

Preliminary VFA Initiatives and Results



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Dear Colleague:

On behalf of the members of NASLA (National Association of Student Loan Administrators), I am pleased to provide this report on our activities and progress under our individual Voluntary Flexible Agreements (VFA) with the U.S.

Department of Education. NASLA was created to ensure consistent, reliable, and cost-efficient delivery of student loan services over the life of the loan through:

- Serving as 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 standards

NASLA's members are American Student Assistance (ASA)[®], Great Lakes Higher Education Guaranty Corporation (GLHEGC) and Texas Guaranteed Student Loan Corporation (TG). Each of these agencies has designed and implemented specific VFAs that promote the above principles and better serve our public purpose missions.

Our three organizations have combined efforts to create this report, *Preliminary VFA Initiatives and Results*, which outlines the many customer-focused similarities that infuse each VFA, as well as the unique and innovative techniques that distinguish each agreement.

NASLA is committed to an open process and open communications. We welcome your comments, suggestions, and feedback.

Sincerely,

Paul Combe
NASLA President

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Introduction

Since the inclusion of Voluntary Flexible Agreements (VFAs) in the 1998 Reauthorization of federal financial aid, much has been speculated about the purpose of VFAs and their effect on the student loan industry. American Student Assistance (ASA), Great Lakes Higher Education Guaranty Corporation (GLHEGC) and Texas Guaranteed Student Loan Corporation (TG) (three of four guarantors who have entered into VFAs with the U.S. Department of Education) have published this report to inform our industry partners of the positive role VFAs can play in the student loan process. VFAs provide guarantors with the ability to experiment with new ways to both better serve borrowers and finance these enhanced services.

This report is the first in a series that seeks to:

- Outline the concept behind VFAs;
- Describe the current activities and goals of this public purpose initiative;
- Present preliminary results of VFA-related campaigns; and
- Forecast future VFA initiatives.

We hope that this report will give you a better understanding of the VFA initiatives, and why we believe the successful features of these models will impact the guarantor's role, standards of service and financing. Although our VFAs are still in the infancy stage, we are excited by the early results of our efforts and want to share them with our colleagues. Working together, we are confident we can shape the future of student lending and enhance the process for all participants – borrowers, schools, lenders, servicers and guarantors, as well as the U.S. Department of Education (hereafter referred to as ED).

Overview

What is a VFA?

Established by the Higher Education Amendments of 1998, VFAs are Voluntary Flexible Agreements between a Federal Family Education Loan Program (FFELP) guarantor and the U.S. Department of Education. These “new 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” (*Interim Report to Congress: Impact of VFAs in the FFELP*, U.S. Department of Education). VFAs revise the standard agency agreements and allow the waiver or modification of certain federal statutes and regulations.

Why are VFAs needed?

We all know the student loan industry is complex – and that’s from the perspective of professionals who live and breathe student loans every day. The sheer number of entities involved in the life of one loan – the school, the lender, the servicer and the guarantor – can be dizzying to the borrower. Combine that with federal statutes and regulations that often cause crossover efforts and redundancies, the need for change quickly becomes apparent.

The acceptance of the FFELP by financial markets, growth of national banking and extensive use of technology have changed the services demanded from guarantors. These factors have affected the role of the guarantor in the FFELP process and have been the impetus for our moving from the old “insurance” model to a “service” model. Additionally, today’s student loan borrower demands top-quality service. Mature borrowers in repayment or seeking career changes through distance education, as well as traditional-age students who are fully Internet-savvy, have little patience for typical Monday through Friday, nine to five business hours and an abundance of red tape. While much has been done to streamline the student loan origination process, fewer measures have been taken to improve default prevention and collection efforts over the life of the loan.

In fact, the standard “insurance” model no longer fulfills the original purpose of FFELP guarantors – to insure student loan lenders (and ultimately the Department) against losses through default. Incentives under the insurance model do not consistently promote the best interests of both the borrower and ED. An analysis of the most recent rankings of the nation’s guarantors by the Department, based on the

“Imagine being a delinquent borrower receiving a due diligence call from a servicer and literally 15 minutes later receiving a call from the guarantor. This scenario plays out far too frequently across the student loan industry.”
GLHEGC

percentage of defaulted loan net revenue returned to it, shows that, in many cases, defaulted loans are being transferred to ED through consolidation rather than actually returning proceeds to ED from the collection of funds. While consolidation does take the loan out of a defaulted status, moving a defaulted loan from the FFEL portfolio to the Direct Lending portfolio does not result in collected money returned to ED. Instead, ED receives no immediate reimbursement for these loans, and in fact the Department, after paying a fee to the guarantor for its efforts in processing the consolidation, must continue to collect the now consolidated loan.

While there may be benefit to the borrower as a result of a lower interest rate, the use of the income contingent repayment option and a longer payoff term, the return to ED may not be realized as quickly.

