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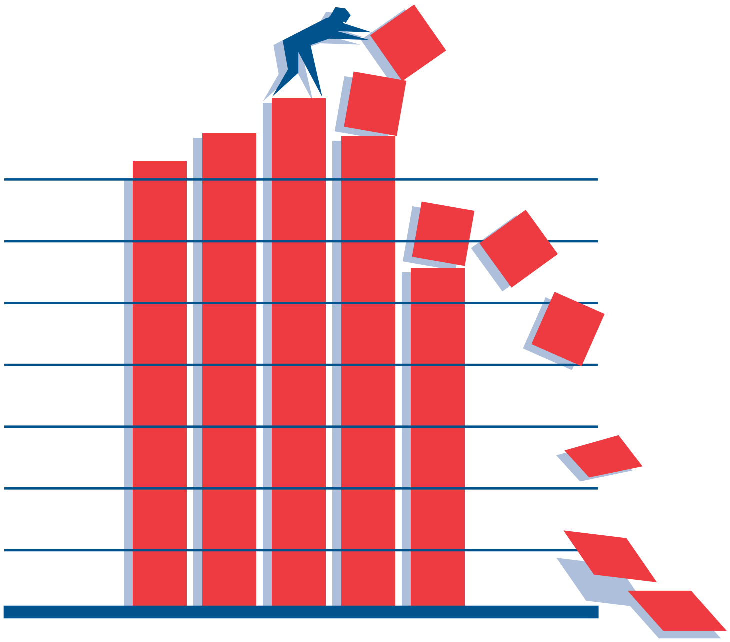

Shoulder to Shoulder:

The Progress Made by the Texas Student Financial Aid Community in Preventing Defaults

A follow-up to the 1998 Texas Default Prevention and Debt Management Conference

Presented at the

TG 2000 Annual Conference

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Introduction

In June 1998, over 200 members of the Texas student financial aid community gathered in Austin to talk about student loan defaults. Dr. Charley Wootan, currently the Chairman of the Texas Guaranteed Student Loan Corporation (TG) Board of Directors, introduced two research papers — one describing trends in student defaults in Texas and the other documenting the growing indebtedness of Texas students. State officials and legislators also made presentations to the attendees. After the presentations, conferees gathered in breakout sessions of approximately 20 people each. Over the course of three days, they produced nearly 500 recommendations through facilitated brainstorming.

The breakout sessions focused on four topics: Pre-Loan Strategies, Pre-Repayment Strategies, Repayment Strategies, and Implementation Strategies. Attendees examined nearly every aspect of the student loan process to explore new ways of reducing defaults. Work groups discussed technological innovations, state and national legislative and regulatory issues, best practices benchmarking, and channels of communication. Conference participants also looked beyond the scope of the Title IV programs to better understand the connection between student defaults and the development of personal financial literacy.

The professionals who attended the conference — those who had actively participated in the discussions for three days — wanted to see some follow-up to their recommendations. This report provides a brief overview of just a few of the many default prevention efforts that have been initiated since the 1998 default prevention conference. These efforts have significantly reduced both the rate and amount of student loan defaults in Texas. These default prevention activities have been grouped into ten general themes. Each theme starts with a set of italicized bullets representing particular recommendations made during the conference. The ten themes follow:

1. Develop Personal Finance Skills
2. Expand Career Counseling
3. Improve Loan and Finance Counseling Throughout School
4. Encourage Savings
5. Adjust Financial Aid Packaging
6. Heighten Attention to Students Who Drop Out
7. Enhance Repayment Options
8. Communicate More Effectively
9. Strengthen Due Diligence
10. Implement Default Prevention Measures and Recommendations

TG encourages additional feedback on best practices and lessons learned since the conference. If you would like to share your experiences, please contact Vickie Reyes at (800) 252-9743, ext. 4632, or at vickie.reyes@tgslc.org. The Appendix to this report provides some current default statistics.

1. Develop Personal Finance Skills

- ***Incorporate personal finance concepts into curricula at all levels of education (elementary, middle school, high school, and college).***
- ***Teach parents, as well as students, about personal finance.***
- ***Encourage volunteer efforts by civic groups, parents, mentors, and financial aid professionals to promote financial planning.***
- ***Customize the curriculum to meet the needs of various populations.***
- ***Use a variety of methods to develop personal finance skills: computer-assisted Internet software applications, video, personal counseling, mentors, testimonials, and story ideas in popular TV shows.***
- ***Certify entrance counselors to ensure high standards and a consistent message.***

The original Texas default conference of 1988 — the Strategic Default Initiative — addressed a default problem that was primarily confined to a single school sector that had a history of practices that contributed to the rate of default. The recommendations at that time focused on curbing institutional abuses. In contrast, the 1998 conference attendees were more interested in the problems of individual borrowers. This shift in focus reflected the changed nature of defaults in Texas. By the end of the millennium, soaring Median Borrower Indebtedness (MBI) at schools with traditionally low default rates was a more pressing concern. Many conference recommendations emphasized the need to develop personal finance skills. In this way, student loan default resolution expanded to include a broad range of policies that help shape curriculum at all levels of education, as well as efforts to tap into the capabilities of Internet-based interactive learning.

Texas House Bill 226

The Council for the Management of Educational Finance (the Council) and TG provided expert advice to Texas State Representative Buddy West (R-Shirley) as he crafted H.B. 226, a bill related to personal finance education. This bill would have added personal finance education as a core knowledge base required for graduation from public high school. The bill would have directed the Texas State Board of Education to include personal finance knowledge as part of the essential skills necessary for the completion of a high school diploma and would have required instruction of personal finance skills as one element in the accreditation of a school district beginning with the 2000-01 school year.

H.B. 226 was filed on November 16, 1998, and first read on February 2, 1999, where it was referred to the Public Education Committee. A hearing was held on April 19, 1999, with Rosanna Rodriguez of the Council providing testimony. Although the bill was not enacted into law, this effort increased awareness of the need for the development of personal finance skills in Texas.

Jump$tart Coalition

Dara Duguay, Executive Director of the Jump$tart Coalition, spoke at the 1998 Default Prevention Conference about her group's efforts to promote personal finance literacy. Jump$tart remains the leading national advocate for the development of personal finance skills. In October 1998, Jump$tart launched an Internet-based clearinghouse of resources for educators wishing to incorporate personal finance skill development into their study plans. These resources include catalogs, handbooks, software, teaching guides and videotapes. Special features allow browsers to search this database by grade level, media type and topic (income; money management; saving and investing; and spending). All resources have been reviewed by a committee of experts.

