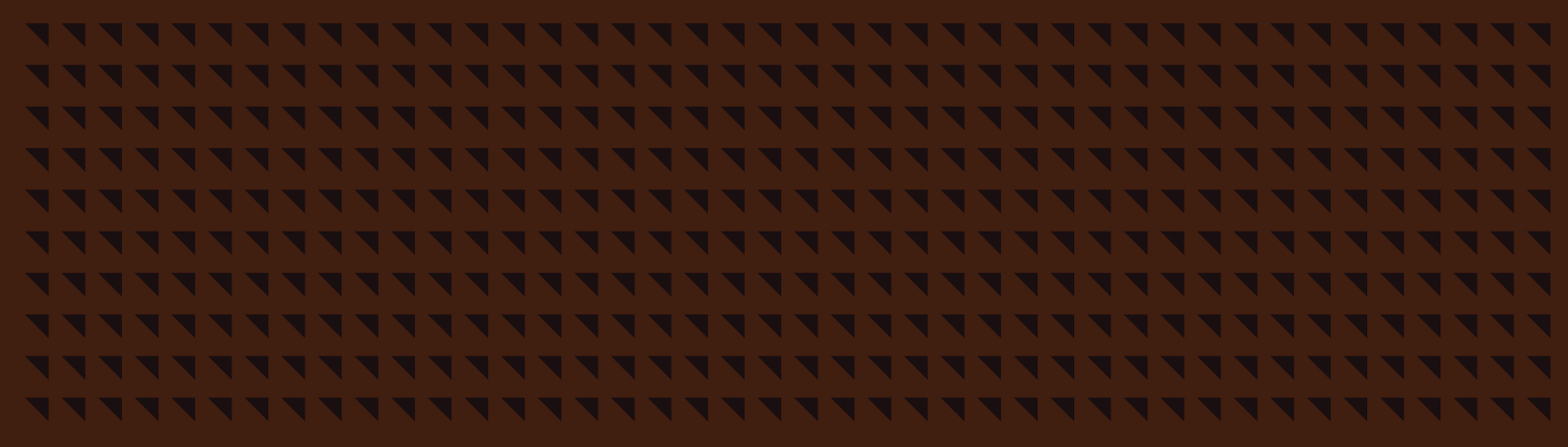


# A School's Guide to Servicers



Building alliances and expanding partnerships



## Elements for an effective dialogue with your servicer

- How does the servicer measure default aversion success?
- How does the servicer collaborate with other industry partners to address default prevention?
- What standard vs. customized reporting capabilities can the servicer provide?
- What types of default prevention assistance does the servicer provide to the school?
- How can the servicer customize its default prevention services to the school's needs?
- How does the servicer measure customer satisfaction?
- Whom can I contact for more information about assistance with default prevention?
- What are the servicer's policies with respect to administering forbearances?
- To what extent does the servicer use its Website, email and other Web capabilities for borrowers and schools?
- What supplemental efforts beyond the minimum due diligence requirements does the servicer perform?
- What are the servicer's standards/goals for call duration?
- What are the servicer's standards/goals for processing forbearances, deferments, and reporting enrollment?

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## Introduction

The Council for the Management of Educational Finance (Council) and TG are pleased to provide this guide, one in a series of default aversion resources available to the higher education community. Originally published in 2000 and revised in 2003, this guide has now been updated to reflect recent technologies, processes, opportunities and challenges facing the loan servicing community. It is the intent of the Council that this guide will serve as a means to build alliances and expand partnerships, which are critical to successful and sustainable default aversion efforts. Our combined efforts and partnerships will continue to strengthen our industry and provide the means for student success.



### Who is the Council for the Management of Educational Finance?

Established in 1997 in partnership with TG, the Council is a consortium representing the financial aid community. Seventeen members representing institutions, lenders, loan servicers, and a professional TG liaison serve on the Council. The objective is to develop default aversion initiatives that promote success in higher education.

The Council and TG use activities and publications such as those listed on the inside back cover of this publication to provide default aversion training through TG's Achieving Systemic Default Aversion (ASDA) Program. TG's ASDA program is based on the premise that successful default aversion efforts must be comprehensive. This calls for the involvement of not only the student financial aid community but also major campus departments including the office of the president, admissions, registrars/bursars, faculty, counseling, and job placement, who also play a critical role in default aversion.

### Why the Guide?

Institutions that understand and maximize servicer default aversion practices, activities, and tools will increase the overall success of students' ability to fulfill their loan obligations. Included in this guide is an overview of federal due diligence requirements, activities, techniques, and tools that servicers use for delinquency resolution.

This guide highlights practices of the servicing, school, and guaranty agency communities that go above and beyond the required due diligence.

### What is a loan servicer?

The term “servicer,” as used in this document, includes lenders who service their own portfolios, secondary market servicers (organizations that have purchased loans from the original lender and provide on-going servicing), and third-party servicers (organizations that provide loan servicing on behalf of the loan owner). The term “borrower,” as used in this document, is the individual listed on the promissory note as the person borrowing the money — whether that person is still in school (a student), a former student in grace or repayment, or a parent.

The default management efforts for Federal Family Education Loan Program (FFELP) servicers are regulated by federal requirements and guarantor policies. However, servicers have flexibility in developing specific default aversion strategies. The overall success of any default aversion program is tied to the efforts of the entire higher education community and specifically the student financial aid community. Each FFELP entity must be accountable, consistent in its efforts, and establish a sense of teamwork among its school, servicer, and guaranty agency partners.

