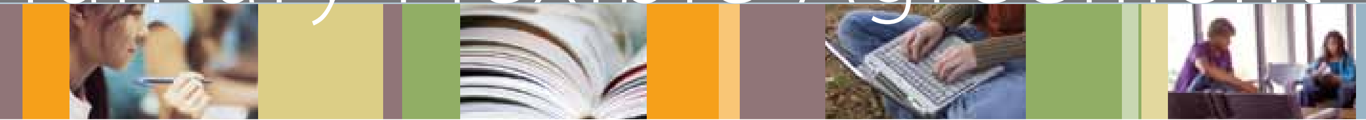
VFA

Voluntary Flexible Agreement



REPORT

2007

The National Association of Student Loan Administrators (NASLA) was created to ensure consistent, reliable, and cost-efficient delivery of student loan services over the life of the loan by:

- Serving as a public advocate for students and borrowers
- Providing value-added services over the life of the loan, such as default prevention and portfolio management
- Instituting performance-based incentives and revenues to support these services
- Adopting open systems and common data sources

The members of NASLA are the following student loan guaranty agencies:

American Student Assistance® (ASA)

Great Lakes Higher Education Guaranty Corporation® (Great Lakes)

Texas Guaranteed Student Loan Corporation™ (TG)

Table of Contents

2 Letter from the President of NASLA

3-6 Overview

8-11 American Student Assistance

12-15 California Student Aid Commission(CSAC)/EdFund

16-19 Great Lakes Higher Education Guaranty Corporation

20-23 Texas Guaranteed Student Loan Corporation (TG)

Letter from the President of NASLA

VFA

Dear Colleague:

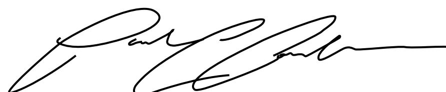
On behalf of NASLA, I am pleased to provide this most recent briefing on the individual activities and progress of the "First Generation" of Voluntary Flexible Agreements (VFA) with the U.S. Department of Education. The First Generation VFA organizations include the following student loan guaranty agencies: American Student Assistance (ASA), California Student Aid Commission/EdFund®, Great Lakes Higher Education Guaranty Corporation (Great Lakes), and Texas Guaranteed Student Loan Corporation (TG), which in 2006 guaranteed a combined $45 billion in student loans, including consolidation loans, according to the U.S. Department of Education.

In conjunction with NASLA, these First Generation VFA organizations have combined efforts to provide a better understanding of the purpose of VFA initiatives, the results achieved thus far, and why we believe the successful features of these models can better focus and enhance the guarantor's role as a trusted, federally funded, nonprofit organization in the student financial aid process.

Since the inception of the federal student loan program nearly 40 years ago, the student loan industry has made tremendous strides in the areas of delinquency and default prevention. However, until the VFA provision set forth in the 1998 reauthorization of the Higher Education Act, guaranty agencies had not had the degree of flexibility to experiment with the complex variety of methodologies in these areas. The VFA objective is experimentation in order to find best practices, collect long-term data, and share results that capture what best benefits students, schools, the federal government, and the American taxpayer.

NASLA actively supports the First Generation VFAs and is committed to an open process and open communications. Working together, we are confident we can shape the future of student lending and enhance the process for all participants. We welcome your comments, suggestions, and feedback.

Sincerely,



Paul Combe
NASLA President

Overview

What Is a Guaranty Agency?

Guaranty agencies, also referred to as guarantors, are federally funded, nonprofit or state agency entities that, in partnership with the U.S. Department of Education (ED), administer the Federal Family Education Loan Program (FFELP). Guarantors are integral and central to the postsecondary education community, including borrowers, schools, lenders, and secondary markets.

Who Are the Guarantors' Customers and Stakeholders?

Students and their families, for whom guarantors are a trusted source of information and assistance about options available to pursue and finance higher education and repay loan obligations.

Schools (middle schools, high schools, and postsecondary institutions), lenders, and servicers, with whom guarantors form partnerships to deliver educational information and repayment support to students and parents. This information guides borrowers through a complex array of options for financing a college education, simplifying and expediting funds delivery, and preventing default. Guarantors also help schools with their student financial aid responsibilities and assist them in reducing their delinquency and default rates.

The U.S. Department of Education and American taxpayer, for whom guarantors serve as stewards of the federal fiscal interest to provide student aid program integrity, access to higher education, default prevention, default resolution, and a more educated and productive taxpaying populace.

What Is a VFA?

Permitted by the Higher Education Amendments of 1998, VFAs are Voluntary Flexible Agreements between a guarantor and the Department of Education (ED). These agreements test new and innovative methods for carrying out the types of activities currently required of guaranty agencies to identify and demonstrate more efficient and effective means to manage the FFEL program.

Overview

Public Purpose

Through innovative approaches and continuing experimentation, VFAs allow guaranty agencies to better fulfill an important public purpose of helping borrowers successfully complete a program of higher education financing and repayment.

Student loan defaults reached their highest level in the 1980s. Higher default rates created federal financial aid eligibility issues for schools and higher costs for the government. However, no positive, student-centered incentives were put into place to proactively combat delinquency and default. Indeed, very little data existed about the most effective ways to prevent delinquency and default in student loans.

