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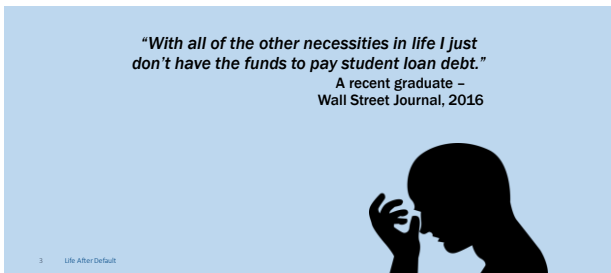
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### The Heartbreak of Loan Default



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## The Heartbreak of Loan Default

In FY 2014 cohort, 580,671 borrowers defaulted on their loans

**Loan default can dramatically change a borrower's life**



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## Agenda

- 1 Define loan default
- 2 Share what happens when borrowers default
- 3 Explain options available to borrowers after default
- 4 Share ways you can help your defaulted borrowers
- 5 Provide resources



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**Defining Loan Default**

WASFAA  
**GO WITH THE FLOW**  
WASFAA SPRING 2018 CONFERENCE | LA CROSSE, WI

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## Common Traits of Loan Defaulters

- Withdrew without completing their program
- Did not receive their full six-month grace period
- Have not responded to the communication attempts by their loan servicer

Institutions usually have unique factors that may contribute to default



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## Factors that Influence Repayment Behavior

Employment Status

Starting Salaries

Financial Knowledge



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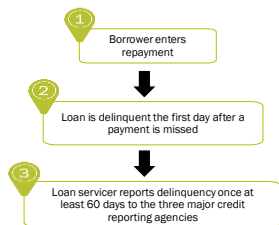
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## The Unfortunate Road to Default



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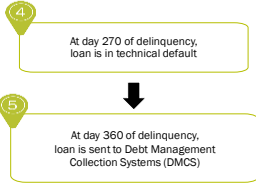
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## The Unfortunate Road to Default



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## The High Cost of Default

- Once a borrower defaults, they face numerous consequences
  - Loss of Title IV eligibility
  - Inability to receive a deferment or forbearance
  - Default is reported to the credit reporting agencies
  - Possible collection costs
  - Department of Treasury may offset tax refunds
  - May be subject to Administrative Wage Garnishment
  - Department may take legal action
  - Loss of state-issued professional license



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## Loss of Eligibility

- Borrowers will lose eligibility for

Federal financial aid

Deferment

Forbearance

Repayment plans




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## Negative Credit Reporting

- Loan default remains on the borrower's credit report for seven years
- Will report as a collection account
- Could impact the borrower's ability to:

Receive loan and credit card approvals

Receive lower interest rates

Rent apartments

Secure employment




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## Negative Credit Reporting

GREAT LAKES		
<b>Address:</b> 2401 International Ln Madison, WI 53704 800-xxx-xxxx	<b>Account Number:</b> 44993400611	
<b>Address Identification Number:</b> 7634449213		
<b>Status:</b> Claim filed with federal government		
<b>Date Opened:</b> 06/2010	<b>Type:</b> Education Loan	<b>Credit Limit/Original Amount:</b> \$22,000
<b>Reported Since:</b> 09/2015	<b>Terms:</b> N/A	<b>High Balance:</b> N/A
<b>Date of Status:</b> 01/2016	<b>Monthly Payment:</b> \$0	<b>Recent Balance:</b> \$0
<b>Last Reported:</b> 01/2016	<b>Responsibility:</b> Individual	<b>Recent Payment:</b> \$0

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## Collection Costs

- Department may charge the borrower up to 25% more than the principal and interest

**+25%**



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## Offset Tax Refunds

- Department can request that Treasury arrange an offset to collect any defaulted student loan debt
- Federal tax refunds payable to joint filing couples are subject to offset
- Federal law requires the Department to give borrowers prior notice of the proposed offset and an opportunity to review loan records



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## Administrative Wage Garnishment

- Under the Higher Education Act, the Department may require employers to deduct 15% of the borrower's disposable pay
- Garnishment may continue until entire loan balance is paid
- AWG is only used for borrowers who refuse to voluntarily repay

**-15%**



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## Legal Action

- Borrowers who refuse to voluntarily pay may be sued in State or Federal District Court for the outstanding balance plus attorney's fees and court costs



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## Loss of State-Issued Professional License

- Several states suspend state-issued professional licenses



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**Is There Life After Default?**

**GO WITH THE FLOW**  
WASFAA SPRING 2018 CONFERENCE | LA CROSSE, WI

The slide features a teal background with a white circular area containing the text 'Is There Life After Default?'. Below the circle is the WASFAA logo, which includes the text 'WASFAA' above a stylized wave graphic, and 'GO WITH THE FLOW' below it. At the bottom of the slide, it reads 'WASFAA SPRING 2018 CONFERENCE | LA CROSSE, WI'.