### What is due diligence?

Most default aversion efforts are based on due diligence requirements, which include activities that lenders or servicers are required to follow in order to encourage the repayment of student loans. The three categories of due diligence required by servicers include

- Written correspondence
- Telephone contacts
- Skip tracing

Whether written or verbal, the purpose of any due diligence effort is to elicit willingness and action from the borrower to bring the account current. Due diligence requirements may be found in 34 CFR 682.411 of the federal regulations.



**The overall success of any default aversion program is tied to the efforts of the entire higher education community and specifically the student financial aid community.**



Servicers, schools, lenders and guaranty agencies are interdependent partners in the default aversion efforts of the student loan business.

## Schools as partners

### Alliances with loan servicers benefit schools

Servicers, schools, lenders, and guaranty agencies are interdependent partners in the default aversion efforts of the student loan business. Servicer default aversion efforts can benefit school default aversion efforts in the same way that school efforts complement servicer efforts. Servicers welcome requests for assistance to help with the development and implementation of effective default management plans at schools.

Servicers are often able to provide a variety of historical, statistical, and operational information to schools to assist with the start-up of default management areas and information in support of on-going default management efforts.

### Initiating and sustaining partnerships with servicers

- **Identify a point of contact at the servicer and make that initial contact.** If you do not know where to begin, call the servicer's customer service number, check the lender's, servicer's Web site, or call TG and ask for a point of contact. Most servicers have school liaisons who work directly with institutions on a variety of issues. The servicer's default management/collections manager is usually a good starting point. These managers usually have a keen interest in preventing defaults and appreciate the opportunity to assist schools as they begin their default prevention efforts or continue to work to improve them.
- **If you need information to help you determine the extent of your default situation, ask for school-specific statistical data on the loans with which the servicer is associated.** It is best to have an idea of the types of data in which you are interested. Otherwise, tell the servicer what your objective is, and they should be able to identify reports and/or data that they can deliver to you quickly.

- **Ask about establishing electronic links to the servicer's database so you can have online access to account records.** Online viewing of the borrower accounts can be enlightening and can assist you with your ongoing default management efforts.
- **Inquire about the servicer's Web site.** Navigate the site yourself or find out what information and service offerings are available through the Internet. This knowledge will help you in your default management efforts, and you can easily pass on the information to your financial aid counselors, so that anyone in the department may effectively help students help themselves in managing their educational finances.
- **Establish a liaison between your default management staff/unit and the servicer's collection area.** Having a direct line to an operation's point of contact to assist with day-to-day delinquency resolution issues can speed up the process.
- **Maintain a current and readily available contact list of your servicer providers and lender contacts.**
- **Ask for assistance on your campus during the default management unit's start-up process.**

Finally, to enhance communication, solidify partnerships with servicers and establish a closer professional relationship, institutions are encouraged to visit their servicer(s) to become familiar with their policies and practices.

If you need information to help you determine the extent of your default situation, ask for school-specific statistical data on the loans with which the servicer is associated.



**The lender must document the performance of these attempts, and the attempts must be similar to those generally used for consumer loans.**

## Federal due diligence

The subsequent sections outline the due diligence procedures and initiatives required for disclosing repayment terms and attempting to satisfactorily resolve a delinquency and prevent a default in accordance with federal regulations. The lender must document the performance of these attempts, and the attempts must be similar to those generally used for consumer loans.

### Written correspondence

#### *Objective*

To encourage a borrower to take responsibility for repaying his or her student loan debt and to initiate action to resolve the delinquency.

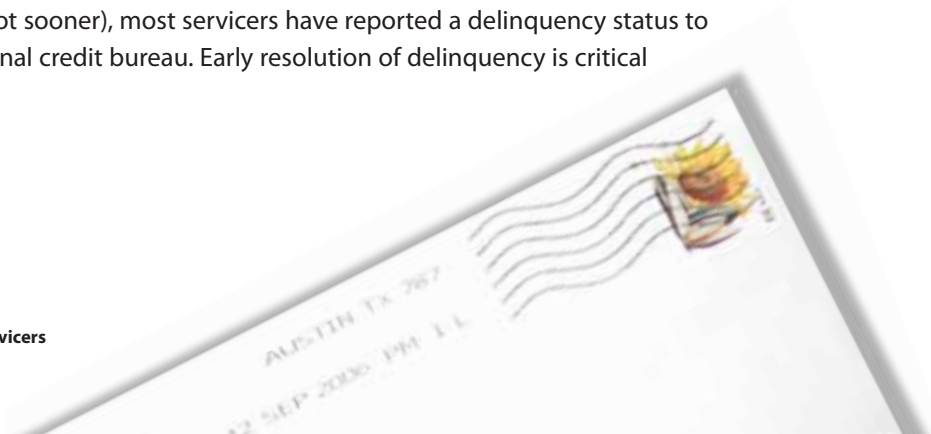
Before repayment begins, the servicer furnishes a borrower with information that discloses the total amount of the loan(s) entering repayment, the repayment terms, the first payment due date, the scheduled payment amount, and addresses and phone numbers of the servicer. This disclosure occurs anywhere from 30-240 days prior to the first payment due date for Stafford Loans, and at or before the beginning of the repayment periods on PLUS Loans.

Servicers find that it is more effective to disclose terms to former students closer to the time that a borrower is scheduled to make that first payment, typically 30-120 days prior to the first due date.

#### *Delinquency*

For any loan that has entered repayment and is past due, servicers are required to send letters encouraging or urging borrowers to return to a current repayment status. Generally, the first past-due notice is sent by the 15th day of delinquency, and additional collection correspondence is forwarded at pre-set intervals until the loan defaults or is brought current.

