



# Tools For \$uccess

## FAME's Default Prevention Newsletter

January 2009



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### Happy New Year!

I hope that you had a wonderful and relaxing holiday season! As we welcome 2009, we are faced with many new challenges, but also with an opportunity to further impact the lives of students and families throughout Maine. Through our outreach and default prevention program, FAME will continue to explore ways to assist Maine students in achieving personal financial success.

In this January edition of *Tools for \$uccess*, you will find a variety of exciting announcements regarding our latest initiatives, all of which were created to promote the success of Maine students.

We hope you find this newsletter informative and helpful. I look forward to working with you throughout the coming year!

Mary Dyer, *Default Prevention Specialist*

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### Default Prevention Program Update

We are pleased to report that, as of December 30, 2008, **4,146** FAME borrowers were identified to receive early outreach through our new default prevention program. Beginning August 1, 2008, FAME borrowers are identified weekly through enrollment data reported to FAME's guarantee database and contacted directly via phone, mail and e-mail throughout their grace period. Borrowers are provided with information regarding the total amount of their loan, as well as the monthly payment due. In addition, borrowers are counseled regarding the various loan repayment options, lender/servicer contact information, as well as how to avoid default. Attached to this e-mail, you will find the borrower enrollment numbers for each school in Maine.

If you would like a detailed copy of your school report, please contact [Mary Dyer](#).

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### FAME Wednesday Webinar

FAME hosted its first Wednesday Webinar on December 10. The topic was "**Default Prevention on Campus – What Can YOU Do?**" The presenter was Mary Dyer, *Default*

*Prevention Specialist.* Eighteen attendees registered for the webinar. Evaluations and feedback from the webinar was extremely positive. A copy of the presentation can be found on the [training page](#) of the FAME Web site. On January 14th, Angela Dostie presented “**FAFSA on the Web Worksheet – What You Need to Know.**” February’s Wednesday Webinar topic will “**ACG/SMART Grant**” and will be presented on February 11<sup>th</sup> by Mila Tappan.

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## Default Rates for Cohort Years 2002-2006 Now Available

FSA recently released an electronic announcement that explains the three types of Default Rates and a summary of these rates for the Cohort Years 2002-2006. The three types of rates are *Cohort Default Rate*, *Budget Lifetime Default Rate* (as reflected in the latest estimates as of July 1, 2008), and *Cumulative Lifetime Default Rate*. This [first link](#) provides an explanation of the three types of default rates: Cohort Default Rate, Budget Lifetime Default Rate and Cumulative Lifetime Default Rate. This [second link](#) provides a summary of these rates for the 2002-2006 cohort years.

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## New Cohort Default Rate Calculations

Recent changes made by the [Higher Education Opportunity Act](#) (HEOA) will alter the current default rate calculations by including more time in a borrower's repayment period in the CDR calculation. Beginning with Fiscal Year 2009, the new CDR formula will include students who default by the end of the second fiscal year after beginning repayment. The current CDR looks at up to two fiscal years - the one in which the borrower began repayment and the following one. The new formula looks at up to three fiscal years - the one in which the borrower began repayment and the following two. Here are both the current and new formulas:

### ***Current Formula:***

**Borrowers who defaulted in 2006 or 2007**  
**Borrowers who entered repayment in 2006**

### ***New Formula:***

**Borrowers who defaulted in 2006 or 2007 or 2008**  
**Borrowers who entered repayment in 2006 and 2007**

NASFAA’s article titled *Preparing for Upcoming CDR Changes* provides a valuable summary of the upcoming changes. For more information regarding upcoming changes to the CDR formula, please contact [Mary Dyer](#).

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## Skip-Tracing Overview

During our recent webinar on default prevention, I was asked to provide clarification regarding skip-tracing and what financial aid administrators need to know. As a result, I conducted some research regarding skip-tracing process and here are the highlights of what I learned:

- While skip-tracing is a due diligence requirement, each lender, servicer and guarantor

has a different process for skip-tracing.