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## Options After Default



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## Repayment

- Pay entire unpaid balance in full
  - Will not remove default status
  - Will restore Title IV eligibility
- Make reasonable and affordable payments
  - Will not remove default status
  - Will restore Title IV eligibility once paid in full



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## Title IV Reinstatement

- Borrower can make six agreed-upon monthly payments over a six-month period
  - Payment amount must be approved in advance
  - Payment must be timely
  - May qualify for this option only once



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## Title IV Reinstatement

- Will restore Title IV eligibility after making six consecutive monthly payments
- Loan remains in default
- Will not clear the default status from credit report



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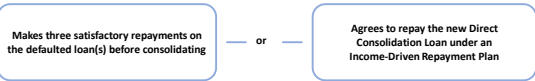
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## Consolidation

- A defaulted federal student loan may be included in a consolidation loan if the borrower:



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## Consolidation

- Will restore Title IV eligibility
- New consolidation loan will no longer be in default
- Will not clear the default status from credit report



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## Loan Rehabilitation

- Borrower must make at least nine full payments over a ten-month period
- Payments must be:
  - Made within 20 days of the due date
  - Made voluntarily
  - Reasonable and affordable
    - Amount equal to 15% of amount by which borrower's AGI exceeds 150% of poverty guideline, divided by 12
    - Reasonable and Affordable Payment Standard
- Tax offset will not end until the borrower makes five payments



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## Loan Rehabilitation

- Borrower may object to payment calculated based on 15% formula
- If so, ED must recalculate payment based solely on information provided and, if requested, supporting documentation from borrower and other sources
  - Financial Disclosure for Reasonable and Affordable Rehabilitation Payments form



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## Loan Rehabilitation

After the borrower successfully completes the rehabilitation agreement:

- ✓ Direct loans are returned to loan servicing
- ✓ FFELP loans are purchased by eligible lender



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## Loan Rehabilitation

After the borrower successfully completes the rehabilitation agreement:

- Title IV eligibility is restored
- Loan is no longer in default
- Default status is removed from credit report
- Tax offset ends



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## Benefits of Outreach

- By educating your defaulted borrowers on their options it could:
  - Help them restore their credit
  - Give them an opportunity to return to school and receive federal financial aid
  - Enable them to apply for an FHA or VA loan
  - Possibly stop wage garnishments and tax offset



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## Benefits of Outreach

- By educating your defaulted borrowers on their options it could also help lower your cohort default rate
- If the borrower rehabilitates the loan before the end of the cohort default period, the borrower is not included in the numerator because the borrower is no longer considered to be in default



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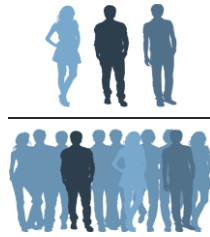
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## Cohort Default Rate

The **Numerator** is the number of Stafford loan borrowers from the denominator who default within a cohort period



The **Denominator** is the number of Stafford loan borrowers who enter repayment within a cohort period

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## What is a Cohort Default Period?

### FY 2017 CDR

Borrowers who entered repayment between 10/01/2016 and 9/30/2017 and who defaulted between 10/01/2016 and 9/30/2019

### FY 2018 CDR

Borrowers who entered repayment between 10/01/2017 and 9/30/2018 and who defaulted between 10/01/2017 and 9/30/2020

Borrowers who entered repayment between 10/01/2016 and 9/30/2017

Borrowers who entered repayment between 10/01/2017 and 9/30/2018



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## Outreach Strategies

Send letters to defaulted borrowers to include:

- Details of loan rehabilitation and consolidation
- Benefits of resolving default
- Contact of where to go for help—[myeddebt.ed.gov](http://myeddebt.ed.gov)



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## Outreach Strategies

- Get the borrower's attention
  - Highlight what you want them to know most in **bold** or **color**
  - Sign letters by hand
  - Colored envelopes
  - School's logo or mascot
  - Hand write envelopes
  - Use stamps



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## Utilize Resources

- NSLDS *Borrowers in Default Summary Report*
- Federal servicer's reports
- Great Lakes' Portfolio Navigator



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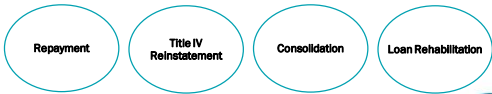
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### Conclusion

- Implement effective default prevention measures to facilitate successful repayment
- Reach out to defaulted borrowers to let them know about their options



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### Resources

- [Studentaid.ed.gov/repay-loans/default](http://Studentaid.ed.gov/repay-loans/default)
- [Myeddebt.ed.gov](http://Myeddebt.ed.gov)
- [Consumerfinance.gov](http://Consumerfinance.gov)



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**Thanks for Attending**



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