It is important for institutions and borrowers to understand that by day 90 of delinquency (if not sooner), most servicers have reported a delinquency status to at least one national credit bureau. Early resolution of delinquency is critical





and in the best interest of borrowers and their creditworthiness for mortgages, future financing, and overall propensity for personal and financial success.

As the delinquency progresses, the language of the letters becomes more serious to further emphasize the urgency of resolving the delinquency and the consequences of continued delinquency and default. Servicers send a final letter (referred to as the Final Demand Letter), when the loan is more than 240 days delinquent demanding payment of the entire loan in full within 30 days. This letter further explains that if the delinquency is not resolved in the subsequent 30-day period, the loan will default and will be assigned to a guaranty agency for collection.

The U.S. Department of Education (ED) does not standardize past due letters. The content and format of these letters varies from servicer to servicer.

ED does, however, prescribe that all required collection letters between day 16 and 180 of delinquency include information on deferment, forbearance, income-sensitive repayment, loan consolidation and other available options. At least two letters during this timeframe must inform the borrower of default consequences: assignment of loans to the guarantor and reporting of default to all national credit bureaus, tax refund offset, wage garnishment, litigation, etc. Similarly, letters sent between day 181 and 240 must urge the borrower to make the required payments and include information on options to avoid default and the consequences of default.

Effective delinquency letters should include

- A request to make the required payment
- The number of days past due
- The amount past due
- Addresses, phone numbers, e-mail addresses and Web sites that can be used for payment or inquiries

**By day 90 of delinquency (if not sooner), most servicers have reported a delinquency status to at least one national credit bureau.**



Letters sent between day 181 and 240 must include information on options to avoid default and the consequences of default.

- Options for resolving the delinquency (see Figures 1 and 2):
  - Various payment/repayment options
  - Deferments
  - Loan consolidation
  - Forbearance
- Consequences of continued delinquency and/or default:
  - Ineligibility for additional financial aid
  - Credit bureau reporting
  - Inability to renew professional licenses (applicable to certain states)
  - Administrative wage garnishment
  - Federal offsets (including loss of income tax refunds and other federal payments)
  - Late fees
  - Collection costs



### Telephone contacts

#### *Objective*

To establish verbal contact with the borrower to encourage the borrower to take responsibility for repaying his or her student loan debt and to initiate action to resolve the delinquency.

#### *Federal requirements*

The U.S. Department of Education further requires servicers to achieve telephone contact with borrowers who are delinquent in making their scheduled student loan payments. Data indicates that the most effective default prevention efforts are those that result in a one-on-one interaction with the borrower. For most servicers, this relates to telephone contact with the borrower. Therefore, many servicers concentrate the majority of their default prevention efforts in this area.

Servicers must make at least two diligent efforts to contact the delinquent borrower before the 90th day of delinquency and at least two additional contact efforts between the 90th day of delinquency and the day of default. One diligent effort is defined as a contact or two unsuccessful attempts. Therefore, as many as four separate attempts may be required before the 90th day of delinquency and another four attempts after the 90th day.

A variety of strategies prove successful in achieving telephone contact with a delinquent borrower. When servicers are formulating their telephone strategies, they must comply with provisions and restrictions on telecommunications efforts mandated by the Fair Debt Collections Practices Act and other applicable federal and state laws.

Once a servicer achieves contact with the borrower, the servicer's representative attempts to resolve the delinquency. Servicer representatives attempt to obtain a clear picture of the borrower's current situation, both financially and personally. Once the borrower's situation is defined, the servicer's representative leads the borrower through the different options available to resolve the delinquency, obtains agreement on the solution, and assists with its completion. (For more information about managing a call center and training customer service representatives, see *Creating Consistency in Educational Finance: a training curriculum* at [www.tgslc.org/council/](http://www.tgslc.org/council/).)

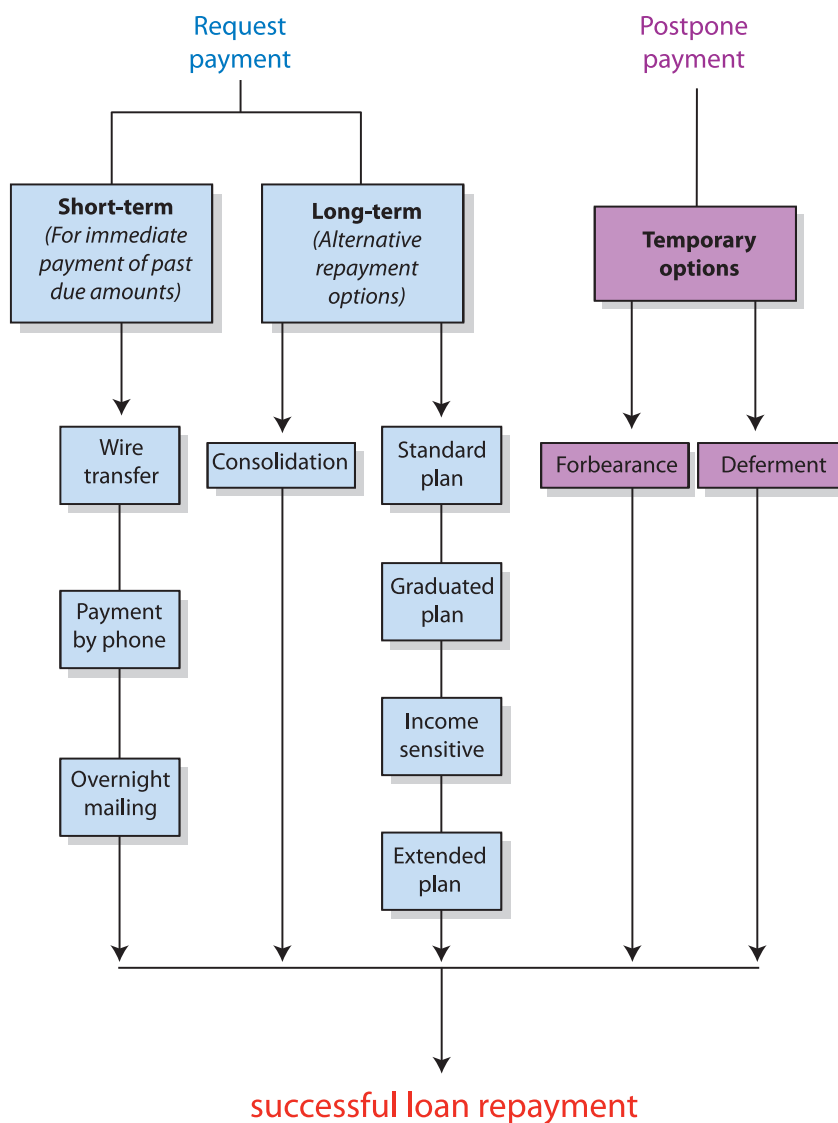
Because a variety of options are available to the borrower and the servicer to resolve student loan delinquency, a servicer's representative acts more like a loan counselor than a pure collector. The representative provides information on the borrower's options and guides the borrower to a decision. (See Figure 1)