“It is clear that the standard incentives used to finance guarantors do not provide an optimum benefit for students or the Department of Education,” explains Paul Combe, ASA President and CEO. “The proposed fee structure change put forth by the VFAs better supports our public purpose.” *

During the six months ended March 31, 2002, 35.6% of GLHEGC’s total post-default recoveries were related to loan rehabilitations. This compares favorably to the industry average of 6.5% during the same period. GLHEGC was able to achieve this level of success with the rehabilitation program by waiving the 18.5% collection cost assessment allowed under the statute at the time of rehabilitation. GLHEGC also modified its post-default collection vendor commission fee to align the available incentives with GLHEGC’s rehabilitation philosophy. Additionally, ASA has implemented its *Bright Beginnings* program, which focuses on the defaulted borrower as customer and on rehabilitation as the best “win” for ED and the borrower.

*Figure 1: VFA Guarantors’ Recovery Efforts

Agency	Regular & Other	Administrative Wage Garnishment	Treasury Offset	Rehab	FFEL Consol	Direct Consol	Total Net Revenue to ED	% of Begin Inventory
All other GAs	421,761,883	149,331,097	381,584,293	201,344,326	149,471,281	(396,757,635)	906,735,194	6.42%
TG	39,262,439	23,735,543	24,589,926	11,790,642	50,189,586	(12,158,209)	137,409,927	14.43%
GLHEGC	23,819,140	7,259,885	23,154,810	30,725,416	4,359,524	(7,999,073)	81,319,702	14.35%
ASA	30,612,450	3,619,158	29,800,118	10,937,885	7,517,306	(2,434,549)	80,052,369	13.23%

Reformatted from FY2001 Guaranty Agency Recovery Totals

An examination of guarantor rankings as determined by ED, eliminating those methods that do not return funds directly to ED, shows that the VFA guarantors are most successful in their collections efforts. The data also reflects GLHEGC’s full-scale efforts to help defaulted borrowers return to good standing through loan rehabilitation.

Public Purpose

Prior to the recent decline in the national default rate, student loan defaults reached their highest level in the 1980's, drawing national attention and the taxpayers' ire. Higher default rates meant federal financial aid eligibility problems for schools and higher costs for the government – yet no positive, student-centered incentives were put into place to proactively combat delinquency and default. In fact, under the standard guaranty agency model, guarantors receive more monetary compensation for defaulted loan collection than default prevention. All three of these VFAs approved by ED realign the guarantor fee structure, and incorporate performance measures that make it financially possible for the guarantors to focus on default aversion. Lower student loan default rates benefit all FFELP participants. VFAs allow guarantors to better fulfill an important public purpose of helping borrowers successfully complete a program of education financing *and* repayment.

While it is still too early to conclusively assess the success of these agreements and their impact on the industry, initial results of default prevention campaigns by ASA, GLHEGC and TG are very promising and point toward the value of the VFA as a model for all guarantors.

Benefits To The Industry

VFAs represent a “win-win” situation for all FFELP participants, as well as the general public. VFAs mean:

- Opportunity for exemplary credit for the borrower.
- Borrowers are treated as customers, with respect.
- Schools avoid cohort default sanctions.
- Supplemental support and services for the convenience of lenders and servicers, such as the segmentation of partners’ portfolios to identify at-risk populations and the crafting of tailored messages to borrowers.
- Lower costs to lenders and servicers by avoiding unnecessary preclaims data and paperwork transfers and reducing due diligence requirements.
- Automatic, no risk claims process that will speed reimbursements to lenders and servicers.
- Money savings for lenders, taxpayers and the federal government.

Common Goals and Activities

As mentioned previously, the ASA, GLHEGC and TG VFAs implemented thus far shift the guarantor's historical focus from collections to keeping student loans in good standing. Indeed, these three VFA agreements share many similarities, such as the proposed modified fee structure and return of reserves, changes in company organization and strengthened industry partnerships. However, differences do exist in the methods each organization employs to achieve these common goals. This report will detail the various steps each agency is undertaking to bring about success.

Borrower as Customer

The value proposition of guarantor as service provider, rather than predominately a collector of defaulted student loans, is a central theme of the three VFAs. Guarantors have long standing customer relationships with schools, lenders, servicers and borrowers in the beginning stages of applying for a loan. Historically, guarantors have had limited formal contact with borrowers in repayment unless the borrower had reached the critical point where default was imminent.

To successfully return defaulted loans to a healthy status or prevent default altogether, guarantors with VFAs are exploring ways to form positive, trusting relationships with borrowers at all stages of the loan process.

Culture Change and Business Reorganization

Proper outcome-based incentives to prevent defaults as provided in the VFAs enhance guarantor focus on the borrower as a customer. As a result of the VFAs, the agencies make or continue to make internal cultural changes to exact external service improvements. A corporate mentality that placed the borrower first, regardless of payment history and personal circumstances, was instrumental to future success.

To this end, GLHEGC has taken steps to enhance borrower counseling and assistance by improving the hiring and training of its customer service staff. The guarantor has implemented measures to better identify those account representatives who are best able to work effectively with customers, and trains its account representatives to work together with borrowers to avert default. GLHEGC has instituted a training program at orientation, a review six months from

the date of hire, and advanced representative training for its Customer Response Team. As a result of these efforts, the agency reports improved scores on internally created Customer Service Review tests, increased representative retention, better morale and an increased knowledge base that leads to a higher loan cure rate and less defaults.