Jump$tart also hosts teacher training symposiums, maintains a directory of personal finance expert speakers, serves as a clearinghouse for training programs and has a clever quiz called Reality Check. Reality Check lets students select a lifestyle and then estimates the financial resources necessary to maintain that standard of living. (www.jumpstart.org)

Mapping Your Future: 10 Steps to Financial Fitness

Mapping Your Future (MYF), a coalition of guaranty agencies that maintains a web site of student financial aid information, is developing a feature that will provide tips for maintaining good personal financial standing. This feature is scheduled for release in spring 2000 and will target college age students and the financial management problems they face. The ten steps to "financial fitness" will include:

1. Clarification of the roles played by organizations involved in the student loan process — schools, lenders, servicers, secondary markets, guarantors, and the U.S. Department of Education (ED).
2. Tips on avoiding the consequences of default.
3. Suggestions for maintaining control of one's finances, including a diagnostic test of one's financial soundness.
4. Help in balancing checkbooks.
5. Budgeting suggestions.
6. Investment and savings options.
7. Credit card advice.
8. Information on credit reports.
9. Ways to clean up one's credit and how to avoid bankruptcy.
10. Links to other personal finance web sites.

2. Expand Career Counseling

- ***Provide information to students on earnings expectations based on level of education.***
- ***Involve high school counselors through partnerships and training.***
- ***Expand the role of the financial aid office to include career counseling and provide training for this new responsibility.***

There have been ad hoc efforts to provide more career and earnings expectation information to students. These efforts, however, have not been coordinated nor has there been any significant expansion in the role of financial aid officers to include career counseling among their responsibilities. Financial aid officers are traditionally over-worked and under-staffed. Few colleges have chosen to add career counseling duties to the portfolios of aid officers.

College Notes

TG has begun a series of "infographics" called *College Notes* to inform the public of significant trends in higher education. These graphical charts can be found on *TGWorks Online* (www.tgslc.org) under "News and Events." The first issue of *College Notes* shows the relationship between the level of education and both median income and unemployment rates. A more in-depth coverage of this information can be found on *TGWorks Online* under "Did You Know?/Research Highlights."

Mapping Your Future: CareerShip

In the spring of 1999, MYF launched CareerShip, an Internet tool targeted toward middle school students looking for information about careers. To get a listing of occupations, the student clicks on one of six icons:

- Fine Arts/Communications,
- Medical/Professional Services,

- Computers/Technology/Business,
- Mathematics/Sciences,
- Vocational Services, and
- Social Studies/Education.

A summary description of these occupations also includes estimated earnings. Additional information is provided concerning the educational requirements of these occupations.

MYF also sponsors Career Chat Events online, the most recent being held on March 14, 2000. Career counselors responded to questions from students with the resulting questions and answers posted on the MYF web site.

3. Improve Loan and Finance Counseling Throughout School

- ***Provide annual loan counseling.***
- ***Provide students with detailed annual or quarterly loan balance and account history similar to that provided by credit card companies.***
- ***Provide credit reports to students reflecting their total debt.***
- ***Assign a guarantor representative for default prevention to each school.***
- ***Standardize and improve disclosures.***
- ***Improve promissory note.***
- ***Give students the tools to keep their loans together: preferred lenders, single-holder programs, and consolidation.***
- ***Help students budget.***
- ***Have students begin repaying their loans during school, even if only nominal payments are made.***
- ***Mandatory one-hour course at entrance.***
- ***Assist students in weighing the benefits and costs of education relative to expected income.***

Student loan and financial counseling has greatly improved in Texas since the June 1998 conference. Several different initiatives have helped to demystify the loan process for students by providing quality consumer information at the appropriate times. Implementation of the Master Promissory Note (MPN) has simplified and clarified the student loan process for borrowers. New federal disclosure regulations, along with student loan industry innovations, have made more information available to borrowers throughout the life of the loan. Not only does loan counseling benefit from better information, but the options for conveying information have expanded. Some schools now use more intimate one-on-one counseling, while other schools tap into interactive technologies via the Internet or integrate their counseling with sessions with lenders and servicers. The frequency and timing of the contact with the borrower has also improved as many schools provide special attention to students who drop out or become delinquent with their student loan payments.

Master Promissory Note (MPN)

The U.S. Department of Education (ED) issued a *Dear Colleague Letter* on February 19, 1999, approving the MPN. This marked a major simplification of the student loan process, as students no longer need to fill out a new promissory note for each year in which they borrow. The effort was a culmination of years of meetings, research, and negotiation among student loan industry partners. Council member Skip Landis, then the financial aid director at Tarleton State University, and Nina Hold, TG

Policy and Regulatory Affairs, were members of the national Master Promissory Note Taskforce, the driving force behind the initiative. TG worked to make the transition to the MPN as smooth as possible by providing early training and information at Texas Association of Student Financial Aid Administrators (TASFAA) regional rallies, as well as, through *Shoptalk* and *TGWorks Online*. In conjunction with implementation of the MPN, the national community and ED developed a plain language disclosure to be given to the borrower each time a loan is borrowed under an MPN.

Final Regulations

On November 1, 1999, ED issued final regulations implementing the reauthorization of the Higher Education Act. These final regulations included several provisions pertaining to the disclosure of information to the borrower. They help to clarify the rights and responsibilities of the borrower and the various student loan participants. Among the features are:

- Schools must provide consumer information to prospective and enrolled students such as graduation rates and financial aid that is available to students.
- A provision was added that provides the terms and conditions for deferral of loan repayment for community service.
- Lenders must provide a toll-free telephone number to borrowers.
- Lenders must notify borrowers of the availability of income-sensitive repayment options.
- Students with disputes with lenders have the option of contacting the guaranty agency and/or ED Ombudsman for resolution.
- Guarantee agencies must be equipped to respond to electronic inquiries from borrowers.
- Provisions were added to encourage greater use of consolidation loans.
- Provisions, such as permitting verbal forbearance requests and in-school deferments based on automated information sharing, are now in place to facilitate delinquency resolution.

These regulations sought to render the student loan process more simple and make it more understandable, presumably with an eye toward lowering defaults.