Depending on the borrower's circumstances, the servicer representative will first and foremost request payment from the borrower. This may include a request for immediate payment of past due amounts (e.g., wire transfer, payment by phone). Second, the servicer representative will attempt to find the most appropriate payment plan for the borrower.



**When servicers are formulating their telephone strategies, they must comply with provisions and restrictions on telecommunications efforts mandated by the Fair Debt Collections Practices Act.**

**Figure 1: Guiding the borrower to repayment options**



In instances where the borrower is experiencing temporary difficulty in making regular payments, the servicer representative may recommend that the borrower apply for a deferment. Eligibility requirements for the various types of deferments are listed on Figure 4.

Finally, as a last resort, a servicer representative may recommend a forbearance in instances where the borrower is not able to make payment and does not qualify for a deferment.

## Figure 2: Borrower repayment options and factors to consider

### Standard repayment plan

- Lowest total loan cost
- Regular payments of both principal and interest are due monthly, excluding periods of deferment and forbearance
- Minimum monthly payment is \$50
- Ten-year repayment term

### Graduated repayment plan

- Monthly payments are smaller at the beginning of the repayment period and become larger later on in the period
- Ten-year repayment term
- Total interest costs will be higher over the life of the loan than with the standard repayment plan, although payment amount may be lower

### Income-sensitive repayment plan

- Monthly payment varies according to gross monthly income
- Covers at least monthly accruing interest
- Must reapply annually
- Total interest costs will be higher over the life of the loan than with the standard repayment plan, although payment amount may be lower

### Extended repayment plan

- Lengthens repayment term up to 25 years
- Must have a minimum loan balance of \$30,000 to qualify
- Payments can be either fixed or graduated
- Total interest costs will be higher over the life of the loan than with the standard repayment plan, although payment amount may be lower

### Consolidation

- Allows borrowers to consolidate one or more federal education loans into a new loan
- Simplifies repayment into one monthly payment
- May extend repayment period
- May lose benefits (e.g., grace period)
- Total interest costs will be higher over the life of the loan than with the standard repayment plan, although payment amount may be lower



**Figure 3: Comparison of sample repayment options**

	Standard	Graduated	Income-Sensitive	Extended	Consolidation
<b>Loan balance</b>	<b>\$15,000</b>	<b>\$15,000</b>	<b>\$15,000</b>		<b>\$15,000</b>
Interest	6.8%	6.8%	6.8%		6.8%
Monthly payment	\$173	Year 1: \$85 Year 2-10: \$203	Year 1: \$100 Year 2: \$170	<b>N/A</b>	\$133
Term	10 years	10 years	11 years		15 years
<b>Total interest</b>	<b>\$5,714</b>	<b>\$6,530</b>	<b>\$6,658</b>		<b>\$8,967</b>
Total paid	\$20,714	\$21,530	\$21,658		\$23,967

	Standard	Graduated	Income-Sensitive	Extended	Consolidation
<b>Loan balance</b>	<b>\$30,000</b>	<b>\$30,000</b>	<b>\$30,000</b>	<b>\$30,000</b>	<b>\$30,000</b>
Interest	6.8%	6.8%	6.8%	6.8%	6.8%
Monthly payment	\$345	Year 1: \$170 Year 2-10: \$406	Year 1: \$170 Year 2-11: \$345	\$208	\$229
Term	10 years	10 years	11 years	25 years	20 years
<b>Total interest</b>	<b>\$11,429</b>	<b>\$13,059</b>	<b>\$13,469</b>	<b>\$32,466</b>	<b>\$24,960</b>
Total paid	\$41,429	\$43,059	\$43,469	\$62,466	\$54,960