TG has included performance measures directly related to its primary VFA deliverables in its corporate goals. Performance against these measures is directly tied to employee compensation. TG had instituted other performance-based initiatives well before its VFA, thus positioning it well to propose and implement a performance-based VFA model.

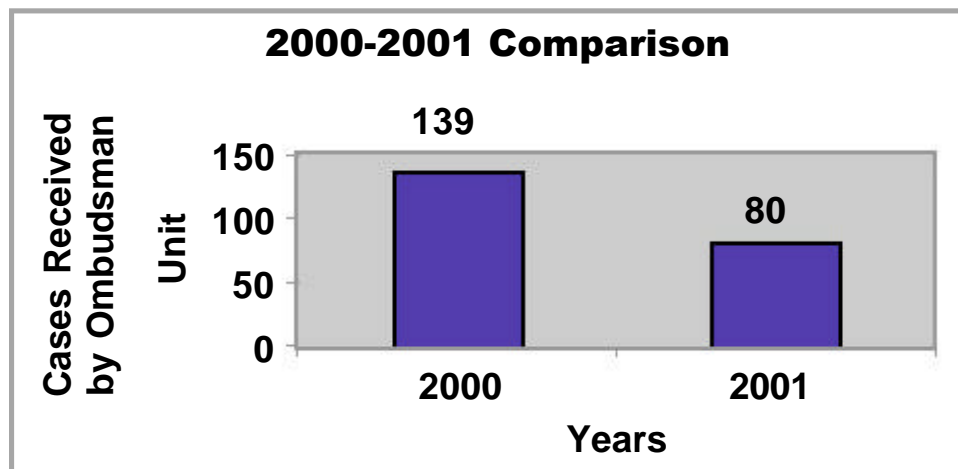
The tie between performance results and the manner in which the Department of Education compensates TG has caused TG to focus its drivers impacting success rate. Deviations from expected monthly performance are closely monitored, and strategies to address any problems are dealt with in a more immediate fashion. In regards to default aversion, this has resulted in more regular dialogue with servicers about cure rate and cure type trends specific to each servicer.

In addition to changing the corporate culture, organizational changes were made to better reflect the core values of the customer-centric organization. For example, ASA created the position of Ombudsman. Longtime financial aid professional Grace Bartini stepped into this role that seeks to not only resolve individual cases, but also to look for ways to improve culture, operations and policies at ASA, as well as relationships with other agencies. To that end, ASA created a Borrower Services division, and within that a Borrower Advocacy Unit charged with resolving customer disputes and Congressional inquiries. By integrating the work of the Borrower Advocacy Unit with the resolution capability of Payment Advisors (formerly known as collectors), dispute solutions and customer service efforts can be implemented transparently across departmental lines. The end result is that resolutions are achieved with individuals working in close proximity to one another, ensuring greater consistency.

“Much progress has been made in 2001 in our efforts to develop a core competency in resolution solutions,” relates Bartini. “We have had success in all areas of our work, including our case resolutions, the decline in our cases with the National Ombudsman, our continued cultural change to be thoughtful about resolutions and proactive in our work, and our restructuring of the Borrower Advocacy Unit. Last year, we articulated the need to weave this core competency into the fabric of our culture and we see evidence of this achievement daily. Looking ahead, we must be vigilant in our desire and commitment to build on these successes, to hone our skills, to create better resolutions for borrowers, and to change the face of the student loan industry.”

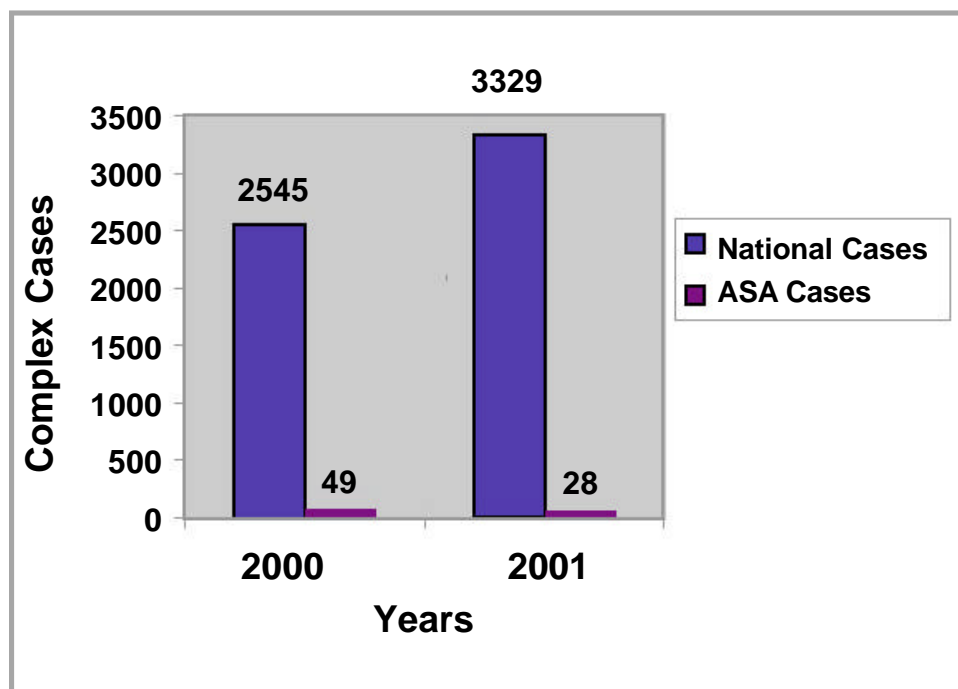
When ASA and servicer AFSA conducted a pilot to proactively contact borrowers entering repayment, the results were positive. 31% of the borrowers welcomed the information on repayment options. Reactions ranged from “happy we called” to “very receptive” and “expressed gratitude.”