Default Model for Schools

The Council for the Management of Educational Finance unveiled its default prevention model — *Default Prevention: A Model for Institutions of Higher Learning* — in the spring of 1999 at the TG Annual Conference. Based upon the successful program developed at the University of Texas - Pan American, the model contains six strategies for reducing defaults.

1. Statistical Analysis
2. Packaging Philosophy
3. Human Resources
4. Borrower Education
5. Alliance Building
6. Technology

The Default Model's Borrower Education strategy outlines steps a school can take to improve loan and financial counseling throughout school. Improved counseling begins with a more systematic approach to entrance counseling. The Model encourages many loan specialists — guarantors, lenders and servicers — to make presentations on the campus. While regulations require schools to conduct entrance counseling before releasing loan funds to first-time borrowers, the model recommends that schools delay certification of loan applications until first-time borrowers have attended an entrance counseling session. These sessions should be held intermittently throughout the semester to ensure better attendance and should include some one-on-one counseling for those unable to attend group sessions. Tests should be administered at the end of sessions to identify borrowers in need of more counseling and to evaluate the usefulness of the information covered in the sessions.

The second step to improve counseling includes periodic review sessions. These sessions should cover changes to financial aid office procedures, update students on their loan balances, explain the consequences of default and update borrower contact information (which is then shared with the guarantee agency).

The third step targets delinquent and defaulted borrowers. This step is built upon a foundation of good communication. The school financial aid office acts as a liaison with the guaranty agency, lender, servicer, and the borrower to ensure that all interested parties are well informed and share a common understanding of the borrower's situation. Options are then presented to the borrower. These might include deferments, forbearances, and miscellaneous repayment options. Borrowers with excessive debt may be counseled one-on-one about responsible borrowing and budgeting.

The final step is the exit counseling session. The Model recommends the inclusion of industry experts, flexible session scheduling, exams to test the effectiveness of the training and the inclusion of important contact and student loan balance information. During the grace period, the model encourages schools to send additional information reminding students of their rights and responsibilities as borrowers, as well as, helpful phone numbers for assistance.

Mapping Your Future (MYF)

MYF capitalizes on the latest technology by offering interactive entrance and exit counseling through the Internet. This ensures that the student masters the material before continuing with the online counseling session. A student loan calculator estimates the student's monthly payment and a budget calculator helps the student better understand the role of the student loan payments within the context of the student's overall finances. MYF also allows students to directly contact their school with specific questions. Schools can customize the MYF counseling session by including a page of information (containing important dates, disbursement procedures, refund policies, etc.) the student views at the start of the session.

4. Encourage Savings

- ***Change the need analysis formula to remove the savings penalty.***
- ***Provide additional tax credits for savings.***
- ***Encourage students in elementary, middle, and high schools to save.***
- ***Promote the Texas Tomorrow Fund.***

While saving for college is important and support for it is widespread, the actual application of frugality for the sake of college is often difficult to carry out. Families face numerous financial challenges, and distant goals are often sacrificed for more immediate concerns. The 1998 default prevention conference and the work of the Council has heightened awareness throughout the financial aid community of the need to improve financial management, especially when it comes to sticking to a budget that promotes saving for college. Many financial aid offices and student loan web sites now provide counseling and tools that encourage saving and responsible budgeting. In Texas, the State Comptroller of Public Accounts is the most visible advocate for college savings. The Texas Tomorrow Fund provides a subsidized vehicle for saving for college and a very public forum to stress the importance of planning now for future expenses. Another reflection of this concern has been the debates over federal incentives for college saving.

Texas Tomorrow Fund

The Texas Tomorrow Fund was created in 1996 as a state-sponsored mechanism to allow families to pre-pay college tuition and lock in current tuition prices. Families have four options: Junior College Plan, Public Senior College Plan, Junior Senior College Plan, and the Private College Plan. These plans correspond with the school sector in which the student is expected to enroll with the Junior Senior College Plan offering added flexibility. In November 1998, the voters of Texas approved a Constitutional amendment that provided for the "full faith and credit of the state." With this backing, the state vows to guarantee the benefits regardless of the solvency of the reserve fund.

Congressional Debates Over Federal Incentives for College Savings

In 1999, Congress passed the Affordable Education Act. This legislation would have provided tax incentives for families saving for college by increasing the annual education IRA contribution from $500 per year to $2,000, expanding the use of the education IRA to cover public and private elementary and secondary school costs — a feature that provoked a partisan debate in Congress and ultimately led to a presidential veto — and excluding AGI for distributions made from state prepaid tuition plans. The legislation also proposed to eliminate the 60-month limit on the income tax deduction of student loan interest. The President vetoed the proposal.

The measure was again passed on March 2, 2000. The 61-to-37 vote in the Senate appears insufficient to override another presidential veto. Secretary of Education Richard Riley has recommended a veto criticizing the measure because, he claims, it aids mostly affluent families that have the means to save and because it diverts resources from public schools. The bill would expand the maximum contribution allowed to tax-free education accounts.

5. Adjust Financial Aid Packaging

- ***Increase gift aid for freshman borrowers to reduce or eliminate the need to borrow.***
- ***Reform the method for calculating loan limits to:***
  - ***a) Set limits by credit hours,***
  - ***b) Limit loans for only cost of education and not cost of living expenses,***
  - ***c) Limit borrowing in the unsubsidized loan program,***
  - ***d) Increase the use of professional judgment to limit borrowing based on default risk statistical profiles, and***
  - ***e) Link borrowing limits to programs of study and/or salary expectations.***
- ***Offer free tuition for students earning a grade of "B" or higher.***
- ***Require first-time borrowers to submit a budget and verify living expenses.***

One way to lower defaults is to limit the amount loaned to students that have a higher risk of defaulting. Research has shown that students who drop out of school after only one year or less, those with low grades, and those who enroll into programs with high costs and low expected earnings are most likely to default on their student loans. For example, 71 percent of all default claims filed with TG in FY 1999 were for borrowers whose highest-grade level attainment was the first year. Many people have sought to adjust financial aid packaging strategies to limit the amount borrowed by higher risk students. In doing so, they have had to contend with the delicate balancing of potentially conflicting policy goals, namely, ensuring equal access to higher education, especially for students from the most disadvantaged populations, and the desire to lower default rates. Since many of the students who fall into high-risk categories also come from low-income families, limiting borrowing can also restrict the opportunity to attend college.