Performance-based Fee Structure

Under the standard guaranty agency model, guarantors receive less compensation for preventing student loan defaults than for collecting on defaulted student loans. Approximately 60 percent of a typical guarantor's revenue is derived from the collection of defaulted student loans, while less than 10 percent of its revenue comes from default prevention and zero for delinquency prevention. This funding mix is not well aligned with the value proposition of the guarantor and runs counter to most guarantors' view of their role in the student loan process, which is to assist borrowers in achieving both a successful educational and repayment experience.

In order to accomplish their fundamental public purpose, each of the VFAs represented in this document individually incorporate a comprehensive modification to the traditional guarantor payment structure and tie federal payments to improved performance and portfolio management.

The shifting of traditional guarantor revenue incentives from back-end default collections to a front-end emphasis on delinquency and default prevention has allowed each VFA guarantor to realign their financial resources to assisting borrowers before they get into trouble.

Innovation for Better Results

In recent years, the student loan borrower population has experienced a dramatic demographic change. Between 1992–1993 and 2002–2003, the federal loan volume for undergraduate and graduate borrowing increased by 137 percent, to $49.1 billion. In 2000, 65 percent of bachelor degree recipients borrowed money to finance their education, making student loan borrowing the norm.

In this era, guaranty agencies have the opportunity to serve a vital purpose—by acting as independent, neutral facilitators of borrowers' successful education loan repayment.

Such dramatic change within both the borrower population and the guaranty community demands solid data on which to found new industry practices. Before the first VFA, the federal student loan program existed for nearly 40 years without definitive or systematic data on what effectively prevents delinquency and default. Now, through the innovation and experimentation permitted by the VFA, the first generation of VFA holders is seeking to expand their knowledge of borrower behavior and effective delinquency and default prevention strategies.

Results Thus Far

Since the approval of the First Generation VFAs, the following progress has been realized:

- **reductions in cohort default rates of as much as 47 percent**
- **an average reduction in federal default "trigger" rates by as much as 24 percent**
- a conversion of defaulted loans to loans in good standing
- significant increases in outreach program creation, with particular attention to financial literacy and debt management education for students and their families

Delinquency Prevention

Preventing delinquency is the key to preventing default. Our experimentation has shown that educating borrowers early and often about student loan repayment, and about the options available to them if unforeseen financial circumstances arise, is an effective method in preventing late payments. Best practice has shown that an effective time to intervene is during the grace period, the six months after a student graduates, withdraws, or drops below half-time attendance. The objective of a delinquency prevention program is to counsel, advise, and guide borrowers toward becoming successful in the repayment of their student loans.

Default Prevention

At the heart of each of the First Generation VFAs is the intent to reduce the frequency of defaults by improving the entire pre-claims process. In keeping with the delinquency prevention concepts, these guarantors have found that building a relationship with the borrower is fundamental to the overall success of their programs. In order to enhance the borrower's experience, each guarantor has invested in training programs designed to enhance the telephone skills of its counselors. The training sessions familiarize the counselors with the overall goal of default prevention and provide techniques for the counselors to use in order to determine the appropriate strategy for resolving the underlying cause of the borrower's delinquency.

Regardless of a guarantor's business structure, each is responsible for:

- Loan administration
- Borrower repayment assistance
- Continuous improvement of delinquency and default rates
- School and lender oversight and program compliance
- Counseling, outreach, and community service

Overview

Borrower-based Recovery Efforts

Providing services to borrowers throughout the life of the loan is essential to the understanding of borrower as customer. Everyone, regardless of payment history, ought to be treated with respect and compassion. If one should default, the federal Rehabilitation program offers borrowers the opportunity to return their student loan to good standing. In the traditional loan Rehabilitation program, borrowers can reverse their default status by making 9 voluntary, on-time consecutive payments. However, often borrowers either are not proactively informed of this choice or face prohibitive collection fees associated with the program (up to 18.5 percent).

In addition to innovative Rehabilitation programming, ASA, EdFund, Great Lakes, and TG have successfully transitioned from a collection environment that solely focused on completing the required due diligence to a corporate culture rooted in solution-based recovery strategies. This allows each to provide flexible recovery solutions based on individual borrowers' unique situation and needs

In Summary...

Through the successes and continued progress of ASA, EdFund, Great Lakes, and TG, the new role of the guarantor as service provider and borrower advocate versus primary loan collector becomes clearer and clearer. Thus, NASLA supports:

- A performance-based fee structure
- The elimination of a guarantee fee that only serves to diminish the amount of student loan proceeds available toward education and perpetuate the "guarantor as insurer" concept
- Real-time funding of guarantor reinsurance to eliminate the need for guarantors to retain federal reserve funds
- The encouragement of experimentation to see what, in fact, enhances the guarantor's benefit to students, the federal government, and the American taxpayer

The value proposition of the guarantor as a provider of delinquency and default prevention activities, rather than predominantly a collector of defaulted student loans, is a central theme of the First Generation VFAs.

Each of the First Generation VFAs approved by ED realigns the guarantor funding structure and incorporates performance-based measures that place the focus on default prevention. Lower student loan default rates benefit all FFELP participants.

Appendix

First Generation VFA

STRATEGIES AND RESULTS

American Student Assistance

ASA's VFA centers on a performance-based fee structure focused on loans in good standing. ASA is incented to keep loans in good standing and does not receive payment for loans once they become delinquent.