Figure 2: Cases Received by ASA Ombudsman



28% of borrowers contacted during an ASA/AFSA VFA experiment were interested in having their loan payments automatically deducted from their checking or savings accounts.

Figure 3: National vs. ASA Complex Cases Received



Data Integrity

Greater data integrity will prove to be increasingly instrumental as guarantors move to a more service-oriented role under the VFA. Customized outreach programs and higher levels of person-to-person contact are made possible by accurate data. For example, in a move aimed at gaining enhanced data integrity, TG has implemented a trial program that provides the guarantor with access to certain federal databases. ASA and TG are in a pilot program that provides guarantors access to the National Database of New Hires (NDNH) and as such have successfully received the first set of matches. TG will receive another set of matches at the end of August 2002 and then plans to shift to a quarterly exchange.

“We hope to use the NDNH to update our existing records, which will result in a higher location and contact rate for borrowers who have entered the working world,” says Sue McMillin, TG Senior Vice President, Business Operations.

Borrower Outreach

Research suggests that at least 7% to 10% of all defaults are technical in nature and could have been cured early with the right contact. All three of the VFAs include innovative techniques for proactively educating borrowers through early awareness initiatives and outreach campaigns. As ASA President Paul Combe explains, “With the right information at the right time, no student borrower working in good faith should default.”

Each VFA guarantor is currently exploring best practices in borrower communication. The tactics employed in each campaign vary, ranging from modern means of communication such as email to more traditional vehicles like direct mail, or a combination of both. GLHEGC has achieved favorable results with its Proactive Forbearance initiative, which is intended to assist borrowers in the later stages of delinquency that the guarantor could not contact. The GLHEGC guaranty system automatically identifies those borrowers who have not previously used two years of forbearance. These borrowers then receive a GLHEGC packet that contains a forbearance agreement, along with a cover letter that explains the forbearance process and the importance of contacting the guarantor with any questions or concerns.

“Proactive forbearances take the burden off of the borrower to contact us, and make it easy for them to prevent default,” explains GLHEGC President and CEO Dick George. “Sometimes delinquent borrowers are overwhelmed by debt, too paralyzed to reach out to their creditors for help. Or, they may not even realize they have forbearance options.

Figure 4: GLHEGC's Proactive Forbearance

Initiatives	Performance Measures	Baseline	Results
Proactive Forbearances	Increase in cure of accounts without contacts	12% response rate	The actual response rate exceeded 15% as of May 31, 2002

This mail campaign targets those specific borrowers, educates them on their repayment choices and streamlines the forbearance application process.”

Early statistics have been positive. “Proactive forbearances have resulted in an increased percentage of accounts that are cured without any other contact,” adds George.

Not all outreach campaigns implemented under a VFA are aimed at preventing default. With the goal of increasing the number of healthy loans within its portfolio, ASA launched a *Bright Beginnings* experiment that sought to put defaulted borrowers back on the path to fiscal wellness by promoting loan rehabilitation. With BB, ASA used modern relationship-building marketing techniques to offer defaulted borrowers a new start and increase the number of healthy loans in its portfolio.

For example, ASA specifically designed *Bright Beginnings* packets to be friendly and visually appealing. Colorful graphics and easy-to-understand text combined to put the borrower at ease and make rehabilitation an attractive alternative. ASA added to the personalization of the campaign by designating specific Payment Advisors as *Bright Beginnings* representatives. Follow-up mailings to those borrowers who agreed to pursue rehabilitation included handwritten notes and words of encouragement from *Bright Beginnings* advisors.

“Treating the borrower as a customer and adjusting communication methods accordingly evoke a positive response,” points out Shari Meehan, Vice President Wellness Strategies, ASA “Borrowers react favorably to modern methods of communications utilizing plain English, color, graphics and attractive formats.”

“We received a 15% response rate from borrowers who received a forbearance form sent at our initiative rather than in response to the borrower’s request.”
GLHEGC

So far, *Bright Beginnings* packets outlining the benefits of rehabilitation have been mailed to 2,585 defaulted borrowers (representing 4,391 borrower accounts) who had made no payment for 45 to 90 days. The first mailing went out in November 2000. The campaign achieved a total response rate of 36% or 863 accounts, with an acceptance rate of 14%. More than 90% of the borrowers who responded said “yes” to rehabilitation.

Each mailing or outreach effort increased the numbers of borrowers who entered *Bright Beginnings*. Successive communication attempts, in the forms of second “dual message” and “last chance” mailings, raised the *Bright Beginnings* participation rate on average by an additional 19%. As of this writing, more than 50% of the borrowers who said “yes” to BB have made or are still making the qualifying consecutive monthly payments.