The University of Texas - Pan American (UTPA) was faced with just such a dilemma when their FY 1993 cohort default rate climbed to 20.9 percent. Drawing on students from some of the lowest income counties in the nation, UTPA faced the daunting challenge of balancing access versus default prevention. UTPA began a systematic reengineering of its financial aid office to better prevent defaults. The most recent research shows that UTPA's estimated FY 1998 cohort default rate was 9.6 percent. Their successful management of this crisis now serves as a model for Texas schools, as well as schools across the country.

Council's Default Prevention Model

The strategies that UTPA adopted to lower default rates served as the foundation for the Council's own default prevention model. This model is comprised of several different areas of emphasis including Packaging Philosophy. Targeting potential defaulters begins this process. Once that population is defined, the model calls for a reallocation of discretionary grant and work-study money to this population as a means to reduce reliance upon student loans. In a sense, the student is offered grant money in lieu of a loan. Some schools, such as Paul Quinn College, go so far as to have a stated goal of having no freshmen borrow student loans. This shift occurs within the context of extensive counseling that encourages frugality, conservative borrowing practices, the pursuit of other sources of aid such as Temporary Aid to Needy Families (TANF) exemptions, and a clear-eyed assessment of future earning potential. This strategy appears to preserve access to higher education while lowering the amount of reliance on loans by those most at risk of defaulting.

TEXAS Grants

On June 19, 1999, Governor George W. Bush signed into law H.B. 713 calling for the creation of the Toward EXcellence, Access and Success (TEXAS) Grant Program. This program imposes a merit criterion on state student aid — a significant departure in packaging philosophy that had placed more importance on student financial need. While not quite offering free tuition for students earning a grade of "B" or higher, as some attendees of the 1998 default conference called for, the TEXAS Grant Program does offer grant aid to students with a grade point average of 2.5 or higher. For incoming students, high school transcripts are checked to see if the required college preparatory classes have been successfully completed. Due to the administrative difficulty of this new program, it would be interesting to learn if TEXAS Grants help lower the reliance on student loans. And if TEXAS Grants do lower reliance on loans, does it lower reliance for the populations most at risk of defaulting?

6. Heighten Attention to Students who Drop Out

- ***Contact each dropout.***
- ***Create an early warning system to identify students at-risk of dropping out.***
- ***Improve faculty reporting of dropouts.***
- ***Create a safety net of programs that help students overcome problems or barriers to academic progression and completion.***

One of the major findings from TG's *Student Loan Defaults in Texas: Yesterday, Today, and Tomorrow* was that defaulters often were academic dropouts. With this information, the Texas student aid community has tried a variety of ways to concentrate on this population in order to lower defaults.

TG's *Retention and Persistence in Postsecondary Education*

TG's research area wrote a literature review of studies on retention and persistence in March 1999 and presented this review in numerous forums. By disseminating these results widely, TG hoped to raise awareness of the causes of student dropouts. This heightened awareness would assist schools and colleges in developing effective programs to lower dropout rates and, with this decline, also reduce defaults.

Studies on retention and persistence identify certain populations that are most in need of support in order to stay in school. These include:

- Students who work more than 30 hours per week,
- First generation college students,
- Older students (especially those with children or other family responsibilities), and
- Ethnic/racial minorities such as Hispanics and African Americans that have been subject to discrimination and have historically been under-represented at colleges.

Strategies that help integrate the student into the life of the college — both academically and socially — have the greatest likelihood of success. Examples of these programs and policies include:

- Quality freshman year instruction,
- Strong emphasis on academic advising,
- Part-time college work-study opportunities,
- Faculty participation with student groups, and
- On-campus living.

Independent Default Prevention Specialists: Keeping Dropouts Out of Default

As Schools have become more interested in default prevention, a growing number have turned to independent default prevention specialists (IDPSs) to assist them with their default aversion efforts. Firms provide a variety of services to schools, but typically the IDPSs will use TG's default management reports to monitor cohort default rates and to help schools target borrowers most at risk of defaulting. Students who leave school without graduating form one key high risk group. One home state IDPS is Horizon, Inc.

Since 1993, Horizon, Inc. has been offering default prevention services to Texas schools. At first, Horizon provided only consulting services that helped an institution analyze and track their cohort default rate. In 1996, Horizon, Inc. began offering schools call center services for contacting at-risk borrowers. Acting as an agent of the college, Horizon counsels borrowers during grace and as they enter repayment. Representatives offer borrowers encouragement and information about repayment options, deferments, forbearances, and information concerning whom to contact with questions regarding their loans.

Horizon, along with other default prevention firms, has also been instrumental in assisting Historically Black Colleges and Universities (HBCUs) in lowering defaults by serving as a contractor for a consortium of schools.

7. Enhance Repayment Options

- ***Have lenders automatically grant deferments.***
- ***Increase repayment terms with or without consolidation.***
- ***Offer incentives for timely repayment and attendance at credit counseling sessions.***
- ***Encourage employer involvement in paying back loans, including automatic payroll deduction.***
- ***Require secondary markets to sell loans at student request.***
- ***Add pre-tax deductions of loan payments from paychecks; i.e. put student loan payments on the cafeteria plan.***
- ***Institute a lottery scratch-off game for which the reward is payoff of loans.***

Participants in the 1998 default prevention conference recommended enhancing repayment options as a way to minimize the likelihood of default. By offering financial incentives for good repayment history and by offering flexible repayment plans, attendees believed that defaults could be reduced. Some of the proposals, such as including repayment of student loans among the allowable expenses in pretax cafeteria plan deductions, were never adopted. However, in the past two years, lender provided borrower benefits have become widespread. Furthermore, new regulations stemming from the 1998 reauthorization of the HEA allow for more flexible repayment options.

Lender Provided Borrower Benefits

Some lenders and secondary markets have been offering borrower benefits for several years. The practice has become widespread now and is, in fact, seen as a major advantage of the FFELP over direct lending. In response, ED Secretary Riley has used discretionary money to offer some borrower benefits through the direct loan program.

As a source of competition among lenders, FFELP borrower benefits are quite varied. A common benefit comes in exchange for a borrower setting up automatic electronic deposit with the lender. This reduces the occasional memory lapses or lost paperwork that might cause confusion or even delinquency and default. It has the added advantage of being more economical to administer. Many lenders also offer interest discounts or origination fee reimbursements for borrowers who prove to be consistent repayers for two to four years straight. Some lenders also offer interest rate caps and first-time borrower rate reductions. These benefits reward good repayment and use technology in ways that make defaults less likely to occur.

