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# High Default Rates Likely Driven By Student Turnover

**M**ore than 1 in 2 high defaulting large schools (defined as schools having a three year cohort default rate over 30% and more than 1,000 borrowers in repayment) had more borrowers entering repayment than then they had enrolled at the school. Several factors would seem to account for this:

\*Short program length (one year or less) combined with a high percentage of students who need to borrow. If each student borrowed at a school and the program length was one year then it would not seem unusual for the student body to turn over once per year. Of course, if all students completed the program then it would also be reasonable to expect lower default rates.

\*If a high percentage of students dropped out while in the program, which is usually a key driver of high default rates, then this relationship of high numbers of borrowers in repayment vs. enrolled would also be expected.

For comparison's sake, looking at the 43 proprietary schools with the lowest three-year cohort default rates, the average figure for borrowers in repayment as percentage of total enrollment was 64% or about half of the 125% for the 43 highest defaulting large schools.

As for reasons for high drop-out rates, a recent study from Public Agenda with support from the **Bill and Melinda Gates Foundation** found the stress of work and school to be too much for many students.



# TELS Frequently Asked Questions Insert

Starting with the 2010-11 academic year, TSAC will begin including an insert of frequently asked questions with Tennessee Education Lottery Scholarship (TELS) award notices. The insert will be included with award notices that will be sent in January.

The idea for the insert came from one of the TASFAA fall training sessions. Additionally, some TASFAA board members and other financial aid professionals reviewed the document and provided valuable feedback. Many thanks to those individuals.

The insert will include questions about the renewal requirements to maintain the TELS awards, the impact of dropping a course(s), and not maintaining continuous enrollment, among others. Once the insert is finalized, we will make an electronic copy available on [www.tn.gov/collegepays](http://www.tn.gov/collegepays). If you have questions, please feel free to contact Tim Phelps at (615) 253-7441 or [tim.phelps@tn.gov](mailto:tim.phelps@tn.gov).

## Contacting Student Loan Borrowers



R&B Solutions is contacting student borrowers with a TSAC guaranteed loan who have fallen behind on their student loan payments, are more than 60 days delinquent and could be facing default. R&B tailors a program to specifically reach a segment of the student loan population that will most likely need default prevention, default aversion and other debt management products and services. This is a best practices approach to achieving the goals and results desired by TSAC, as follows:

### Focus Schools (High Risk) Project:

TSAC will be working with R&B to identify the causes of a schools' high default rate, and assist schools in finding ways to halt that trend. Focus schools will be selected by the following criteria: a school's cohort default rating, number of student loan borrowers attending the institution, or the school's request for assistance.

Our target group is student borrowers currently enrolled as well as the school's alumni population. At the conclusion of each Focus School project, we will investigate the administrations reaction to our default prevention program and evaluate the program's effectiveness in assisting student borrowers.

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## TSAC Trains High School Mentors

In December, Jason Seay, Director of Outreach, traveled to Lauderdale County at the request of County Mayor Rod Schuh to train 89 mentors associated with the Southwest Tennessee Educational Pathways (STEP). Four one-hour trainings were conducted over a two-day span at Ripley Elementary School and Halls High School. Mentors consisted of local leaders from the business and education sectors. During training, mentors were taught the necessity of applying early for admissions and scholarships; given information regarding upcoming ACT/SAT test dates; and perhaps most importantly, learned how to assist others in completing the FAFSA. A final training will be conducted in January for the 37 additional mentors who were unable to attend a session in December. Modeled after the highly successful Ayers Foundation Scholarship Program, the STEP college access program is assisting students in ten southwest Tennessee counties in navigating the college admissions and financial aid processes and working to provide "last dollar" scholarships. The following counties are participating in the STEP initiative: Chester, Decatur, Hardeman, Hardin, Haywood, Henderson, Lauderdale, Madison, McNairy, and Tipton.





**Y**our help is needed to spread the word about the 2010 College Goal Sunday Program in Tennessee. We have flyers, posters, and brochures that you can distribute to schools, businesses, churches, and other organizations in your community. You may request any amount of materials by contacting Sarah Quinlan. You can contact her by email at [sarah.quinlan@TN.gov](mailto:sarah.quinlan@TN.gov) or by telephone at (615) 253-7461.