TG undertook a mass mailing on an even larger scale in December 2001 when the agency reached out to approximately 450,000 borrowers with an informative repayment packet. The mailing was developed to educate borrowers on the TG resources available to assist them in successfully repaying their student loans. The mailing was sent to borrowers with a status of Deferment Half Time, Deferment Economic Hardship, Deferment Full Time, Deferment Unemployed, Forbearance, Grace, Grace Assumed, School Confirmed or School Assumed. The mailing included:

- A letter from TG President Milt Wright;
- A two-sided flyer featuring TG’s new default prevention poster that includes a description of the Web sites and call centers available to assist them (Adventures in Education, TGWorks™, JobGusher.com™, TG Default Prevention, Mapping Your Future and the Texas Financial Aid Information Center); and
- A JobGusher.com insert. (JobGusher.com is an online recruitment service dedicated to connecting high school and college students, as well as recent college graduates and graduate students, with employers offering full-time and part-time entry level positions, internships, seasonal and temporary work, and other career opportunities. JobGusher.com is a service of TG’s wholly owned subsidiary, Education Assistance Services, Inc.).

“As a result of the mass mailing, TG’s inbound phone call volume from borrowers to default prevention counselors rose dramatically,” details Sue McMillin, TG Senior Vice President of Business Operations, “with 650 calls received on one day alone.”

***25% of borrowers
contacted during an
ASA/AFSA VFA pilot were
interested in learning
about deferments.***

Industry Outreach

Guarantors currently operating under VFAs have not only proactively reached out to borrowers, they have also made a concerted effort to inform their industry partners. ASA, GLHEGC and TG all participated in the first-ever National Default Prevention Day on August 1, 2001. Additionally, all three agencies have facilitated individual events aimed at spreading the word about the importance of default prevention.

TG has been a true vanguard in this respect. The guarantor organized and continues to sponsor the Council for the Management of Educational Finance, a group comprised of representatives from schools, lenders and secondary markets. The Council provides a forum to organize cumulative industry knowledge into initiatives to lower school cohort default rates. Most recently, Council members have renewed their commitment to working with TG on its VFA, especially as it relates to pre-delinquency efforts. The Council has established a separate subcommittee to work with TG to develop VFA strategies.

In conjunction with the Council, TG conducted a partnership forum at Texas A&M University - Kingsville in January 2002. Over 50 school, lender and servicer representatives attended to discuss how default management at the school is a group effort and the roles that the various participants play in reducing the cohort default rate.

In May 2001, more than 80 financial aid professionals attended the TG-sponsored National Summit of Councils on default prevention. TG invited many of the industry's leaders in the areas of default aversion and debt management.

TG is also working with the student loan community through a series of professional development workshops for TRIO administrators at colleges. Established by Congress, TRIO Programs help low-income Americans enter college, graduate and move on to participate more fully in America's economic and social life. TG representatives presented *Effective Loan Counseling and Debt Management* several times throughout 2001, and will continue to offer the series in 2002. The popular workshop has been warmly received: "The workshop was great," raved one workshop attendee. "I started using what I learned the very next day."

In 2002, ASA transformed its annual conference into an interactive symposium. More than 250 school, lender and servicer attendees discussed a wide range of topics affecting student loans and repayment. Attendees proactively participated by joining in workgroup discussions to identify challenges and appropriate solutions in teaching students how to successfully finance an education. The ideas and feedback gathered at the three-day event were recorded and a public policy paper, which is available at www.amsa.com, was published industry-wide in Spring 2002.

"At TG, we have certainly found that working collaboratively helps us address the needs of students, schools and lenders more effectively. By providing a forum to share our experiences and success stories, the National Summit magnified the strength of our efforts to reduce student loan default rates."
TG

Products and Services

As a result of their VFA signings, ASA, GLHEGC and TG have all launched new products and services designed to streamline the student loan process and establish better contact with borrowers in an effort to reduce default rates. Many of these products and services utilize the latest technology, such as the Internet and email, to simplify the student loan experience for borrowers, schools and lenders.

For example, from the convenience of their home computer, borrowers will soon be able to enter into online “Web chats” with GLHEGC account representatives. The GLHEGC Web site will be enhanced to provide borrowers with a “click-to-call” option. This will allow GLHEGC to initiate a call to a borrower at the borrower’s convenience. Additionally, GLHEGC will soon offer student loan payment processing over the Internet and telephone.

ASA Direct®, ASA’s student loan Internet tool, gives borrowers, schools, lenders and servicers real-time access to every ASA-guaranteed loan. A “window” onto ASA’s own guaranty system, ASA Direct gives users the ability to update information, certify applications, check loan statuses and disbursement dates and download reports. Visitors to ASA’s corporate Web site can also now receive online help from ASA representatives. Using the interactive “Ask ASA” page, visitors can choose the description that best describes them (“I am a borrower, school, lender, etc.”) and email specific questions to ASA. The email questions are directly routed to key customer service associates throughout ASA, who respond to all questions within 24 hours.