- When a school receives a skip-tracing request, the school should provide ALL known addresses, including parents and other relatives and references (if known). The school should not be concerned that the address that they provide will “overwrite” any address on system with the collection agency and should provide the addresses regardless of whether or not it may be an “old” address.
- For obvious reasons, the general consensus from servicers is that a school is contacted as a “last resort” and is not typically considered a reliable source of current address information.
- On average 39% - 41% of defaulted student borrowers (within our servicers’ portfolio) default without having ever used forbearance time. In other words, all of those borrowers could have prevented default simply by requesting forbearance (either verbally or by signing a request form). This phenomenon is generally a product of those borrowers somehow being 'unreachable' via telephone and/or mail; therefore, being declared 'skip' borrowers.
- Studies in the past have suggested that as much as 75% of student borrowers who default on their student loans could be designated as 'skips.'
- It is often challenging to properly characterize a student borrower as a 'skip' because a student borrower could have (what a service provider believes to be) perfectly valid demographic information (address and/or telephone number); however, the student borrower is never reached at that number or address - this could be a product of the borrower simply not responding to our outreach efforts or the borrower could, in fact, be at another (unknown) location.
- FAME’s default prevention team uses call attempts, letters and e-mail to contact borrowers from the *beginning* of their grace period. These attempts persist until contact is made, or until the borrower reaches the first 60 days of repayment. In addition, once an account is 60 days delinquent, these types of efforts continue. In 2008, an average of 25.7 attempts per month was made for each borrower placed.
- Accounts that do not have good demographic information are run through a skip trace process that consists of five 3rd party vendors and numerous manual skip tracing attempts.

For more information regarding the skip-tracing process, please contact [Mary Dyer](#).

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## **New Flyer Created to Educate Students on the True Cost of Credit Cards**

We recently developed a new flyer designed to educate students regarding the real cost of credit cards. Using examples of several popular purchases, we calculated the true cost of the purchase in the event that only the minimum payment is made. A copy of the flyer has been added to the publication page on the FAME Web site. To review the new flyer, please

click [here](#).

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## NCHELP Provides Entrance and Exit Counseling Checklists

The National Council of Higher Education Loan Programs' (NCHELP) Regulations Committee has created checklists which provide schools with a comprehensive list of entrance and exit counseling requirements. The checklists can be viewed [here](#).

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## Maine Jump\$tart Coalition Urges Colleges to Ban Credit Card Marketing on Campus

The Maine Jump\$tart Coalition for Personal Financial Literacy announced recently that it is sending letters to Maine college presidents requesting that they voluntarily support a ban on credit card solicitation on campus. The effort is timed to coincide with the start of second semester at colleges and universities across Maine. A copy of the press release can be viewed [here](#).

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## Default Prevention Initiatives on the Horizon

- We are in the process of updating our Alternative Loan Counseling & Money Management Tutorial and we are hoping to add information regarding Additional Unsubsidized Loan borrowing. Please feel free to contact [Mary Dyer](#) if you have any suggestions or feedback regarding our current counseling content.
- As part of our GOAL\$ program, we are in the process of creating financial literacy information specifically for the Maine adult learner population. In addition, we are also in the process of developing financial literacy sessions for high school students in Maine.

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## Best Practices Corner – A Year in Review

In each edition of *Tools For Success*, FAME highlights a school or organization that has implemented effective strategies that demonstrate creativity and an overall commitment to preventing student loan defaults. Attached to this e-mail, you will find a compilation of “best practices” from each newsletter that we have published throughout the past year. I would like to personally thank all of the individuals throughout Maine who have provided me with insight into their campus-based default prevention initiatives. I look forward to collaborating with you throughout the coming year!

As always, if you have any questions, or if you would like assistance in implementing your own campus-based default prevention initiatives, please contact [Mary Dyer](#).

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