In other news, the 2010 CGS website has a new look. Check it out at [www.TN.gov/collegegoalsunday](http://www.TN.gov/collegegoalsunday). Volunteers are needed to staff the sites and we encourage you to go to the website to register as soon as possible. Likewise, students and parents are asked to go to the website as well and reserve their spot at a CGS site that is located closest to where they live.

**COLLEGE GOAL SUNDAY WEBSITE ADDRESS:  
[www.TN.gov/collegegoalsunday](http://www.TN.gov/collegegoalsunday)**

## 2010 College Goal Sunday Locations

ATHENS TN Tech. Center	CRUMP TN Tech. Center	LYNCHBURG Motlow State CC	NASHVILLE Tennessee State University - Avon Williams (Downtown) Belmont University
BLOUNTVILLE Northeast State CC	DYERSBURG Dyersburg State CC	MCKENZIE Bethel University	OAK RIDGE Roane State CC
CHATTANOOGA Chattanooga State CC	GALLATIN Volunteer State CC	MCMINNVILLE TN Tech. Center	WAVERLY Nashville State CC
CLARKSVILLE Austin Peay State University	HARROGATE Lincoln Memorial University	MEMPHIS LeMoyné Owen College Southwest TN CC - Macon Cove	WHITEVILLE TN Tech. Center
CLEVELAND Cleveland State CC	JACKSON Lambuth Univ.	TN Tech Center White Station High School	
CLIFTON Frank Hughes High School	KNOXVILLE Johnson Bible College Pellissippi State CC C.W. Cansler YMCA	MILLIGAN Milligan College	
COLUMBIA Columbia State CC	LEBANON Cumberland University	MURFREESBORO Middle TN State University	
COOKEVILLE Tennessee Tech. University			

# Three Year Cohort Default Rates

**L**ast week, in response to a legislative mandate, the US Department of Education released initial trial numbers of the new three year cohort default rates, which measure the percent of students per institution who default on their federal student loans within three years after entering repayment.

## Changes made by the Higher Education Opportunity Act of 2008

Section 436(e) of Public Law 100-315 expands the cohort default rate (CDR) window from two years to three years. Beginning in FY2012, the Department of Education will report the new three year rates. New benefits and sanctions associated with a school's official CDR will change beginning with the three-year rate published in FY2014. The only loans considered are the Federal Family Education Loan (FFEL) Program or William D. Ford Federal Direct Loan (Direct Loan) Program.

In order for a student loan to be considered in default, the loan must be in repayment with no payments made for 270 – 330 days: "...after a default has persisted for 270 days in the case of a loan repayable in monthly installments or 330 days in the case of a loan repayable in less frequent installments." (Federal Student Aid 2009).

**Table 1: National Increases in Cohort Default Rates  
FY2007**

Institution Type	2 Year CDR	3 Year CDR	Percentage Increase in Default Rates
Public	5.90%	9.70%	64%
2-year	9.90%	16.20%	63%
4-year	4.40%	7.10%	64%
Private	3.80%	6.5%	71%
2-year	8.70%	16.20%	86%
4-year	3.70%	6.30%	70%
Proprietary	11.00%	21.20%	93%
<b>Total</b>	<b>6.70%</b>	<b>11.80%</b>	<b>76%</b>

Source: Inside Higher Ed. Defaults Nearly Double (12/14/2009)

## National Three-Year Cohort Default Rates

Secretary Arne Duncan announced that the FY2007 national two-year CDR is **6.7 percent**; however the rate rises to **11.8 percent** when calculating the trial three year CDR. Default rates increased substantially across all sectors, most notably in Proprietary and Private 2-Year institutions. (See Table 1) The two-year rate represents an increase from 5.2 percent in FY2006.