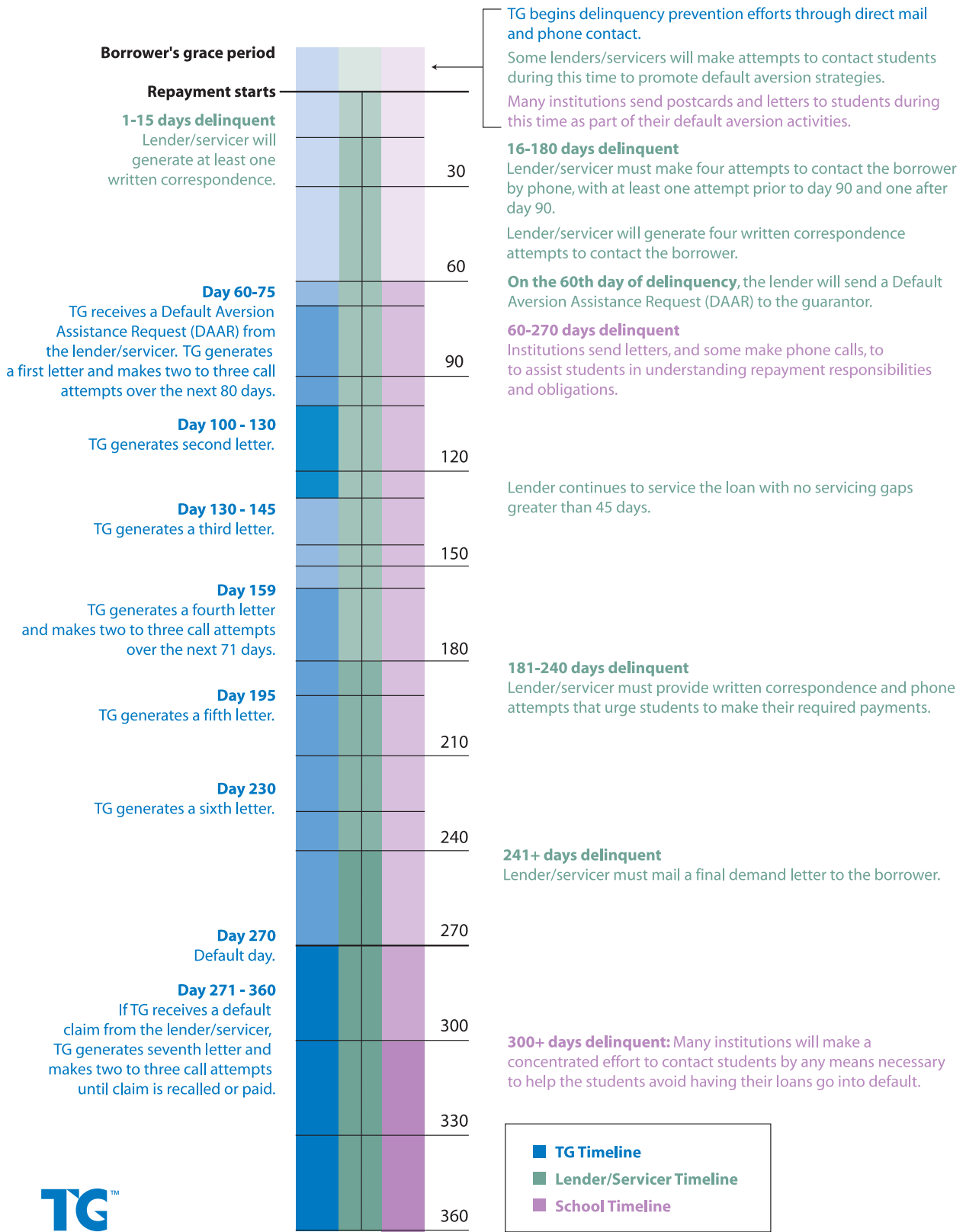
	Standard	Graduated	Income-Sensitive	Extended	Consolidation
<b>Loan balance</b>	<b>\$60,000</b>	<b>\$60,000</b>	<b>\$60,000</b>	<b>\$60,000</b>	<b>\$60,000</b>
Interest	6.8%	6.8%	6.8%	6.8%	6.8%
Monthly payment	\$690	Year 1: \$340 Year 2-10: \$812	Year 1: \$340 Year 2-11: \$690	\$416	\$391
Term	10 years	10 years	11 years	25 years	30 years
<b>Total interest</b>	<b>\$22,858</b>	<b>\$26,118</b>	<b>\$26,938</b>	<b>\$64,933</b>	<b>\$80,816</b>
Total paid	\$82,858	\$86,118	\$86,938	\$124,933	\$140,816

**Figure 4: Deferment types and eligibility requirements**

Deferment type	Time Limit	Stafford & SLS Loans			PLUS Loans				Consolidation Loans	
		Pre 7/1/87 Borrower	New <sup>1</sup> Borrower 7/1/87 to 6/30/93	New <sup>2</sup> Borrower 7/1/93	Loans before 8/15/83	Pre 7/1/87 Borrower	New <sup>1</sup> Borrower 7/1/87 to 6/30/93	New <sup>2</sup> Borrower 7/1/93	Pre 7/1/87 <sup>8</sup> Borrower	New <sup>9</sup> Borrower 7/1/93
In-school: full time	None	•	•	•	•	•	•	•	•	•
In-school: half time <sup>7</sup>	None		•	•			•	•	•	•
Graduate fellowship	None	•	•	•	•	•	•	•	•	•
Rehabilitation training	None	•	•	•	•	•	•	•	•	•
Teacher shortage	3 yrs.		•							
Internship/residency training	2 yrs.	•	•		•					
Temporary total disability <sup>3</sup>	3 yrs.	•	•		•	•	•		•	
Armed forces or public health services <sup>4</sup>	3 yrs.	•	•		•					
National Oceanic and Atmospheric Admin. Corps. <sup>4</sup>	3 yrs.		•							
Peace Corps, ACTION program and tax-exempt organization	3 yrs.	•	•		•					
Unemployment	2 yrs.	•	•	•	•	•	•		•	
Unemployment	3 yrs.							•		•
Parental leave <sup>5</sup>	6 mos.	•	•							
Mother entering/reentering work force	1 yr.		•							
Economic hardship	3 yrs.			•				•		•
<b>PLUS/Dependent's status<sup>6</sup></b>	None									
In-school: full time	None				•	•	•			
In-school: half time	None				•	•	•			
Rehabilitation training	None				•	•	•			