“More and more of ASA’s clients are turning to the Web for convenient and easy solutions, such as ASA Direct,” said Shelley Saunders, ASA Borrower Services Vice President. “Internet-based, customized customer service is essential to today’s technologically savvy student loan consumer.”

TG has also taken full advantage of the rising popularity of the Internet to connect positively with all of its customers. The agency developed *Adventures in Education* (AIE), a Web site devoted to students and families that provides resources regarding college awareness and default prevention. AIE contains information for students of all ages, from middle school to college, as well as for the high school counselors who help them. Established in August 1995, AIE was one of the first sites on the Internet dedicated to helping students and families achieve their higher education dreams. While AIE’s implementation was pre-VFA, TG’s new focus on proactively educating borrowers about college financing helps the agency better allocate time and resources to this important initiative.

***14% of borrowers
contacted by ASA and
AFSA were interested in
prepay and payoff options.***

On its corporate site, TG developed a new Internet tool that makes it easier for borrowers to determine their eligibility for deferments. The tool allows the borrower to select a statement that best describes his/her situation in the event the borrower must temporarily postpone student loan repayment. The borrower can view online descriptions of deferments, a list of qualification requirements, and the option to read, complete, download and print the deferment form. TG default aversion counselors now use this tool during conversations with delinquent borrowers.

In October 2001, TG's wholly owned subsidiary, Education Assistance Services, Inc. (EAS) launched JobGusher.com. JobGusher.com is an online recruitment service dedicated to connecting high school and college students, as well as recent college graduates and graduate students, with employers offering full-time and part-time entry level positions, internships, seasonal and temporary work, and other career opportunities. JobGusher™ statistics showed nearly 385,000 successful site hits in its first three weeks of operation alone. TG collectors and default prevention counselors discuss this new online job service as a possible delinquency and default prevention measure when dealing with borrowers who may be looking for work. The agency also sent out a targeted mass mailing to a sector of its borrower base to educate them about the features of JobGusher™.

***17% of borrowers
contacted during an
ASA/AFSA VFA experiment
wanted information about
loan consolidation.***

“For more than two decades, Texas Guaranteed has focused on providing students and families with resources to achieve their educational and career dreams,” declares Milt Wright, TG President and CEO. “Providing resources for job seekers is the logical, next step in fulfilling our vision. For us, JobGusher™ is not only a great service; it's also one of the tools we can offer to students to help them avoid defaulting on student loans. Helping students get jobs helps them repay debt and support themselves while in school.”

Innovative products and services are also being produced for the guarantors' institutional customers. The TG program Achieving Systemic Default Aversion (ASDA) provides schools with direct technical assistance and support services, such as developing campus-wide default management teams and default prevention plans. TG also offers marketing services – in conjunction with its Council for the Management of Educational Finance, the agency designed a default prevention poster for schools that features a crocodile with the tag line “Bad Credit Bites! We Won't.”

Enhanced Default Aversion

At the heart of each of these VFAs is the intent to reduce the frequency of defaults by improving the entire preclaims, claims and collections process. In the initial phase of its VFA, GLHEGC has made great strides in the areas of default aversion and claims examination. The guarantor's Claims team has successfully implemented the Certified Compliant Servicer (CCS) model designed to streamline claims examination and provide improved customer service to lenders, servicers and borrowers. Under the CCS model, GLHEGC employs a post-claim sampling review process consistent with generally accepted auditing standards to replace the manual claim-by-claim review process. This procedure is comparable to the Blanket Certificate of Guaranty initiative that some feel has revolutionized the front-end of the student loan process throughout the industry. GLHEGC claims examination staff have also moved from verifying the lender's/servicer's performance of required collection activities for each claim filed to proactively identifying additional default aversion activities that the guarantor can perform prior to claim payment.

Now GLHEGC is moving into the next area of focus for its VFA – the Shared Due Diligence model. This new initiative is designed to eliminate process overlap and ensure that guarantors and lenders/servicers perform only value-added activity.

"This duplication of effort is not only costly to program participants but is confusing to the borrowers," says Dick George of GLHEGC. "GLHEGC plans to enter into agreements with lenders and servicers that will specify which entity will perform each of the required activities. In this way, the guarantor hopes to eliminate the current duplication of effort while at the same time improve the effectiveness of the coordinated approach."

Aggregate results of the various new models will be released once definitive data is available. Initial research indicates that the most workable model will have GLHEGC's staff conduct all collection calls after 60 days of delinquency. Participating servicers may perform all required activity through day 60 and all required telephone and address skip tracing activity. They may also be responsible for all required lender/servicer letters.

To ensure effective and efficient use of staffing under the Shared Due Diligence, GLHEGC has created a Borrower Profile Model that identifies those characteristics most predictive of defaulted borrowers. Characteristics include:

- School type — public/private, nonprofit, private for profit (proprietary)

Specifically, GLHEGC has seen a 20-25% increase in auto dialer capability, and a 14% increase in right party contacts.

