

INSTITUTIONAL EFFECTIVENESS: DEFAULT MANAGEMENT CONSULTATION POLICY

An official cohort default rate in Title IV student financial assistance programs of 20% or over will “flag” an institution for monitoring by the Commission, in accordance with Section 8.11 and 8.15 of the *Rules of Practice and Procedure*.

An institution may have this monitoring waived in the following circumstances:

1. The institution submits a copy of its letter to the U.S. Department of Education formally withdrawing from participation in the Title IV HEA loan program(s) together with the receipt indicating the letter was received by the Department.
2. The institution submits a letter from the U.S. Department of Education accepting the institution’s withdrawal from participation in the Federal Family Education Loan programs;
3. The institution submits evidence that its official default rate has been below the Congressional threshold for the past three years;
4. The institution is successful in obtaining a rescission of the show cause order under Part 7 of the *Rules*;
5. The institution’s appeal of its official default rate is pending before the U.S. Department of Education; or
6. The institution has a default management plan that complies with the sample default management plan published by the United States Department of Education at GEN-01-08 in June 2001 (which follows).

SAMPLE DEFAULT MANAGEMENT PLAN

This sample default management plan describes measures that schools should find helpful in reducing defaults under the FFEL and Direct Loan programs. If schools are required to use a default management plan to participate in the Title IV programs, under 34 CFR 668.14(b)(15), their implementation of all the measures in this sample plan will satisfy those requirements.

Other schools should strongly consider implementing some or all of these measures as well, and may find additional ideas about default prevention in the Department’s publication, “Ensuring Student Loan Repayment.” This publication is available as an electronic announcement, dated January 19, 2001, on the Department’s Information for Financial Aid Professionals web site (<http://ifap.ed.gov/>).

Default Management Plan

A school that implements this sample default management plan –

1. Uses its resources efficiently.

- a. Establishes a default management team by engaging its chief executive officer and relevant senior executive officials and enlisting the support of representatives from offices other than the financial aid office.
- b. Identifies and allocates the personnel, administrative, and financial resources appropriate to implement the default management plan.
- c. Establishes a process to ensure the accuracy of data used to calculate its draft and official cohort default rates.
- d. Establishes a data collection system to track and analyze borrowers who default on their loans.
- e. Defines evaluation methods, sets default reduction targets, and conducts an annual comprehensive self-evaluation of its administration of the Title IV programs to identify institutional practices that should be modified to reduce defaults, and then implements those modifications.

2. Works to reduce its number of dropouts.

- a. Ensures that its admission policies and screening practices only admit students who have a reasonable expectation of succeeding in their program of study.
- b. Enhances the enrollment retention and academic persistence of borrowers through counseling and academic assistance, especially for academically high-risk students.
- c. Evaluates and improves, if necessary, its curricula, facilities, materials, equipment, qualifications and size of faculty, and other aspects of its educational program to ensure that borrowers remain in school and that they are employed after they complete their program of study.

3. Works to ensure that its borrowers can repay their loans.

- a. Assists borrowers who are experiencing difficulty in finding employment through career counseling, job placement assistance, and information about repayment options, including the availability of deferments and forbearances.

Default Management Plan

- b. If possible, identifies and implements alternative financial aid award policies and develops alternative financial resources to reduce the need for student borrowing in the first 2 years of study.

4. **Provides enhanced initial and exit counseling.**

- a. In addition to requirements in 34 CFR 682.604 and 34 CFR 685.304, provides the information listed in the “Enhances Initial and Exit Counseling” section, on the following page, during initial and exit counseling.
- b. If possible, used interactive electronic materials, audio-visual materials, and written tests during counseling to ensure that borrowers understand the terms and conditions of their loans.
- c. If borrowers demonstrate that they do not understand the terms and conditions of their loans (for example, by failing a written test), provides additional, more intensive counseling.

5. **Keeps in touch with its borrowers.**

- a. Frequently reviews borrowers’ in-school status to ensure that it recognizes instances in which borrowers withdraw without notice.
- b. Contacts borrowers during their grace period to remind them of the importance of the repayment obligation and of the consequences of default. Tracks borrower’s delinquency status by obtaining reports from the Department and from FFEL Program guaranty agencies and lenders.
- c. Keeps records updated regarding borrowers’ addresses, telephone numbers, employers, and employers’ addresses.
- d. If necessary, uses activities such as skip tracing and sending letters “Forwarding and Address Correction Requested” to maintain contact with borrowers who have moved.
- e. When implementing this sample plan, schools must also continue to comply with applicable state and federal laws (for example, the Fair Debt Collection Practices Act) and with the requirements of the cognizant accrediting body.

Default Management Plan

ENHANCED INITIAL AND EXIT COUNSELING

In addition to meeting the requirements in 34 CFR 682.604 and 34 CFR 685.304, provide the following information to student borrowers during initial and exit counseling –

1. Repaying the loan.

- a. Estimated balance of the borrower's loan(s) when the borrower completes the program.
- b. Interest rate on the borrower's loan(s).
- c. The name, address, and telephone number for the borrower's lender.
- d. Estimated average amount of the borrower's required monthly payments on the loan's balance. (During exit counseling, provide a sample loan repayment schedule based on the borrower's total loan indebtedness.)
- e. Estimated monthly income that the borrower can reasonably expect to receive in his or her first year of employment based on the education received at the school.
- f. Estimated date of the borrower's first scheduled payment.

2. Personal financial management and Title IV loans.

- a. Dissatisfaction with, or non-receipt of, the educational services being offered by the school does not excuse borrowers from repayment of their FFEL or Direct Loans.
- b. Borrowers must inform their lenders immediately of any change in name, address, telephone number, or Social Security number.
- c. If a borrower is unable to make a scheduled payment, he or she should contact the lender before the payment's due date to discuss his or her other repayment options.
- d. General information about budgeting of living expenses and other aspects of personal financial management;
 - i. Deferment, forbearance, cancellation, consolidation, and other repayment options, including procedures for obtaining these benefits; and

Default Management Plan

- ii. The sale of loans by lenders and the use of lenders by outside contractors to service loans.

3. Information about delinquency and default.

- a. A description of the charges imposed for failure by a borrower to pay all or part of a scheduled payment when it's due.
- b. The consequences of a borrower's failure to repay a loan, including:
 - i. A damaged credit rating for at least 7 years,
 - ii. Loss of generous repayment schedule and deferment options,
 - iii. Possible seizure of Federal and State income tax refunds due,
 - iv. Exposure to civil suit,
 - v. Referral of the account to a collection agency,
 - vi. Liability for collection costs and attorney's fees,
 - vii. Garnishment of wages, and
 - viii. Loss of eligibility for further Federal Title IV student assistance

4. Requesting borrower information.

- a. During initial counseling, obtain information from the borrower regarding references and family members beyond those provided on the loan application.
- b. During exit counseling, obtain updated information from the borrower regarding the borrower's address, the addresses of the borrower's references and family members, and the name and address of the borrower's expected employer.