According to the US Department of Education, the three primary drivers of default are loan interest rates, graduation rates and job placement rates. In FY2007, interest rates increased while job placement rates decreased. The federal 6.8 percent fixed interest rate in 2006-07 presented a substantial increase over previous years: 4.75 percent (2005-06) and 2.88 percent (2004-05). The FY2007 cohort also overlaps with the recession. The reduction in job placement rates would likely also have caused an increase in default rates.

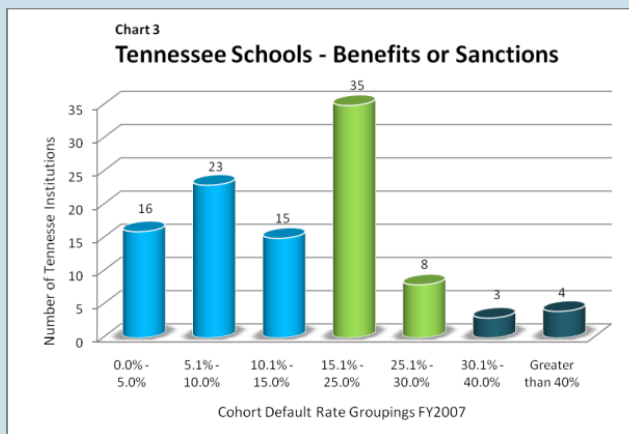
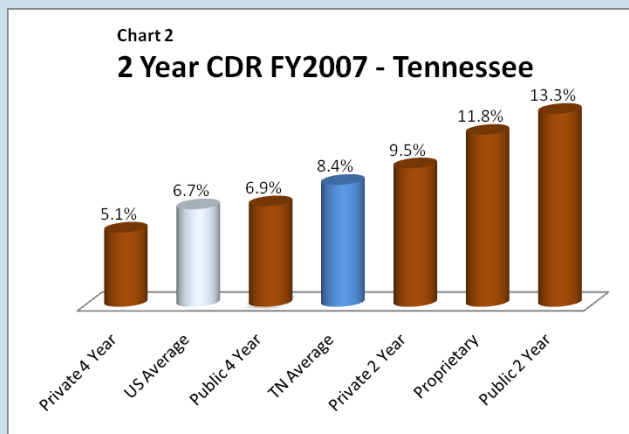
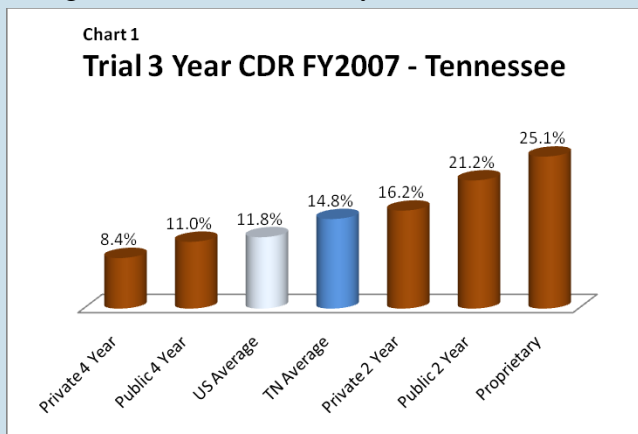
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# Three Year Cohort Default Rates (cont.)

## Tennessee Three-Year Cohort Default Rates

The official FY2007 two-year CDR for Tennessee is **8.4 percent**, 1.7 percent points higher than the national average. The trial three-year CDR is **14.8 percent**, 3 percent points higher than the national average. Similar to national averages, default rates increased substantially across all sectors, most notably in Proprietary and Public 2-Year institutions. (See Chart 1 and Chart 2)

According to data released by Federal Student Aid, most of Tennessee's institutions fall within average ranges. When calculating the trial three-year CDR1, seven institutions would be at risk of sanctions which include loss of federal loans and grants for two years. However, if the new threshold for benefits were applied this year, 15 new institutions would be eligible for increased flexibility in administering financial aid, such as offering federal loans for study abroad. (See Chart 3)



## What Can Institutions Do?

While the FY2007 CDRs were likely affected by increased interest rates and decreased job placements, the overall trend is that more institutions may be exposed to tougher sanctions beginning in FY2014. In order to monitor their individual progress, institutions may:

Compare the default and repayment status reports available through the National Student Loan Data System (NSLDS) with the school's own data at least once a month. This gives the institution a chance to identify and correct errors before the draft or official cohort default rates are released.