To support its ability to keep loans in good standing, ASA has created, and is constantly refining, a series of programs aimed at borrowers. These programs focus on averting repayment problems before they occur and instilling positive financial principles in borrowers at all stages of the loan process.

Additionally, the agency has adopted a corporate culture that embraces the borrower as customer at every stage of the loan. In keeping with this culture, ASA works with borrowers to create delinquency prevention solutions and default resolutions in borrowers' best interest.

ASA's VFA-driven results include:

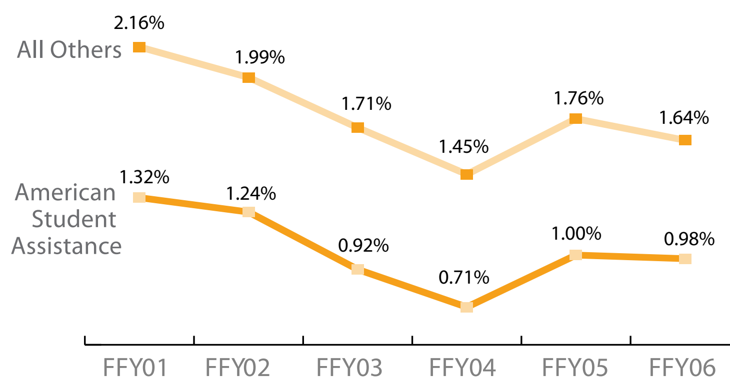
Taxpayer Savings through Decreased Defaults

ASA's fee structure benefits borrowers—and it saves the federal government money over the standard guarantor funding arrangement. **ASA's VFA is estimated to have saved the Department and U.S. taxpayers $40 million since its implementation in 2001.**

By focusing its business model on borrower success in repaying student loans, ASA has been able to significantly lower its annual "trigger" default rate as compared to the rest of the marketplace. The trigger rate represents the amount of loans in a guarantor's portfolio that default during a fiscal year as a percentage of the total amount of loans in repayment in that same fiscal year. A lower trigger rate equals fewer defaults, and fewer default claims paid out by the government.

A low 0.98 percent of ASA's total portfolio of student loans in repayment defaulted during federal fiscal year 2006—60 percent better than the national average:

Default Trigger Rate



In addition, ASA's most recent **cohort default rate was just 1.5 percent,** the lowest among the nation's largest guarantors.

Best Practices for Affecting Borrower Repayment

Since the federal student loan program began nearly 40 years ago, no definitive or systematic data has been collected on what effectively prevents delinquency and default. The VFA has given ASA the freedom to experiment for best practices in building long-lasting relationships with borrowers for successful repayment. Since the introduction of the VFA, ASA has conducted research on how borrowers like to receive communication (telephone, e-mail, print mail, and Web communications) and which graphics, messaging, format they respond best to. As of 2007, we are experimenting with the use of text messaging for payment reminders to borrowers, as well as testing the use of a downloadable desktop application that provides a pop-up payment reminder.

Less Delinquency

ASA has sought to lower student loan delinquency by creating and improving outreach and support services for borrowers. ASA's outreach innovations include:

Proactively contacting high-risk populations, such as students who separate from school without attaining a degree, and providing them with viable options to address repayment. In ASA's Transitions program, borrowers receive direct mail and phone calls that review their options, such as returning to school and postponing loan payment, beginning standard monthly payments, or exploring alternative payment plans. Since the program began in 2004, **89 percent of borrowers contacted expressed interest in learning more about repayment and keeping in touch with ASA.**

ASA

Spreading financial aid information throughout the community in its role as designated guarantor for Massachusetts and the District of Columbia.

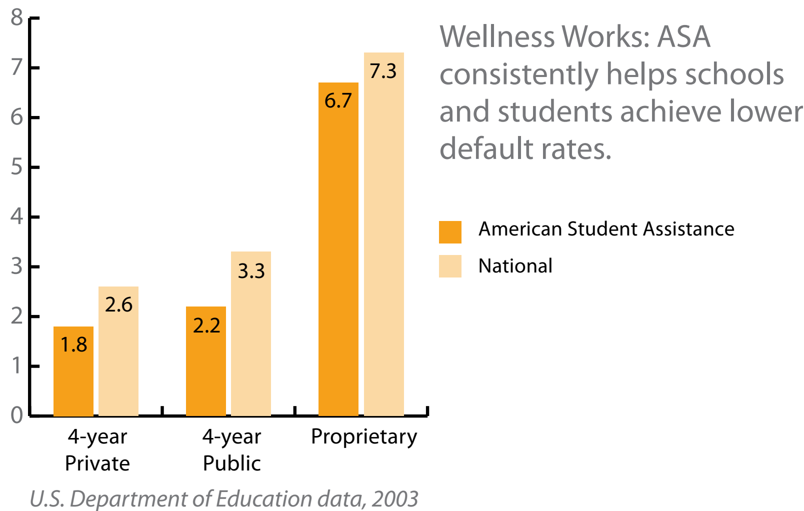
Giving recent graduates guidance on repayment, consumer debt, financial life choices, and developing successful careers to ensure they complete repayment. Our Journeys program provides borrowers with the right information at the right time—catching their attention just when they are beginning to think about repayment. In 2006, 25,000 borrowers participated in the Journeys program. Our data shows that **Journeys participants have demonstrated a 50 percent lower default rate** than non-participants in ASA's portfolio. The Journeys program entails the following:

- Borrowers are contacted in month four of their grace period. For the next 18 months, they receive a print or electronic newsletter every quarter.
- An initial package of information, often co-branded with the borrowers' school, lender, or servicer, explains borrowers' repayment options; offers individualized counseling via ASA's toll-free telephone number; and provides a borrower card with a unique number. This card is a privacy measure that allows borrowers to discuss their loans with ASA without disclosing their Social Security numbers.
- The Journeys website enables borrowers to request information, download forms, access career and salary data, ask questions about their loans, and read articles on financial literacy topics.
- Automatically dialed outbound calls contact students and offer to connect them with repayment counselors for one-on-one advice.
- ASA partners with schools and servicers to increase mail open rates. Years of ASA research have shown that borrowers respond well to mail and e-mail messages bearing a familiar name. Through co-branding, such as the inclusion of introductory letters from school, lender, or servicer officials, and the placement of their colors, logos and addresses on the e-mail or envelope, ASA ensures our correspondence catches borrowers' attention.
- In an ASA pilot program, **250 percent more borrowers responded to Journeys communication that was co-branded with their alma mater** than did those who received non co-branded communication. And more than 51 percent of borrowers opened Journeys e-mails co-branded with their servicer's information, compared to 17 percent for the control group.

More Long-Lasting Delinquency Cures

ASA helps borrowers find individualized, long-term solutions to payment problems through one-on-one counseling. Through customized e-mails and personalized support, our Wellness Counselors reach out to borrowers in the early stages of delinquency to urge them toward good standing, explain the importance of regular repayment, and provide alternative repayment options. As a result, **90 percent of delinquencies in our portfolio are cured before they reach default.** And, we encourage

Achieving Decreased Default Rates Through ASA Wellness



U.S. Department of Education data, 2003

borrowers to find permanent solutions to address their delinquency with actual payments, rather than postponing payments through deferments or forbearances.

More Conversions of Defaulted Loans to Loans in Good Standing

While ASA's fee structure emphasizes delinquency and default prevention, it also provides further incentive for ASA to rehabilitate defaulted loans and return the new, healthy loan back to the portfolio. Through our Bright Beginnings program, ASA explains the benefits of Rehabilitation to defaulted borrowers, then provides one-on-one counseling and frequent contact to keep borrowers on the right path. Since ASA received its VFA, **we have increased our Rehabilitation of defaulted loans from just over $6 million in 2001 to over $80 million this past year.** This has allowed more borrowers to regain all benefits of the FFELP, restore their eligibility for additional financial aid, and remove the default from their credit history.

Taking advantage of the experimentation permitted by the VFA, ASA has sought to improve the Rehabilitation program for borrowers. Our successful pilot program that **shortened the Rehabilitation timeframe from 12 to 9 months was adopted throughout the industry with the Deficit Reduction Act of 2005.** In a new, 2007 experimental campaign, we have begun mailing a series of letters to recently rehabilitated borrowers. These communications introduce borrowers to their new servicer, remind them of their repayment due date, and allow them to opt into monthly payment reminders from ASA offered in a variety of formats. In addition, ASA is experimenting with a program to promote automatic funds withdrawal for these borrowers to keep their repayment on track.

Looking Ahead

Through continued innovation and experimentation, ASA will remain committed to helping borrowers achieve their educational and financial goals through successful education loan repayment.

When it comes to student loans, ASA believes that a "Wellness," or prevention first, approach works best. Our goal is to impress upon borrowers the importance of on-time loan repayment to their overall good fiscal health and future ambitions. ASA's Wellness philosophy puts forth that, given the right information at the right time, many borrowers can avoid delinquency.

California Student Aid Commission (CSAC)/ EdFund

From the earliest days of the organization's existence, EdFund has made student loan default prevention and collection recoveries key elements of its business strategy. After conducting an extensive analysis of the available data on borrowers who have defaulted on their student loans, EdFund developed a predictive scoring model to identify borrowers at high risk of default. Its research-based assessment of delinquency and default "risk factors" advanced its ability to target more effectively borrower contacts and counseling services on those who need assistance most. CSAC/EdFund has learned through its Voluntary Flexible Agreement that school partnerships and tailoring strategic contact campaigns to the unique characteristics of different borrower populations are key to reducing defaults.

CSAC/ EDFUND'S VFA programs and successes include:

Early Withdrawal Counseling

EDFUND's research indicated that student borrowers who leave school prior to completing their program are much more likely to default on their student loans than those who finish their programs. Using this research as a foundation, EDFUND developed an innovative Early Withdrawal Counseling (EWC) program that targets these borrowers and provides specific services that have not only shown positive results in default prevention, but also positively impact the borrowers' completion rates in school.

The EWC program is a key component of CSAC/EDFUND's VFA. The primary goal of the EWC program is to assist borrowers who have dropped out of school and encourage them to return to school. If the borrower is unable or unwilling to return to school, the secondary goal is to prepare the borrower for the repayment of their loans by counseling them on repayment options that will potentially prevent the borrower from defaulting.