1. New Borrower 7/1/87 - 6/30/93: A borrower whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993, or who had no outstanding balance on a Federal Consolidation loan made before July 1, 1993, that repaid a loan first disbursed before July 1, 1987.
2. New Borrower 7/1/93: A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.
3. A deferment may be granted during periods when the borrower is temporarily totally disabled or during which the borrower is unable to secure employment because the borrower is caring for a dependent (including the borrower's spouse) who is temporarily totally disabled.
4. Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, Public Health Services and Armed Forces.
5. A parental leave deferment may be granted to a borrower in periods of no more than six months each time the borrower qualifies.
6. Deferment for parent borrower during which the dependent student for whom the parent obtained a PLUS loan meets the deferment eligibility requirements.
7. A borrower who received a Federal Consolidation loan before July 1, 1993, that repaid a loan made before July 1, 1987, or who had an outstanding balance on a FFELP loan obtained prior to July 1, 1997, when the Federal Consolidation loan was obtained, is eligible for in-school deferment only if the borrower attends school full time.
8. A borrower with a Federal Consolidation loan made before July 1, 1993, or a borrower who receives a Consolidation loan on or after July 1, 1993, who has any outstanding FFELP loan(s) at the time of consolidation that was first disbursed before July 1, 1993.
9. A borrower who receives a Federal Consolidation loan made on or after July 1, 1993, who has no outstanding FFELP loans at the time of consolidation that were made on or after July 1, 1993.

**Figure 5: School, lender, and guarantor timeline for performing default aversion activities**





## Skip tracing

### *Objective*

To obtain current demographic information for the borrower to replace invalid telephone numbers and/or mailing addresses.

### *Federal requirements*

Skip tracing is among the most important areas of a servicer's efforts to resolve delinquency. Obtaining valid borrower demographic information is essential to resolving a delinquency; without it the servicer cannot make contact with the borrower, either by correspondence or by phone.

Skip tracing efforts are categorized into two general types: address skip tracing and telephone skip tracing. If a servicer discovers that a borrower's address is invalid, telephone contact efforts continue while address skip activities are performed. Likewise, when a borrower's phone number is found to be invalid, written correspondence continues while telephone skip activities continue.

Skip tracing efforts must begin when a servicer determines that a delinquent borrower's demographic information is no longer valid. These efforts must be completed by the date of default with no gaps of more than 45 days.

Skip tracing may include the following activities

- Contacting employers, lenders, schools and other entities listed on the loan record
- Calling directory assistance and reviewing credit bureau demographic information
- Filing a default aversion request for skip tracing assistance from the guarantor
- Using skip tracing/locator software programs, professional locator services and the Internet/Fast Data/Accurint

Schools may play an integral role in a servicer's skip tracing efforts. As noted above, servicers contact schools as part of their skip tracing efforts. When schools place a high priority on responding to these requests, it increases the opportunities to make contact with the borrower and resolve the delinquency before the borrower defaults. The school and servicer working together in skip tracing is especially critical as students often move after withdrawing or graduating. Campus departments that could be helpful in providing updated borrower/student demographic information include the registrar, the alumni office, the financial aid department, and the student affairs department.



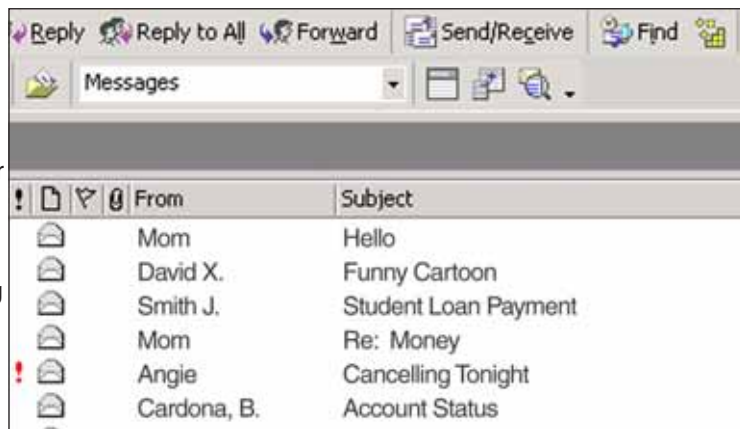
One of the highest priorities of a servicer is to maintain the insurance (guarantee) of loans it services by ensuring that minimum due diligence efforts are completed.

## Effective technology and work flow

### The servicing community

One of the highest priorities of a servicer is to maintain the insurance (guarantee) of loans it services by ensuring that minimum due diligence efforts are completed. After achieving this objective, servicers may execute additional efforts to increase the chances of resolving the delinquency before the default date. A variety of additional default aversion strategies may be performed throughout the delinquency period, including:

- Establishing priorities on the processing of incoming forms/paperwork to remove a loan from delinquency status
- Encouraging the use of technological capabilities between servicers, borrowers, and schools to expedite the exchange of information and written correspondence
- Contacting the school for enrollment verification if there is reason to believe that a borrower may still be in school
- Providing borrowers with Internet access to comprehensive loan information and empower them to manage their loan online
- Capturing, retaining and updating borrower e-mail addresses so that due diligence, follow-up and other servicer communications can take place electronically, with increased frequency
- Offering automatic debit of a borrower's checking account so that payment may be made electronically and automatically
- Utilizing alternatives for servicers either in-house or through a vendor to accept a one-time payment electronically from a borrower in order to immediately resolve a delinquency
- Implementing monthly billing statements for borrowers.