Read the publication *Ensuring Student Loan Repayment*, which describes best practices in default prevention. This can be downloaded from "Default Rate Materials" on the Information for Financial Aid Professionals (IFAP) website: <http://ifap.ed.gov>.

<sup>1</sup> The threshold for sanctions was increased from 25 percent to 30 percent. Similarly the threshold for benefits was increased from 10 percent to 15 percent.

# TSAC LOAN ADMINISTRATION

*I want to make you aware of some of the many Default Aversion activities which are currently in place at TSAC for our schools and lenders partners, and student borrowers that we all represent to aid them in the prevention of a default. I asked Cathy Jones and Bill Heath to work with me to assist our schools in identifying additional ways to prevent defaults, and to help schools who are experiencing higher default rates to reduce their default rates.*

*Remember to feel free to contact TSAC with your questions, experiences and ideas.*

*Jane Pennington  
Associate Executive Director for Loan Administration*



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## Contact Information for TSAC Lender Partners

The Tennessee Student Assistance Corporation's (TSAC) bankruptcy servicing processes are moving from the Jacksonville, FL office to our Denver, CO office. Beginning Monday, January 18, 2010, all TSAC bankruptcy related documentation should be mailed to:

TSAC Bankruptcy Department  
NGS  
P.O. Box 173695  
Denver, CO 80217-3695

Phone and email inquiries should be directed to:

Tavy Prark  
Bankruptcy Analyst  
Phone - 303.696.3653  
Email - [tavy.prark@guarantorsolutions.com](mailto:tavy.prark@guarantorsolutions.com)

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## Fiscal Year 2008 Cohort Default Rate Calculations

**T**he Department of Education will be calculating the draft fiscal year 2008 cohort default rates for FFELP and the Direct Loan Program on Jan. 2. These draft rates will be released on Feb. 15.

They will calculate the official fiscal year 2008 cohort default rates on July 31, 2010, and release those official rates on Sept. 13.

NOTE: All corrections or changes that might affect the draft and official FY rates must be submitted prior to the appropriate calculation dates. For assistance with these reviews, please contact Cathy at [cathy.l.jones@tn.gov](mailto:cathy.l.jones@tn.gov) or Bill at [bill.heath@tn.gov](mailto:bill.heath@tn.gov).



# NCHELP School Loan Issues Webinar

**T** SAC schools are invited to register today for part two of NCHELP's webinar series on the final regulations package issued in late October being held on January 21, 2010, from 1 – 3 p.m. Eastern. This webinar will focus on school loan issues (Team II) that were included in the negotiated rulemaking sessions that took place earlier in 2009. The new regulations implement changes brought about by the Higher Education Opportunity Act (HEOA). The webinar will be presented by members of the NCHELP Regulations and Private Loan Committees. These regulations impact both FFELP and private loans and we encourage NCHELP members to invite their school clients to this webinar.



[Register](#)

This presentation will begin on January 21, 2010 at 01:00 PM Eastern Standard Time. Audience members may arrive 15 minutes in advance of this time.

**Moderator:** **Vicki Shipley,**  
Senior Advisor,  
National Council of Higher Education  
Loan Programs, Inc.

**Speakers:** **Beryl Schantz**  
Sr. Policy & Regulatory Analyst  
EdFund

**Dan Rodgers**  
Manager of Compliance Training & Investigations  
Nelnet Guarantor Solutions

**Sheryl Ross-Mahoney**  
Policy Advisor  
USA Funds

**John Parker, Ph.D.**  
Director Community Svs. And Education Research  
Iowa Student Loan Liquidity Corporation

**Walter Witthoff**  
Senior Vice President and Chief Compliance Officer  
Iowa Student Loan Liquidity Corporation

Beryl Schantz, Senior Policy & Regulatory Analyst at EdFund, Dan Rodgers, Manager of Compliance Training & Investigations at Nelnet Guarantor Solutions, and Sheryl Ross-Mahoney, Policy Advisor at USA Funds, will highlight recent statutory and regulatory changes that may impact the school's cohort default rate. They will also share information on preferred lender arrangements, outline the requirements for a school's code of conduct, and clarify when a lender or guarantor may provide entrance counseling.