CSAC/EDFUND found that contacting these high risk borrowers during their grace period and then following up as needed promotes greater understanding of their life choices and repayment options, reinforces the importance of meeting their repayment obligations, reduces delinquency rates, and ultimately reduces defaults.

The Results

The EWC program began as a pilot in October 2001, with four schools participating. **As of March 30, 2007, 15 schools and over 200,000 borrowers have participated in this program.** EDFUND conducted an analysis of the first three cohorts. Success was measured by comparing the EWC borrowers to a control group and identified the following results.

- EWC borrowers were nearly **twice as likely** to return to school
- EWC borrowers were **substantially less likely** to become delinquent at any time during their first year after leaving school

Borrowers counseled in the EWC program were nearly twice as likely to return to school within a year as those in the control group.

The percentage of withdrawn borrowers in the control group who defaulted within two years of leaving school was more than 50% higher than among borrowers counseled in the EWC program.

CSAC/ EdFund

- EWC borrowers who became delinquent were significantly more likely to be returned to a positive repayment status

- The percentage of withdrawn borrowers in the control group who defaulted within two years of leaving school was more than 50 percent higher than among borrowers counseled in the EWC program

These results illustrate in compelling fashion the positive impact that this innovative program is having on (1) convincing early withdrawn borrowers to return to school to complete their education; (2) effectively explaining loan repayment options to borrowers early on in their grace period and thereby reducing the likelihood of being delinquent in fulfilling their loan repayment responsibilities; and (3) significantly reducing the default rate among early withdrawn borrowers, a group that historically has been identified in all studies as having the highest likelihood of defaulting on their student loan obligations.

Building Futures—A Comprehensive Approach to Default Prevention

EdFund has also created a wide range of tools to benefit borrowers in school. Building Futures is EdFund's comprehensive approach to default prevention. The program—spanning all types of media—provides a wide range of resources that helps ensure student borrowers have successful futures.

Some highlights within Building Futures modules include:

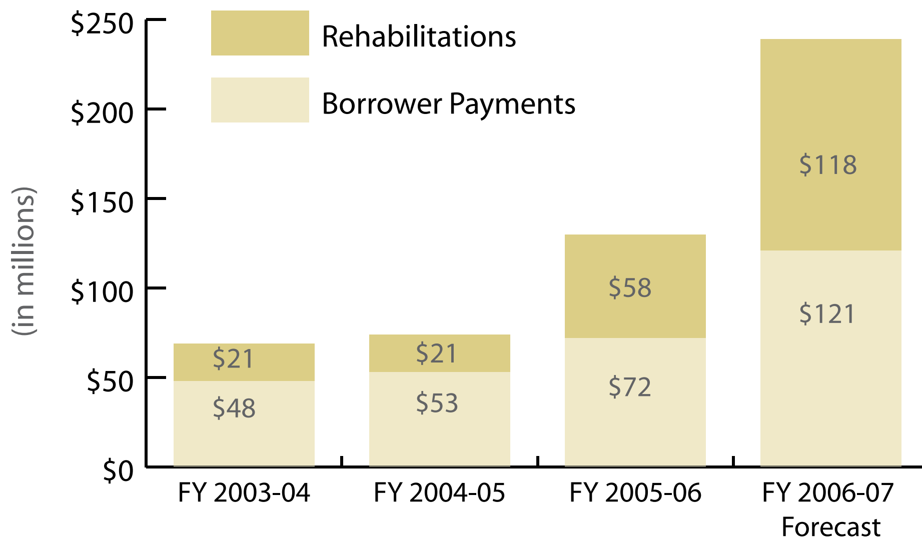
Cohort Management System (CMS)—CMS is EdFund's most effective tool for schools to use to positively impact their cohort default rate by working with late stage delinquent borrowers. **Over 500 schools are signed up for this Web-based product, which allows each school to track three cohort years—current, and two upcoming years.** It also allows schools to set up customized contact strategies for letters and phone calls and prioritizes the delinquent borrowers based on the number of days delinquent and risk of default within the cohort year.

Student Loan Debt Summary (SLDS)

The SLDS is one of EdFund's premier borrower benefits. This summary is designed to give students an annual snapshot of their student loan indebtedness while they are in school. An estimated monthly payment figure provides students a reality check to help them plan for future borrowing and repayment options. **There are 420 schools participating with over 650,000 statements distributed to borrowers annually.**

Increased Defaulted Loan Recoveries

The CSAC/EdFund VFA has been extremely successful over the years. During the early years of the VFA, the overall objective of defaulted loan recoveries was to increase the effectiveness of the organizations' collection activities.



VFA supported enhancements to our portfolio scoring and management, data analysis, and skip tracing had a significant impact on our gross collections recovery rate. **From 1999–2000 to 2003–2004, the CSAC/EdFund RECOVERY rate increased from 19 to over 30 percent.** Having completed the successful automation and improvement of the collection processes and practices, CSAC/EdFund's attention turned towards examining the various available collection tools and programs to determine the appropriate collection mix. It was determined that by shifting our focus toward Rehabilitation as the predominant collection program, benefits to borrowers would increase significantly. By completing the Rehabilitation program, not only would borrowers gain eligibility for future Title IV financial aid, but their credit would be repaired and repayment habits improved.