- Total amount guaranteed
- Borrower age
- Total number of requests for collection assistance
- Degree code

Building on the data obtained during the development of the model, GLHEGC is in the process of developing a model that will assign a “score” to each delinquent borrower. This will allow GLHEGC to align its default aversion strategies with the scoring model. As a result, GLHEGC will be able to direct more resources to borrowers who had a significant amount of interaction with account representatives and fewer resources to borrowers who are likely to resolve their delinquencies with little interaction.

GLHEGC has also improved upon the traditional methods of contacting borrowers to avert default. In addition to adding weekend calling hours, the agency installed a predictive dialer platform and “right party contact” software that uses past calling history to identify the right time to reach borrowers. Automated messaging, another feature of the new dialer platform, leaves an automatic message for the borrower when the autodialer reaches an answering machine. Since the new system’s implementation, borrower contacts have risen and the time GLHEGC account representatives spend leaving messages has decreased.

Email has been another successful alternative for contacting borrowers. ASA found that 42.5% of *Bright Beginnings* recipients had access to email and willingly gave this information, including best times to contact them, when requested. GLHEGC now attempts to contact seriously delinquent borrowers via email if telephone contact attempts are unsuccessful.

The VFA guarantors are also experimenting with traditional methods of contact, such as skip tracing and regular mail. Skip tracing continues to be an important part of a guarantor’s default prevention activities. In TG’s continuing effort to gain efficiencies in skip tracing strategies, the guarantor’s Borrower Locate team began running a night shift.

Using regular mail, GLHEGC now notifies the borrower when a default claim is received and loaded into the GLHEGC system. Mailed in a uniquely designed envelope, the letter details the adverse consequences of default and encourages the borrower to contact the guarantor immediately for assistance. GLHEGC reports that the letter has been successful in prompting borrowers to contact the agency.

Nearly 22% of GLHEGC accounts now contain e-mail addresses.

Figure 5: GLHEGC VFA Initiatives

Initiatives	Performance Measures	Result	Lessons Learned
Proposed Shared Due Diligence Model		Lenders/Servicers will perform all required activity through day 60; GLHEGC will conduct all collection activities after day 60	Eliminating process overlap improves effectiveness
Sunday Evening Hours (5-9 p.m.) Monday-Saturday Morning Hours Expanded 7-8 a.m.	Contacts per hour	Contacts per hour increased by approximately 20%	Tailoring business hours to meet customer need increases the overall contact rate
Automate Leaving Messages	Increase in incoming calls	We have seen a small increase in incoming calls	Use of automated messaging does increase the rate of incoming calls
Proactive Forbearances	Increase in cure of accounts without contacts	15% response rate to proactive forbearances	Proactive methods of providing information regarding eligibility increases the cure rate
Autodialer Platform Right Party Contact Software	Increased dialer capability Increase in right party contacts	20-25% increase in capability From 05/29/01 to 1/6/02, the increase in RPC is 17.2% (Optimized 3.6/Unoptimized 3.0)	The implementation of modern technology does increase the ability to contact the appropriate party.
Electronic Directory Assistance	Increase in number of borrowers contacted	18% of borrowers referred are returned with a valid telephone number	Directory assistance is a cost-effective method of contacting borrowers

Another idea proposed to enhance the current default aversion process is to widen the scope of activities. TG is in the process of launching a pre-delinquency program that will inform student borrowers about the repayment process and options prior to entering into repayment. TG will work with traditionally high and medium cohort default rate schools, as well as schools with high dropout rates, to identify and contact borrowers who may be at a higher risk for default. High-risk borrowers are typically those who officially withdraw from school or stop attending, midterm. By tracking enrollment and loan status, TG will identify these high-risk students for telephone “grace counseling” and informational brochure mailings. Representatives from TG’s Pre-Delinquency Unit will counsel stop-outs/dropouts early on in the process to encourage them to re-enroll and complete their education or assist them in entering the repayment process successfully.

TG, working with lenders and servicers, established a shorter filing window to submit a Default Aversion Assistance Request (DAAR). Current regulations call for DAARs to be filed between the 60th and 150th day of the borrower's delinquency. A new DAAR filing window in which the lender/servicer submits the DAAR between the 60th and 70th day of delinquency allows TG to become involved earlier in the delinquency process. "We believe that receiving the DAAR as close to the 60th day as possible gives us the best chance of resolving the delinquency," Sue McMillin, Senior Vice President, Business Operations (TG). "The consistent DAAR filing date also enables us to share up-to-date delinquency information with schools on a more timely basis."

The VFAs allow guarantors to focus their efforts on a continuum of borrower benefit activities by eliminating post-default collection recoveries as the principal source of guaranty agency revenue. For example, both ASA and GLHEGC have implemented a full-scale effort to help defaulted student loan borrowers return to good standing through loan rehabilitation to complement the counseling and added efforts implemented through their VFAs for all borrowers.

Partnerships

Each current VFA's success is dependent on not only the activities of the guarantor actually implementing the VFA, but also the acceptance and support of the guarantor's many industry partners. In some cases, industry partners have exceeded mere support for the VFA and entered into genuine partnerships aimed at furthering the VFA's goals and mission.

