872.98	1
August 2003	222-66-6666	COLLEGE	CHRISTINE			2003	Y	337	\$ 1,371.70	1
August 2003	111-22-3333	CAMPUS	CARY		666-777-5555	2003	Y	337	\$ 600.00	1
August 2003	222-55-5555	SCIENCE	SYLVESTER		666-777-0123	2003	Y	337	\$ 600.00	1
August 2003	111-22-4444	MAIN	MARTY		666-777-6666	2003	Y	337	\$ 632.48	1
August 2003	222-11-1111	COMMON	CANDACE			2003	Y	344	\$ 600.00	1
August 2003	111-22-5555	ONLINE	OTIS		666-777-7777	2003	Y	337	\$ 3,008.88	1
August 2003	222-22-2222	SEMESTER	SAMUEL			2003	Y	310	\$ 598.99	1
August 2003	111-22-6666	SESSION	SUSAN			2003	Y	321	\$ 2,110.37	1
August 2003	001-44-4444	AMERICA	ALEXANDER	666-777-7890	666-777-1234	2003	Y	351	\$ 790.61	1
August 2003	111-22-8888	PARENT	PATRICIA			2003	Y	337	\$ 600.00	1
August 2003	222-44-4444	STUDENT	SAMANTHA			2003	Y	351	\$ 600.00	1
August 2003	111-22-7777	COUNSELOR	CORY		666-777-8888	2003	N	321	\$ 2,040.25	1





# Why Schools Do It ?



- Reduce the CDR for their school
- Improve the integrity of the program
- Rescue over 30% of potential defaulters
- Minimal effort, maximum results, schools say “we help the borrowers and the school with a little effort”
- Web tools identify & focus on the most severe delinquencies that have a direct impact on a school’s CDR
- No major investment in time, staff or money
- LSDA really works
- It’s the right thing!

Sample Results for Late Stage Delinquency Assistance (LSDA) Schools 2nd Quarter 2002CDR					
SCHOOL	Total	Defaults	Percent Default	Rescued	Percent Rescued
Technical Institute	2	0	0%	2	100%
Institute of Technology	25	9	36%	16	64%
College	10	4	40%	6	60%
University	41	20	49%	21	51%
Memorial College	21	11	52%	10	48%
College	23	13	57%	10	43%
State University	32	19	59%	13	41%
State University	50	30	60%	20	40%
College	36	23	64%	13	36%
College	23	15	65%	8	35%
State University	66	44	67%	22	33%
College of Business	15	10	67%	5	33%
University	23	16	70%	7	30%
University	11	8	73%	3	27%
University	9	7	78%	2	22%
<b>TOTAL</b>	<b>387</b>	<b>229</b>	<b>59%</b>	<b>158</b>	<b>41%</b>



# Total Test Results

<b>1st Quarter 2002</b>	683	465	68%	218	<b>32%</b>
<b>2nd Quarter 2002</b>	387	229	59%	158	<b>41%</b>
<b>Total</b>	1070	694	65%	376	<b>35%</b>



# Post Default Cures

- 14 months after the default condition was cured, 82.49% of the borrowers did not re-default.
- 24 months after the default condition was cured, 76.70% of the borrowers did not re-default.



# Perkins Late Stage Delinquency Assistance (Perkins LSDA)

John Pierson



# Perkins LSDA

- Perkins “Late Stage Borrowers”
  - 180-240 days delinquent
  - Current default cohort
- Who is servicing the loan?
  - Institution
  - Outside contractor
  - Why is this important?



# Perkins LSDA

Stafford LSDA principles apply:

- Do something different
- Light touch
- Monthly attention works best
- Limit investment: cost, time and staff



# Perkins LSDA

When doing LSDA for both Perkins and Stafford:

- QC your data before you start:
  - Review delinquency lists for overlap.
  - Update contact information
- Borrower Contact process: How will you do it?
  - Separate LSDA process for each program?
  - Combined LSDA process?
- Know the rules:
  - Resolution for Stafford and Perkins may be different.





# Default Analysis: The Long Term Solution

John Pierson



# Default Analysis: The Long Term Solution

Our Targets:

- Stafford Loan Program  
and
- Perkins Loan Program



# Default Analysis: The Long Term Solution



## Working Assumptions:

- We cannot effectively change long term patterns until we know who is likely to default.
- The core remaining default for most Perkins and Stafford portfolios can be impacted through administrative and/or academic intervention while borrowers are enrolled.



# Default Analysis

## The Long Term Solution

### Resources: Data

- Institutional student data (FISAP/Perkins)
- Department of Education data (Stafford):
  - Loan Record Detail Report
  - NSLDS School Repayment Loan Detail Report
- Servicer and Guaranty Agency Reports



# Default Analysis

## The Long Term Solution

### Resources: Process

- Free software to assist in creating defaulter profile for both Stafford and Perkins
- FSA Self-Assessment/Tools/Schools/Default Management via Schools Portal ([fsa4schools.ed.gov](http://fsa4schools.ed.gov))



# Default Analysis

## The Long Term Solution

Create an intervention:

- Collect and analyze data
- Identify co-related factors
  - Examples: retention, GPA, grad rates, etc.
- Intervention based upon empirical analysis
- Choose the biggest targets
- Implement
- Track outcome, evaluate, recalibrate



# Default Analysis

## The Long Term Solution

- Likely problem areas:
  - Academic?
  - Administrative?
  - Other?
- The solution may require the active participation of academic and/or administrative (or other) departments and staff.

# Creating a long term intervention

- Change in co-related factors may occur in the near term: reduction in rate of delinquency and default will take longer.
- Follow the trail wherever it leads.





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