Over the past two years, since the collection strategy shift began in earnest, CSAC/EdFund has seen marked improvement in both gross collection dollars and recovery rate. **When comparing 2003–2004 results to the 2006–2007 projections, we have seen our gross collection recovery rate (excluding consolidations) increase from 4.3 percent to a projected 13.7 percent, while gross collections (excluding consolidations) increased from $69 million to a projected $239 million.** Clearly this trend positively affects the borrowers involved, but the federal government and taxpayers also receive significant benefits as a result.

"Default Prevention is a lot more than just entrance and exit counseling. It's teaching students how to budget and showing them all of the tools available to them. With the help of EdFund, we have been able to provide hands-on workshops on credit management, budgeting and consolidation. These types of sessions teach the students what is available to them resource wise and how to be savvier in the outside world once they graduate."

Ken Walsh,
Director of Financial Aid
California Maritime Academy

"After using the Cohort Management System for just one month, our projected default rate dropped by one percent! We are very excited to see such great results. I've helped students who were over 300 days past due. It's very gratifying to help a student prevent default and advise them of their options. Thank you, EdFund, for developing such a great tool for schools!"

Caroline Ganus,
Financial Aid Coordinator
Mt. Hood Community College

Great Lakes Higher Education Guaranty Corporation

Great Lakes' VFA proposal was based on a very simple premise: reward guarantors not for collecting on defaulted loans but for helping borrowers stay out of default altogether. This premise was adopted effective October 1, 2000, when Great Lakes' VFA became the first VFA approved by ED.

Under its VFA, Great Lakes forgoes all post-default collection margins, the primary source of revenue for guarantors operating under the statutory funding model. Instead, Great Lakes receives a performance-based fee tied to its success in preventing defaults.

The VFA structure has provided Great Lakes with the flexibility and incentive to continually refine its strategies to help borrowers succeed with the repayment of their student loans, and thereby avoid the negative consequences associated with default. The following results highlight Great Lakes' success in translating the student success focus at the heart of its VFA into tangible benefits for borrowers, schools, lenders, taxpayers, and ED.

Resolving Delinquency

Great Lakes' VFA replaced all of the fees paid under the statutory guaranty agency funding model with a single performance-based fee tied directly to its ability to prevent the default of delinquent loans. Under its VFA, Great Lakes' cure rate represents the number of delinquent loans returned to good standing, or cured, divided by the sum of the number of loans cured and the number of loans for which a default claim was paid.

Great Lakes has exceeded a **92 percent cure rate** since the inception of its VFA. For federal fiscal years 2005 and 2006, Great Lakes' **cure rate exceeded 94 percent.** Prior to its VFA focus, Great Lakes' cure rate averaged between 86 percent and 88 percent.

These results were achieved through continuous default aversion innovation. Since the inception of its VFA, Great Lakes has implemented a comprehensive set of default prevention strategies, identified those borrowers most at risk of default, and refined its counseling techniques for steering borrowers back to good standing.

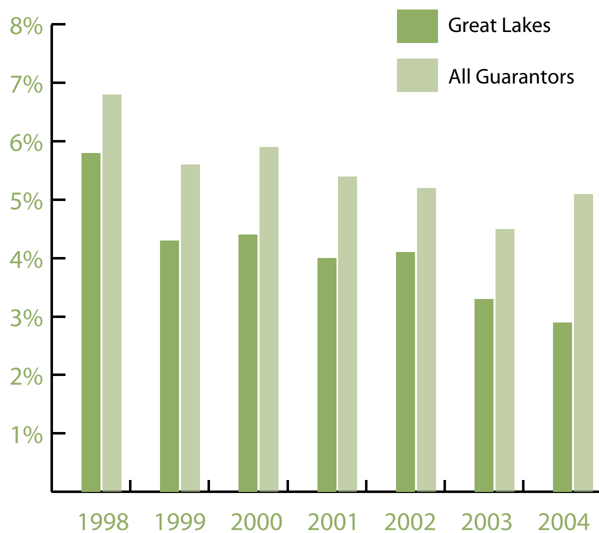
The VFA structure has also encouraged Great Lakes to share its default aversion approach with its school partners. Great Lakes' Student Loan Support System has allowed numerous higher education professionals to incorporate Great Lakes' proven strategies and tactics into their schools' default prevention and management activities.

Preventing Default

Great Lakes' default aversion success is also demonstrated via the default aversion success metrics tracked by ED for all guarantors. **A record low 0.62 percent of Great Lakes' total portfolio of student loans in repayment defaulted during federal fiscal year 2006—less than half the national average rate of 1.57 percent.** Great Lakes' ability to achieve some of the industry's lowest trigger rates since the inception of its VFA has saved millions of taxpayer dollars by reducing ED's claim payments.