- Extending hours of servicer telephone availability
- Offering specialized training for telephone customer service representatives that will enhance counseling, collection, and resolution skills
- Providing bilingual or multilingual customer service representatives
- Initiating telephone contact with borrowers prior to delinquency to offer information on incentives and various repayment options
- Routing incoming customer calls to specialty groups depending on the type of caller (borrower delinquent/non-delinquent, school, or lender)
- Enhancing Interactive Voice Response capabilities so that they are available 24/7, allowing the caller to obtain specific account information, update information, and request forms — all without having to wait for a live service representative
- Collecting updated reference information prior to repayment
- Emphasizing the use of fax capabilities between servicers, borrowers, and schools to expedite the exchange of information and paper
- Performing follow-up calls to borrowers following a promise to resolve a delinquency, if the promise remains unfulfilled several days after it is made. The follow-up call is to remind the borrower of the agreement that was previously reached and the need to expedite his or her actions to fulfill the obligation.
- Establishing delinquency resolution goals and providing incentives to employees for reaching and achieving those goals

**Interactive Voice Response (IVR) capabilities allow the caller to obtain specific account information, update information, and request forms — all without having to wait for a live agent.**



Maintaining low cohort default rates is critical to sustaining a viable student loan program, and the consequences of default impair both the students who enter default and the institutions they attend.



### The guarantor community

Federal due diligence requirements are also applicable to the guarantor community. However, unlike the servicing community, guarantors are required to conduct due diligence (default aversion efforts) after they have received a Default Aversion Assistance Request (DAAR) from the lender/servicer. Generally, DAARs are received by guarantors when the loan is between 60- and 120-days delinquent. However, lenders are encouraged to file as early as possible.

TG's commitment to default aversion goes far beyond the required federal due diligence. Maintaining low cohort default rates is critical to sustaining a viable student loan program, and the consequences of default impair both the students who enter default and the institutions they attend. Toward this end, TG is constantly engaged in forward-thinking default aversion policies and practices with the school and lender/servicer communities to assist and educate students and their families about the consequences of default and the opportunities for assistance.

### The school community

Institutions of higher learning are not required to perform due diligence activities, per se. However, the school community is profoundly involved in efforts to help students avert default. Federal law requires schools to maintain a cohort default rate of less than 25 percent for any three consecutive years. Schools perform a variety of default aversion activities, including entrance and exit counseling sessions for students who borrow.

In recent years, schools have become increasingly innovative in carrying out proactive and effective efforts to ensure successful repayment of education debt by their students/alumni. For example,

- **Schools have begun to generate their own delinquency reminders.** These are letters in which schools inform former students that their loans are in delinquency. Letters from schools often take the same approach as servicer letters — encouraging the borrower to establish contact with the servicer, guarantor, and/or the school directly to resolve the delinquency status. These letters may include toll free telephone numbers of servicers and guarantor(s).

- **Schools receiving funds under Titles III and V (Strengthening Institutions, Historically Black Colleges and Universities, and Hispanic-Serving Institutions) of the Higher Education Act have begun to utilize some of these federal dollars to fund specific default management efforts.** In one instance, a school tapped into its Title III funds to hire a full-time professional to serve as the campus-wide default prevention manager.
- **Schools have begun to provide borrower demographic updates to their servicer partners, soon after the borrower leaves school.** This ensures that servicers have current address and phone number information needed to maintain timely communications with the borrower concerning the grace period and the upcoming repayment timeline. A variety of media is available to transmit these updates — the Internet, direct electronic links, electronic tape/disk mailings, written correspondence, and even the telephone. Key to this effort is close coordination between the school and its servicer partners.
- **Schools generally keep close communications with former students or alumni.** The alumni office or career/employment services office are key to these communications. Schools may tap into these resources to establish and maintain close communications with their former students who borrowed. These communication efforts are not limited to a sole medium. Rather, schools can provide multiple communication channels (fax, e-mail, Web sites, etc.) so that the borrower can choose the method that suits him or her best.
- **Schools can help their servicer partners with the arduous, but critical, effort of finding reliable contact information for student borrowers.** Currently, schools conduct both entrance and exit counseling sessions with students who borrow. These counseling sessions – or communications, in those cases when the exit counseling information is mailed to students who unofficially withdraw – provide valuable opportunities to gather new or updated demographic information from students, which in turn will help servicers carry out effective skip tracing.

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### **Outlook on servicers**

Servicers have risen to the occasion of increasing expectations by successfully overcoming significant challenges over many years in spite of increasing federal student loan program complexities and new requirements outside the traditional Higher Education Act and Federal Family Education Loan Program rules. The future success of servicers is contingent on servicers' ability to prepare for and comply with a broad range of statutory and regulatory requirements — all the while continuing to offer improved technologies, service levels and efficiencies, and establishing viable default aversion partnerships with schools.

The student of tomorrow will have a higher tuition bill and corresponding debt load, new expectations, and unique challenges. Servicers will play a vital role in helping students meet those challenges and succeed in achieving their educational and financial goals.

## Glossary of terms

**Capitalized interest:** Accrued interest added to the borrower's outstanding principal. Subsequent interest accrues on the new total principal balance, which includes any capitalized interest.

**Cohort default rate:** The percentage of students with Stafford loans entering repayment in a given fiscal year who defaulted on their obligations before the end of the next fiscal year. The Department of Education calculates this rate annually to determine the default experience of students who attended a particular school during a particular period of time. Unless otherwise noted, the cohort default rate pertains to the Federal Family Education Loan Program (FFELP) cohort default rate or the dual program.