John Parker and Walter Witthoff will offer a lender's perspective on the impact of the recent amendments to Regulation Z on school private education loan activities. This will include an overview of the changes, a review of the definition of creditor, and an analysis of what constitutes a private education loan including any regulatory exemptions from that definition. John Parker, Ph. D., is Iowa Student Loan's director of community services and educational research. John was dean of student financial aid services at Drake University and is a former chairman of NASFAA. Walter Witthoff is senior vice president at Iowa Student Loan and its chief compliance officer.

# Contacting Student Loan Borrowers (cont.)

## Default Aversion Counselors:

Default Aversion Counselors at R&B have taken on the role of trusted intermediaries and facilitating thousands of conference calls in 2009 between student borrowers and lenders. During the conference calls, the counselors work with student borrowers who have financial hardships and find it difficult to achieve steady successful repayment. Many student borrowers have encountered periods of unemployment or underemployment, face foreclosure on their homes, and are experiencing overwhelming credit card debt. 136,465 forbearances and 21,755 deferments were processed this calendar year in an effort to temporarily provide payment relief for student borrowers.

In working with one TSAC school recently, *Default Aversions Counselors were successful in curing 21 of 103 student loan borrowers in the amount of \$100,946. This represents a 20.58% cure rate of the total number of borrowers assigned to R & B's Default Aversion Program in the month of November 2009.*

## Direct Mail Solutions:

R&B has mailed a variety of information to different target audiences in an effort to introduce default aversion services and programs. In the year 2009 they sent out 155,367 direct mail documents and 158,792 voice broadcasting alert telephone messages to TSAC borrowers. They made 2,661 telephone calls high-risk student TSAC borrows to share information on the new Income Based Repayment (IBR) opportunities.

## Location Activity

Sixty five percent of the borrowers who default on their student loans cannot be located during some point in the lifetime of the loan. Twelve to fifteen percent of the accounts submitted for default aversion assistance do not have a valid phone number. Location Specialists have found new demographic information for over 7,000 borrowers which reduced write-off cost and increased profitability through the use of traditional, high-tech and on-line skip-tracing skills. This new information was shared with TSAC and the lenders. It also has many potential uses in areas such as initiating target group strategies, economic studies and default prevention solutions. Location Specialists are dedicated to gathering the most accurate information and disseminating the resulting data to TSAC, the lender, and the school who will most benefit from its use. The Location Specialists located 10 borrowers out of 32 for a success rate of 31% in November, 2009.

## Field Representative

Information disseminated during Entrance and Exit Counseling Sessions may not always meet the borrower's needs. More programs developed on a student level, with unconventional boundaries are needed. The Field Visit Service helps to fulfill this need in Tennessee and provides a comfortable environment for borrowers to meet with a knowledgeable person who is prepared to take the time to answer all questions and listen to concerns.

The Field Representative meet students at convenient locations in Tennessee (home, school, work) and introduces practical default prevention and aversion methodologies that will help build an infrastructure that supports the borrower, lender, and school. Ninety two percent of their visits contribute to a positive default prevention solution. Their interaction leaves borrowers with a clear vision and agreement on the steps for avoiding default. The representative works flexible hours to include weekends, nights and holidays because that's often the only time the borrower is available.

The Field Representative visited and counseled 13,416 student borrowers. Many of you have probably met the R&B Field Service Representative, Bob Hobart, at various conferences and workshops. Bob has facilitated financial literacy and debt management workshops at many Tennessee schools including Tennessee Tech Center, Christian Brothers University, Tusculum University, Roane State, and Columbia State. Before joining the R&B staff, Bob was the Director of Financial Aid for the Draughons Colleges in Tennessee and Kentucky. He has extensive experience with preparing and facilitating financial education workshops and instructing students on how to improve their financial management skills.