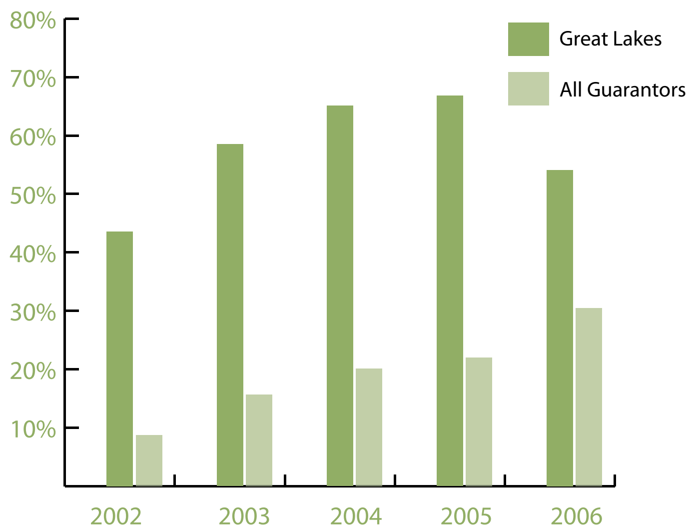
Great Lakes

Cohort Default Rates



Source: ED Guaranty Agency Recovery Totals

Rehabilitation Rate



Source: ED Guaranty Agency Recovery Totals

Great Lakes has also reduced its cohort default rate since the inception of its VFA. **In fact, Great Lakes' draft cohort default rate of 2.76 percent for federal fiscal year 2005 is its lowest ever. It is also significantly below the national average of 4.9 percent.**

From a FFELP perspective, these results are driven by the direct connection between Great Lakes' revenue and its delinquency and default prevention efforts. From a borrower perspective, each default prevented means an individual borrower kept their student loans in good standing and maximized their investment in higher education. It also represents a successful outcome for the school the borrower attended, for the lender that holds the loan, and for the American taxpayer.

Rehabilitating Defaulted Loans

Despite Great Lakes' best default prevention efforts, borrowers do still default on their student loans. For these borrowers, Great Lakes encourages Rehabilitation as the preferred post-default resolution strategy to return their loans to good standing, restore their eligibility for federal student aid, and remove the default from their credit reports. In addition to offering the greatest borrower benefits, Rehabilitation is the least costly post-default recovery option for ED, lenders, and taxpayers.

Great Lakes has led the FFELP industry for five straight years in the percentage of defaulted loans resolved through Rehabilitation. **During federal fiscal year 2006, Great Lakes achieved 54.1 percent of its post-default recoveries through Rehabilitation, while other guarantors averaged only 29.7 percent.** Great Lakes' long-standing

leadership in Rehabilitation stems from its commitment to offering innovative, borrower-focused provisions—a hallmark of its VFA.

Preparing Students for Success

Motivated by its focus on helping borrowers overcome repayment challenges and avoid default, Great Lakes has forged stronger relationships with its secondary- and post-secondary school partners. These relationships have proven critical in Great Lakes' expansion of its support to borrowers well before their first student loan payment is due. This support includes the development, in partnership with the University of Wisconsin–Madison, of a financial education curriculum schools can use to help their students build healthy financial habits during and after college. Students who participated in the new financial education course during the spring of 2006 exhibited measurable improvements in consumer credit, money management, and saving behaviors. Details on the curriculum and its impact on students are available in a report published by UW-Madison and Great Lakes: "Measuring the Impact of a Financial Education Curriculum on Student Attitudes and Behavior." The report is available at www.greatlakesguaranty.org.

Embracing the Future

Recent increases in student loan interest rates and borrower indebtedness will no doubt present challenges in the years ahead. Through the flexibility made possible by its VFA, Great Lakes has been able to continuously expand and enhance its efforts to support students in their pursuit of higher education, persistence to graduation, and performance in repayment.

The report "Measuring the Impact of a Financial Education Curriculum on Student Attitudes and Behavior" is available at www.greatlakesguaranty.org.

A second study of these same students will be published during the fall of 2007. This study will indicate whether the positive behavior changes found in the first study were sustained in the year following completion of the course.

Using data collected from its VFA experiments over the long term, Great Lakes will continue to modify its strategies to best serve future students and borrowers.

Texas Guaranteed Student Loan Corporation (TG)

TG's VFA focuses on aversion of student loan default and delinquency, whereas the traditional guarantor payment structure centered on collection of defaulted loans. The delinquency prevention fee is unique to TG's VFA and measures effectiveness in preventing student loans from becoming delinquent. TG also uses a unique variable rate structure for which the company's revenue is directly tied to performance results in delinquency prevention, default aversion, and default recovery.

Operational strategies TG has implemented to prevent loan defaults include: emphasizing pre-delinquency counseling and requesting a shorter window for Default Aversion Assistance Requests (DAARs) to allow for early intervention. Additionally, TG is providing innovative financial literacy programs for schools and borrowers, as well as automated default prevention tools for schools.

TG's VFA programs and successes include the following.

Pre-delinquency counseling

The objective of pre-delinquency activities is to educate and inform student borrowers about the repayment process and their repayment options prior to entering into repayment and to encourage non-degreed students to complete their education. **To date, TG has worked with half a million borrowers during their grace periods.** TG employs innovative pre-delinquency activities, such as:

- Updating collateral materials to educate borrowers on their repayment responsibilities and options, and focusing on groups of borrowers that may be at a higher risk for default. These materials can be ordered through TG's website.
- Providing a new and improved Web-based resource to describe the consolidation process and answer common questions about interest rates and the advantages and effects of consolidating loans.
- Providing proactive counseling services to borrowers who have consolidated loans, although they do not have a grace period. This is the same level of service provided to Stafford loan borrowers, who have a six-month grace period.
- Expanding customer assistance and default prevention call centers to provide comprehensive information to borrowers, including those who have withdrawn or dropped out of school, and those seeking consolidation services.
- Encouraging borrowers to re-enroll in a postsecondary education program and informing them of how to qualify for loan repayment deferment or forbearance options available to them.