Final Reauthorization Regulations

The implementation of regulations stemming from the 1998 reauthorization of the HEA enhances repayment options for borrowers, giving students needed flexibility in acknowledgement of the significantly larger Median Borrower Indebtedness (MBI) levels of today's student borrowers. In addition to a standard repayment plan, lenders are now required to offer borrowers graduated, income-sensitive and extended repayment plans. The extended repayment plan allows new borrowers with outstanding principal and interest in excess of $30,000 in FFELP loans to make payments over a period not to exceed 25 years — a much longer time frame that reflects the lifetime nature of the educational investment and the size of the debt to be repaid. Final regulations also require lenders to notify borrowers of the availability of income sensitive repayment options when offering new loans and when providing repayment options. Borrowers not only have more repayment choices, they now have the right to request a change in repayment plans once a year. The new regulations also relax the minimum annual repayment amount given the new repayment plans.

Enhancements to automated information sharing also facilitated some regulatory relief. Previously, deferments were granted only at the request of the borrower and through a limited method of notification. Deferments may now be granted automatically when a lender learns of an in-school status during enrollment confirmation reporting and the deferment may be backdated to the beginning of eligibility. Borrowers would retain the option of declining the deferment. This provision is expected to reduce the number of "technical" defaults due to paperwork backlogs and data discrepancies. Additionally, forbearance requests may now be accepted verbally.

8. Communicate More Effectively

- ***Establish a clearinghouse for all loans a borrower might have (HEAL, CAL, FFELP, Direct Loan, etc.).***
- ***Combine billing for multiple loan holders.***

- ***Collect more information from borrowers such as e-mail addresses, pager numbers, and cell phone numbers.***
- ***Provide better information on repayment options and the consequences of default to students during grace period.***
- ***Have lenders notify borrowers early that their repayment date is approaching.***

Effective communication involves the delivery of messages that are both clear and timed appropriately. Conference attendees wished for loan billings that would encompass all of the loans held by the student whether the loans were federal, state, or private. This degree of central coordination has not come to pass during the past two years. However, cooperation among the stakeholders when communicating with the borrower has improved. For example, the National Student Loan Clearinghouse recently announced the release of LoanLocator, a search feature that lets borrowers know where all of their student loans are held. Conferees also believed that more could be done in communicating with the borrower during grace period, and more has been done in this area, too.

Conferees also wanted a clearinghouse that would make loan information available to the various stakeholders — schools, lenders, servicers, secondary markets, guaranty agencies, the Texas Higher Education Coordinating Board, and ED. Gaining access to the National Student Loan Data System information has helped student loan industry partners communicate better.

TG Communication Efforts

On September 9, 1999, the U.S. Department of Treasury and ED began a two-month default prevention media campaign in Austin. The campaign was known as the 1-800-i-will-pay campaign and included public service announcements for radio and television, advertising in local papers, and the use of billboards. To help support this effort, TG designated a special location on *TGWorks Online* as a Repayment Center. This center provides information on the benefits of timely student loan repayment, the penalties for defaulting on student loans, and the options for borrowers who default on their loans. TG has also designated a 1-800 number to handle phone calls generated by this campaign.

TG started a default prevention media campaign of its own. A communications plan has been developed that includes public service announcements, individual flyers, “infographics,” posters and opinion/editorial pieces, as well as information sent directly to borrowers such as wallet cards with student loan contact information, trifold brochures, and letters.

Schools and Lenders Contacting Student Borrowers During Grace

Joyce Eldridge, Financial Aid Director at Amarillo College, took an idea from the 1998 default conference and produced a clever flyer to send to student borrowers during their grace period. In bold lettering, the flyer reads, “You don’t have to pay back your student loan.” The borrower then opens a flap to reveal the word “Yet.” Other schools are also making special efforts to notify former students about their impending responsibilities. Many schools use the services of independent default prevention specialists to help them get the word out to students during the grace period. Reauthorization final regulations call for additional notification and disclosure requirements on the part of lenders. The Texas student aid community has a heightened awareness of the criticality of the grace period and has made efforts to creatively communicate with the borrower and with each other.

9. Strengthen Due Diligence

- ***Require due diligence efforts within the first 60 days.***
- ***Notify schools 60 days prior to default.***

- ***Train schools about TG's monthly Default Management Reports and Request for Assistance (RFA) reports.***
- ***Institute a thirty-day delinquency notification from TG.***
- ***Exceed due diligence standards in servicing and collections.***
- ***Establish performance-based standards for lenders and secondary markets.***

The federal government establishes minimum standards for the servicing and collection of student loan payments. Known as "due diligence" requirements, these rules are the least that may be done to keep a borrower in repayment while maintaining the guarantee on the student loan. Since the 1998 default prevention conference, the Texas student aid community better understands the importance of doing more to prevent defaults. Some within the student lending community are competing for business by touting the policies and activities they have in place that exceed due diligence requirements. TG is similarly committed to doing more to avert defaults.

The Council for the Management of Educational Finance

The Council recently developed a document titled *The Role of Servicers in Default Aversion: A Guide for Institutions of Higher Learning*. The Guide is an informational document that provides institutions with an overview of the minimum due diligence requirements. The Guide is not only intended for readers within a financial aid office but also for other departments within an institution that play a critical role in lowering defaults. Three types of efforts that are part of due diligence are outlined in the guide: Written Correspondence, Telephone Contacts, and Skip Tracing. The Guide will further promote communication between institutions and loan servicers regarding their respective roles in default prevention.

Lenders and Secondary Markets

One of the dynamic aspects of the FFELP is the strength of competition within the student loan market place. Student loan lenders, servicers, and secondary markets aggressively vie for increased loan volume. To lower their cohort default rates, schools are increasingly asking that the student loan industry provide services beyond the minimum due diligence. The Texas lending community is responding to this growing need by setting up performance-based relationships with counselors, increasing the number of phone calls and letters to borrowers, and hiring default prevention experts to perform duties beyond the minimal federal standards. Lenders and servicers are targeting at-risk borrowers for additional contact. Some are striving to make this contact more personalized and familiar; student loan industry terminology is avoided where possible and the contact is friendlier, even neighborly.