**Default:** The failure of a borrower (or endorser or comaker, if any) to make installment payments when due, or to meet other terms of the promissory note or other written agreement(s) with the lender under circumstances where the Department of Education or guarantor of the loan reasonably concludes that the borrower no longer intends to honor the borrower's obligation to repay a loan, provided that this failure persists for the most recent consecutive 270-day period.


**Default aversion:** Activity performed in an effort to assist students from defaulting on a student loan.

**Default aversion assistance:** The help provided to a lender by the guarantor in order to prevent a delinquent loan from defaulting. Lenders must submit a request for default aversion assistance from a guarantor. This period begins no earlier than the 60th day and ends no later than the 120th day of the borrower's delinquency.

**Default prevention:** Activity performed in an effort to assist borrower from becoming delinquent on a student loan.

**Deferment:** A period of time during repayment in which the borrower, upon meeting certain conditions, is entitled not to make payments of loan principal.

**Due diligence:** The procedures required for attempting to satisfactorily resolve a delinquency and prevent a default in accordance with federal regulations. The lender must document the performance of these attempts, and the attempts must be at least as forceful as those generally used for consumer loans.



**Fair Debt Collection Practices Act (FDCPA):** A law to ensure that collectors and collection agencies follow a consistent standard of fair treatment of consumers and or debtors. FDCPA also sets forth procedures for obtaining debt or location information, communicating with consumers, and disclosing that consumers have the right to dispute the validity of the debt.

**Final demand:** A letter that the lender mails to the borrower demanding full payment of a delinquent or ineligible account. The final demand letter is mailed on or after the 241st day of delinquency for loans payable in monthly installments. The letter must be mailed at least 30 days before the lender files a default claim.

**Forbearance:** A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments. The borrower is liable for the interest that accrues on the loan during the forbearance period. Some forbearances are entitlements for eligible borrowers; others are granted at the discretion of the lender.

**Grace period:** The period of time that begins when a borrower ceases to be enrolled at least half time and ends when the repayment period starts. Loan principal need not be paid, and interest does not accrue on subsidized loans during this period. Note that certain types of loans (e.g. PLUS, Consolidation) do not have a grace period.


**Guarantor (or guaranty agency):** A state or private nonprofit organization that has an agreement with the U.S. Secretary of Education to administer a loan guarantee program under the Higher Education Act of 1965, as amended.

**National Student Loan Clearinghouse (NSLC):** A nonprofit, industry-sponsored organization that accepts, processes, and shares student loan enrollment and deferment information with authorized program participants.

**National Student Loan Data System (NSLDS):** A database comprised of information from guarantors, schools, lenders, and the Department of Education, which contains information on Title IV aid received by students.

**Repayment schedule:** A plan that sets forth the principal and interest due on each installment of a loan and the number of payments required to pay the loan in full. Additionally, it should include the interest rate, the due date of the first payment, and the frequency of payments.





**Secondary market:** An entity that purchases education loans from eligible lenders in order to increase the amount of funds available for education loans. The secondary market obtains funds from investors and uses those funds to purchase existing education loans from lenders. The lenders then use the proceeds of those sales to make new education loans.

**Servicer (or Third-party servicer):** An entity that enters into a contract with a program participant to administer any aspect of its participation in a Title IV program.

**Skip tracing:** Diligent efforts to locate a borrower's telephone number or address when such information is unknown.



### **About TG**

TG is a public, nonprofit corporation that administers the Federal Family Education Loan Program (FFELP), a federally-sponsored program providing low-interest loans to students. Since its creation in 1979 TG has grown to be one of the nation's largest guarantors, providing guarantees for more than \$43 billion in loans and enabling nearly 3 million students to pursue their higher education dreams.

For more information about TG, visit [www.tgslc.org](http://www.tgslc.org).

Since 1997, the Council for the Management of Educational Finance has been producing higher education resources for schools, lenders, and servicers. Among the many resources produced are the following:

**Forbearance Buckslip** helps students understand forbearance and its impact on successful student loan repayment. It also encourages borrowers to weigh all available options when experiencing difficulty with repayment.

**Forbearance Web Site and Calculator** provides students with tips, guidance, and key information to help them make a more informed decision when considering a forbearance. Also, the Web site includes a cost calculator that allows students to calculate accrued interest and payment amount increases resulting after specific forbearance periods.

**White Paper: Crisis Averted or Merely Postponed?** This white paper presents cohort default rate trends over a six-year period and offers a comparison between the different types of resolutions used to cure delinquencies.

**Creating Consistency in Educational Finance: A training curriculum** is designed to train call center customer service representatives, supervisors and managers,

campus administrators, and lender representatives in the financial aid community. The curriculum intends to build consistency among the messages that borrowers receive when communicating with schools, lenders/servicers, and guarantors. The material presented in each module is intended to complement other existing training materials and is not intended to be a comprehensive curriculum.

**Consolidation Buckslip** delivers useful information to help borrowers make an informed decision about federal student loan consolidation. Information on the buckslip directs students to the Consolidation Station Web site, which offers students unbiased information about the use of consolidation loans.

**A Clear and Present Danger to Institutional and Student Success** is a training model designed for embedding student loan default aversion within strategic enrollment management.

**College awareness posters and brochures** can be used for promoting default prevention and building awareness about sources available for financing a college education.

Resources can be found at  
[www.tgslc.org/council/initiatives.cfm](http://www.tgslc.org/council/initiatives.cfm)



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Please send your comments about publication 0608-33477 to [communications@tgslc.org](mailto:communications@tgslc.org).

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# A School's Guide to Servicers



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