Better Default Prevention through Shortened Default Aversion Assistance Request (DAAR) Filing Window

TG's lender and servicer partners file DAARs within a 65–75 day window required in TG's VFA, a shorter opportunity to resolve delinquencies through early intervention. The experience of TG and its school partners demonstrates that early intervention is a key factor in preventing default and its associated consequences. Since the inception of TG's VFA, the shorter filing window has enabled TG to contact more than 1.6 million borrowers and to prevent more than $15 billion in loans from falling into default.

Texas

Performance

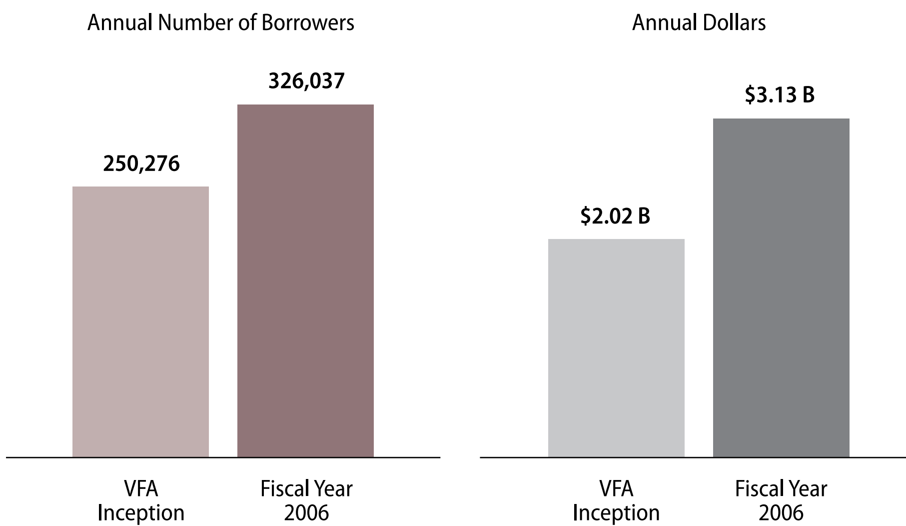
Since inception of its VFA, TG's average cure rate, which measures delinquencies for which TG was able to avert a loan default, has increased more than 3 percentage points, and TG's performance in preventing loan delinquencies has improved as well, reducing the percentage of loans in repayment that become delinquent. TG's continued achievements in these two measures help more of its borrowers have a successful experience from completing their education through repayment of their federal loan obligation. **In FY2006 alone, TG prevented more than $3 billion in delinquent loans from defaulting on behalf of more than 325,000 borrowers.**

Because of the shift in revenue emphasis under TG's VFA to better align with the guarantor's value proposition to students and schools, **default collections as a percentage of TG's total operating revenue has decreased from 60 percent to only 35 percent. Meanwhile, revenue related to successful efforts in delinquency and default prevention has shifted from less than 10 percent to more than 30 percent of TG's total revenue mix.** This is in comparison to a revenue mix of only 10 percent related to default prevention and about 50 percent for default collections for the guarantor industry under the current non-VFA model.

Positive + Balance—An Effective Financial Literacy Program

Beginning in 2005, TG developed Positive + Balance to focus on development of financial literacy programs to assist borrowers and to help reduce default rates for schools. Positive + Balance is a comprehensive training program aimed at providing borrowers with critical information while they are still enrolled in school, and also providing assistance to financial aid professionals. Activities include:

- Providing a training program to help students manage debt and to reduce their chances of defaulting on students loans.
- Developing three specific training programs for schools to provide knowledge tailored to the particular concerns of students and financial aid professionals.
- Answering questions from students to help them prepare for student loan and credit card debt after graduation and budget money.
- Offering financial aid workers strategies for managing default, and providing students with information on consolidation loans and informing them of the consequences of default.



TG's financial literacy program has been highly successful. **To date, more than 6,300 participants have taken advantage of TG's services in this critical area.** TG has incorporated a variety of ways to introduce its financial literacy program to students and schools. TG also has had great success through workshops on many college campuses across Texas and several other states, including Alabama, Colorado, Florida, Missouri, New Mexico, and Virginia. This program also has been adopted by TRIO administrators, since TG provides "training-the-trainer" workshops, which have been an effective way to expand the benefits of financial literacy for students.

During the first six years of TG's VFA, its cohort default rate and default trigger rate have decreased, creating significant program savings for the federal government.

TG's financial literacy programs focuses on three concepts: money management, academic success, and career development.

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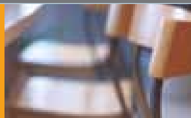
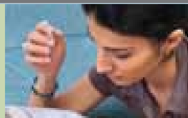
This report was prepared jointly by the First Generation VFA organizations:

American Student Assistance

California Student Aid Commission/EdFund

Great Lakes Higher Education Guaranty Corporation

Texas Guaranteed Student Loan Corporation

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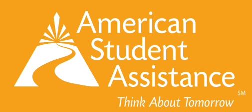

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