Voluntary Flexible Agreements (VFAs)

TG has made a bold proposal to ED to restructure its financing to place greater emphasis on default prevention and less on default collection. On February 1, 2000, ED announced that it had selected TG as one of six agencies that it would consider for approval of a VFA. Since the agreement depends heavily on default prevention performance, TG will be committing the organization to more effective default aversion activities than those set out in the minimal federal due diligence requirements. While TG has been an industry leader in developing default aversion programs, the VFA will provide additional resources for the enhancement of TG's borrower education strategies, especially during the borrower's grace period. The corporation will also make greater use of statistical probability models to more precisely target borrowers with potential repayment trouble.

TG is also helping schools lower their cohort default rates. TG incorporated default prevention tools into regional training in June 1999. This training showed schools how to make the best use of the Electronic School Report and the Default Management Report both of which are now available through TG's Rapid Report Distribution (RRD) system. TG trainers walked financial aid officers through the Lender/Servicer Cohort Default Rate Reports and the Council's report: *Default Prevention: A Model for Institutions of Higher Learning.* A representative from ED, Tara Porter, Deputy Director of the Default Management Division, gave a presentation on cohort default rates and the appeals process.

10. Implement Default Prevention Measures and Recommendations

- ***Evaluate recommendations and set goals for implementation with oversight by the Council.***
- ***Develop strategic communications plan for educating the public.***
- ***Meet with federal and state public policy leaders.***
- ***Keep various groups — schools, lenders, secondary markets, servicers, and guaranty agencies — informed of successful programs and progress on recommendations.***
- ***Maintain strong coalitions and integrate the actions of ATLE, the Council, TASFAA, and TG.***
- ***Provide default management training.***
- ***Monitor default rates and set goals.***
- ***Conduct more frequent default conferences or integrate sessions into TG's Annual Conference.***

The Texas student financial aid community wanted an effective follow-up on the recommendations from the 1998 default prevention conference. The conference generated a lot of interest in defaults and default prevention. Attendees left better informed about the changing nature of defaults in Texas and the rise in student indebtedness. The conference was structured to maximize interaction among various industry participants, and out of these interactions came literally hundreds of recommendations and suggestions for lowering default rates. The intense focus on this major aspect of student lending has energized the Texas student aid community. This energy has been channeled into productive default aversion measures.

The Council for the Management of Educational Finance

The Council worked with TG to compile the hundreds of recommendations into a database that could be queried via the Internet (TG Works/Schools and Lenders/Default Aversion/Strategic Default Initiative Conference/Virtual Default Conference). The Council considered these recommendations as they developed their default prevention model for Texas schools. The Council's model drew heavily from the successful work of the University of Texas - Pan American. Unveiled at the 1999 Annual Conference, this model has been promoted throughout Texas and has been requested by schools and guaranty agencies in other states. The Council also helped inform Texas Legislators of the importance of developing personal financial skills at an early age.

Achieving Systemic Default Aversion (ASDA)

TG gained approval by ED in April 1999 to provide technical assistance and support to several Historically Black Colleges and Universities (HBCUs) in Texas, including Huston-Tillotson College, Jarvis Christian College, Paul Quinn College, Southwestern Christian College, Texas College, Texas Southern University, and Wiley College. This effort, coined Achieving Systemic Default Aversion, has now expanded beyond the HBCUs to help all Texas schools in need of assistance. Training workshops for schools were held in Lubbock, Tyler, Abilene, El Paso, Houston, Dallas, and Austin. The program helps colleges build a cross-departmental institutional team to address the numerous issues involved in default prevention. This team then develops a plan of action. TG hired two default prevention specialists, Joe Don Braxton and Richard Sapp, who work full time with schools as well as numerous other TG team members who devote part of their time to ASDA.

ThinkBIG

TG's ThinkBIG idea factory reviewed the guarantor-related recommendations stemming from the 1998 default prevention conference. These ideas were evaluated with the most promising suggestions selected for implementation. As a result, changes were made to TG's Student Loan Inquiry that included loan balances and/or links to servicers and lenders from whom borrowers may obtain their account information. ThinkBIG was also instrumental in helping develop TG's default prevention communications plan and aiding *Mapping Your Future* in improving its counseling features.

TG Research

TG's research area has contributed to many default prevention activities since the 1998 default prevention conference. The research area has continued to produce monthly Default Management Reports for over 100 Texas schools. These reports are now migrating to the Report Request/Distribution system. Lender/Servicer Cohort Default Rate by School Reports has become an increasingly popular research tool. Schools and lenders benefited from early notification of their TG-based FY 1998 estimated cohort default rates, which were mailed in December 1999. *School Fact Sheets*, in both hardcopy and web formats, remain popular tools for schools conducting comparisons among institutions. Also many of the Council's activities have been supported by TG's research area. Internally, the research area helped TG become the first guaranty agency to have a statistical predictive scoring model for use in default prevention. This model is helping TG's Default Prevention team better target the population most in need of its support and assistance. The research area has also represented TG on the National Council of Higher Education Loan Professional's national scoring modeling initiative.

Conclusion

This report documents the tremendous progress that has been made in the effort to reduce defaults in Texas during the past two years. Throughout these pages are examples of different organizations and professions cooperating in a common cause for the betterment of students. In each of the ten themes, the Texas student financial aid community has worked diligently to improve the administration of the student loan program so that defaults can become an even more rare occurrence. Yet more can be done. As the Texas student aid community moves forward on this issue, we can be proud of the foundation that dedicated professionals have laid to help lower default rates throughout the state.

Appendix

Defaults

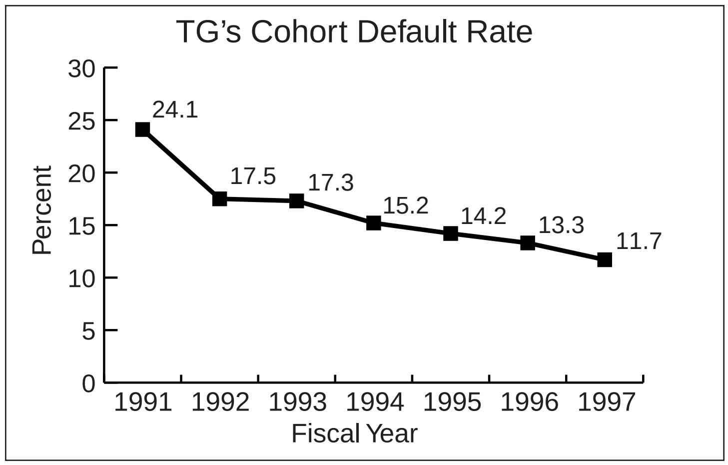
TG's corporate cohort default rate, as calculated by the U.S. Department of Education (ED), has declined from 17.5 percent in FY 1992 to 11.7 percent in FY 1997. This decline can be attributed to increased oversight of schools. Congress passed legislation empowering ED with greater authority to Limit, Suspend, or Terminate (LS& T) schools with high default rates. Also, TG has stepped up its program reviews, while increasing default prevention efforts.

Cohort Default Rate Definition

The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The 1997 cohort default rate, for example, is based on students who entered repayment in FY 1997 and subsequently fell into default before the end of FY 1998.

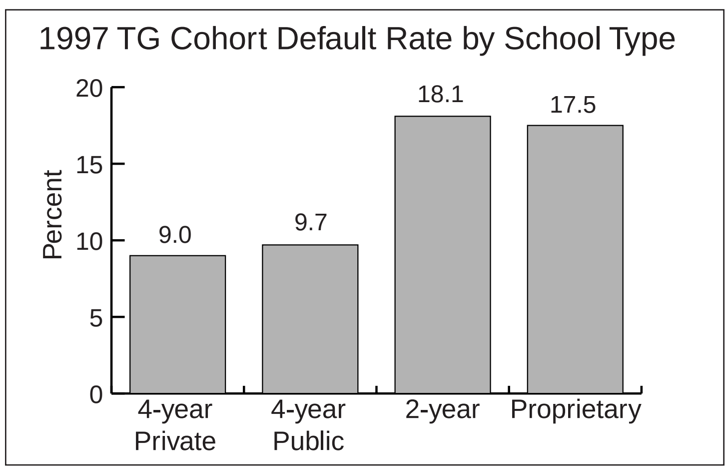
TG's Cohort Default Rate

The cohort default rate for FY 1997 was 11.7 percent. The cohort default rate decreased by 5.6 percentage points between FY 1993 and FY 1997. Even with growing student debt, the cohort default rate decreased by 1.6 percentage points between 1996 and 1997.



1997 TG Cohort Default Rate by School Type

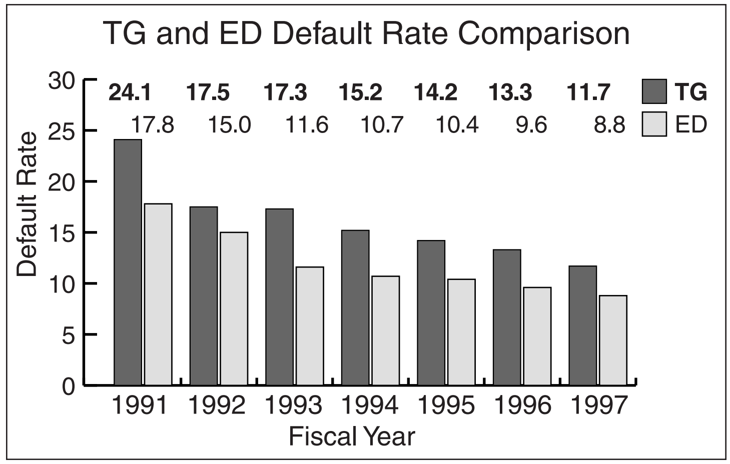
Overall, 2-year and proprietary school students default at about twice the rate of 4-year private and public schools. Proprietary and 2-year school students default at approximately the same percentage level. In previous years, proprietary school students have defaulted at the highest rate of all the school types.



TG and ED Default Rates

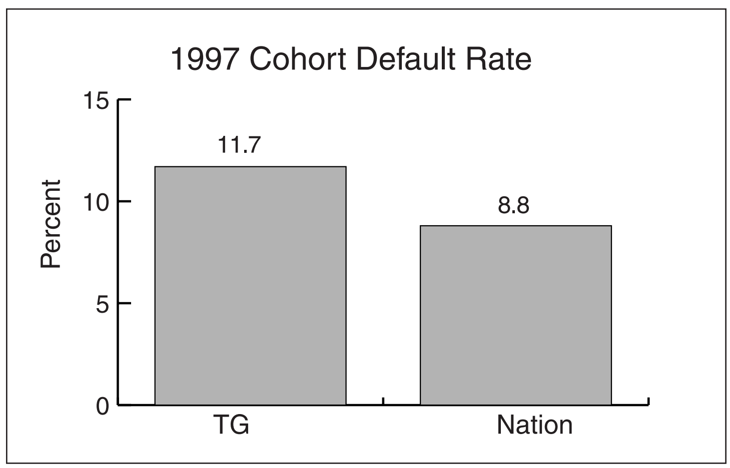
Since FY 1991 default rates for both the Department of Education and Texas Guaranteed have decreased approximately by one-half. Over the past seven years, ED's default rate decreased by 9 percentage points with the largest decrease of 3.4 percent points occurring in FY 1993. In comparison, TG's default rate decreased 12 percentage points over the last seven years. TG's largest decrease occurred in FY 1992 with a 6.6 percentage point drop.

Over the last seven years, ED has had a smaller default rate each fiscal year than TG, but the difference between default rates has narrowed. The default rate gap was highest in FY 1991 and FY 1993 with 6.3 and 5.7 percentage points respectively. However, since FY 1994 the difference between ED and TG default rates steadily declined as was at an all time low by FY 1997.



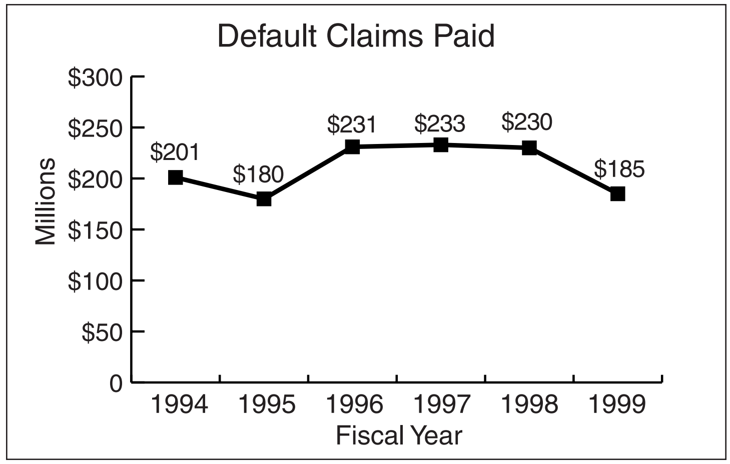
1997 Cohort Default Rate

In FY 1997 both ED and TG achieved their lowest default rates since FY 1991. Despite TG's reduction in default rate, TG's rate was still 2.9 percentage points higher than the national average for FY 1997. Much of this can be attributed to the relatively low household income of many students who attend schools in Texas and the legal tradition of being a debtor-friendly state.



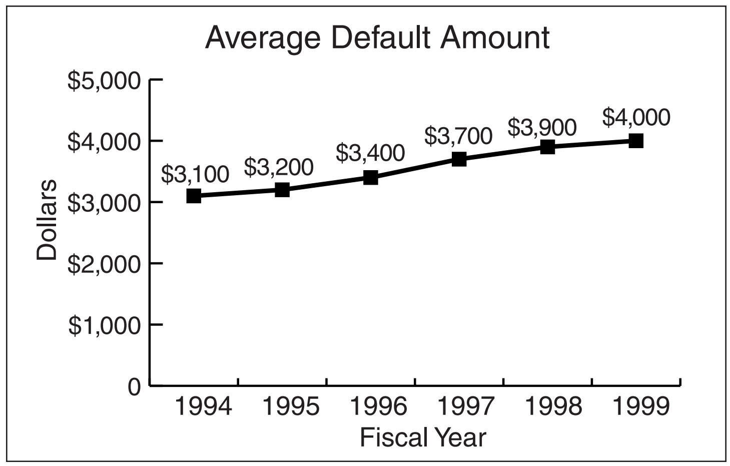
Default Claims Paid

Default claims paid in FY 1999 represented about 86 percent of the $214 million total claims paid by TG. Default claims paid remained level between FY 1994 and FY 1998, despite growing loan volume. Default claims dropped in FY 1999 primarily because of statutory changes that extended the filing date on defaults by three months.



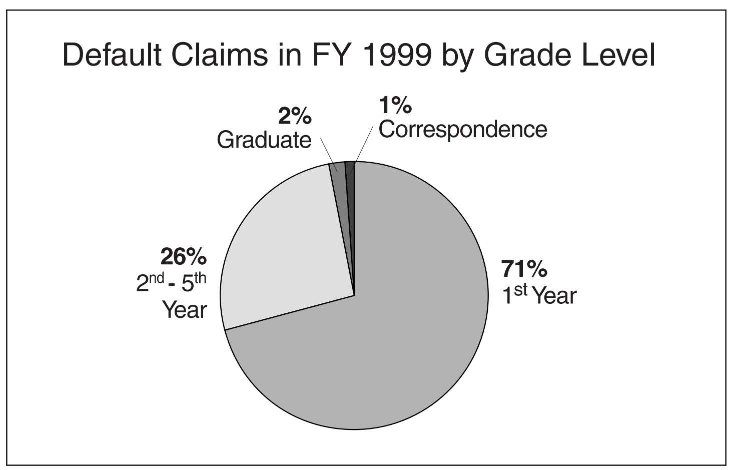
Average Default Amount

The average default amount in FY 1999 was $4,000. The average default amount increased by almost 30 percent in the five-year period between FY 1994 and FY 1999 but only by three percent in the last fiscal year.



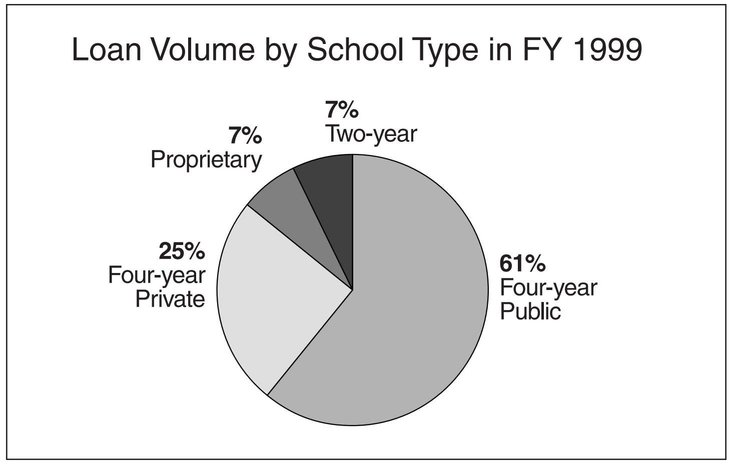
Percent of Default Claims by Grade Level

Students who had last borrowed during their first year of postsecondary education accounted for 71 percent of all default claims in FY 1999. Whereas in FY 1998, claims for first year students were 69 percent.

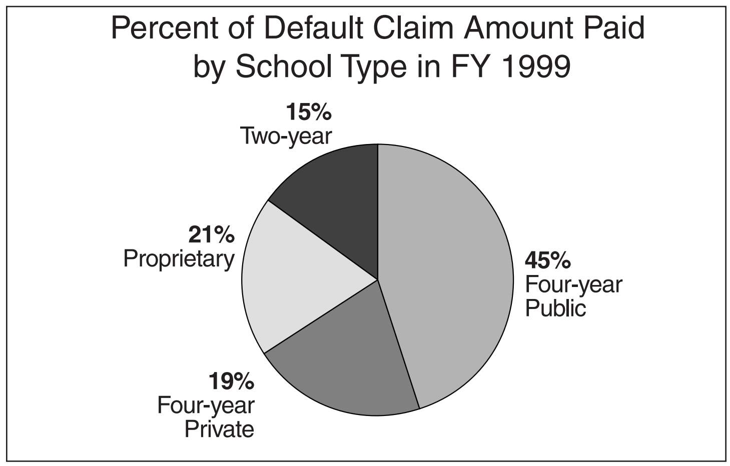


Percent of Default Claim Amount Paid by School Type

Proprietary schools received about 7 percent of loan volume in FY 1999...



...however, proprietary school loans were responsible for over 21 percent of the default claim amount paid. Students who last attended a four-year school account for nearly two-thirds of all default claims.



Default Claims Paid-in-Full since Corporation Inception

Of the 752,600 defaults since the corporation's inception, 244,500 or 32 percent have been paid-in-full. Another 6 percent of defaulted accounts had "up-to-date" status during their last 90-day repayment period. Twenty-six percent of accounts are in collections and not current with their payments during the last 3 months. Thirty-six percent of accounts are not collectible due to death, disability, bankruptcy-discharge, and subrogation by the U.S. Department of Education. Many people who default on their student loans eventually pay off their bad debt or become current with their payments.