In September 2001, ASA and AFSA Data Corporation formed a groundbreaking partnership to carry out ASA's *Wellness* program. The partnership, the first of its kind between a FFELP guarantor and servicer, enables the two companies to jointly conduct experiments in the best methods and times to communicate with borrowers. Using standard marketing techniques, the two companies will coordinate all communication and will tailor messages to determine the most effective practices to promote financial wellbeing.

"This pilot signifies two independent organizations coming together to establish a seamless partnership, all for the good of our primary customer – the student loan borrower," articulates ASA President Paul Combe. "Our ultimate goal is to ensure the financial wellbeing of borrowers, by developing long-term, one-to-one customer relationships with them through timely and targeted communications. We want to develop a trusting relationship with the borrower in good times so that the borrower will feel comfortable in turning to us when they have problems."

“The student loan servicer and guarantor are uniquely positioned to create an effective and lasting association with the borrower,” says Steven E. Snyder, president of AFSA Data Corporation. “AFSA has a strategic focus on preventing default. We bring not just the needed technology and operations infrastructure to this project, but a real desire to invest in experimentation to find the right message and right timing for discrete segments of borrowers. And, because we provide our services to such a large population of schools and borrowers under all loan programs, we have the potential to make a measurable impact.”

The ASA/AFSA union will test the best methods for communicating with borrowers throughout the life of the loan. Working together, a guarantor and servicer can effectively prevent students from encountering payment difficulties.

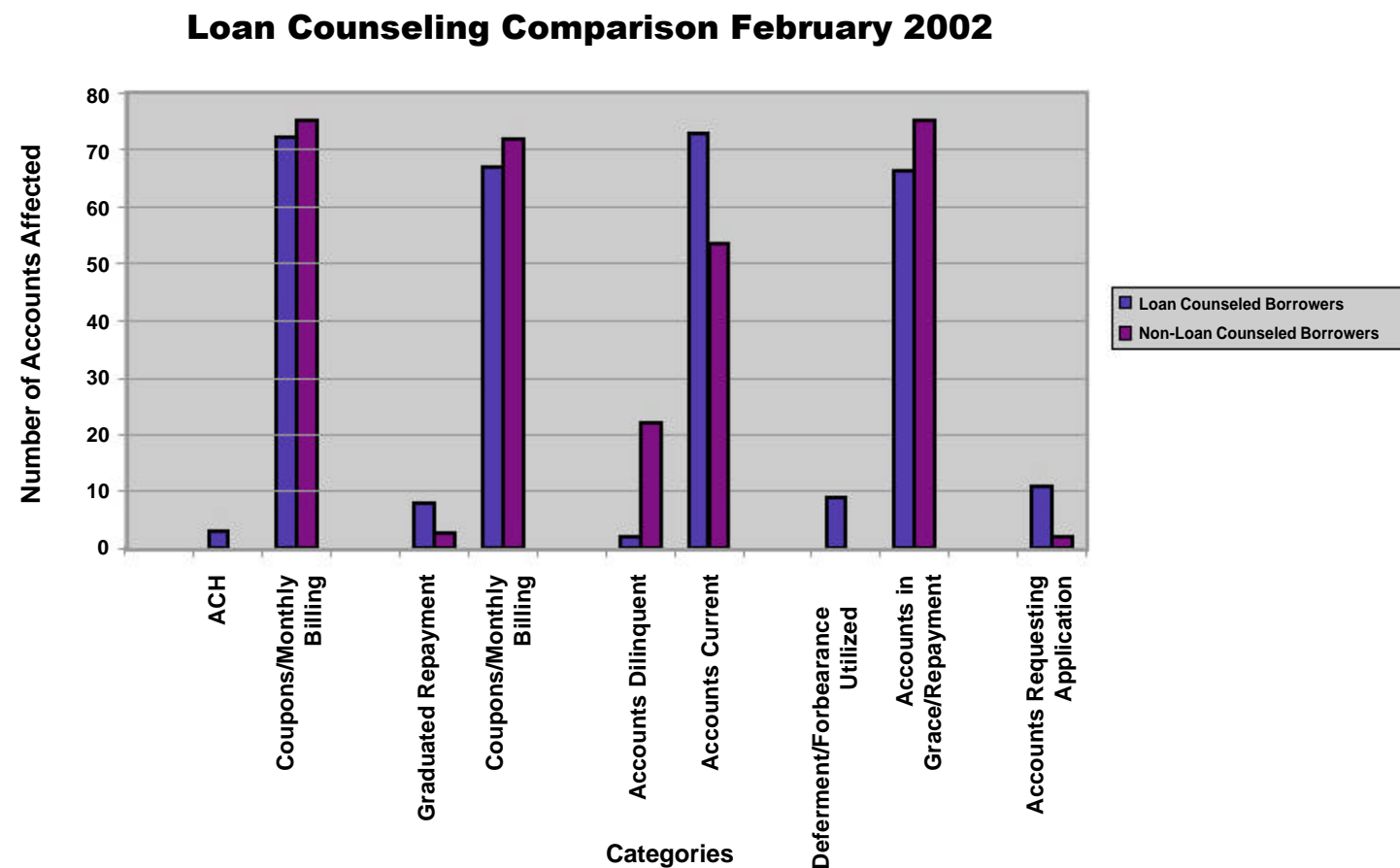
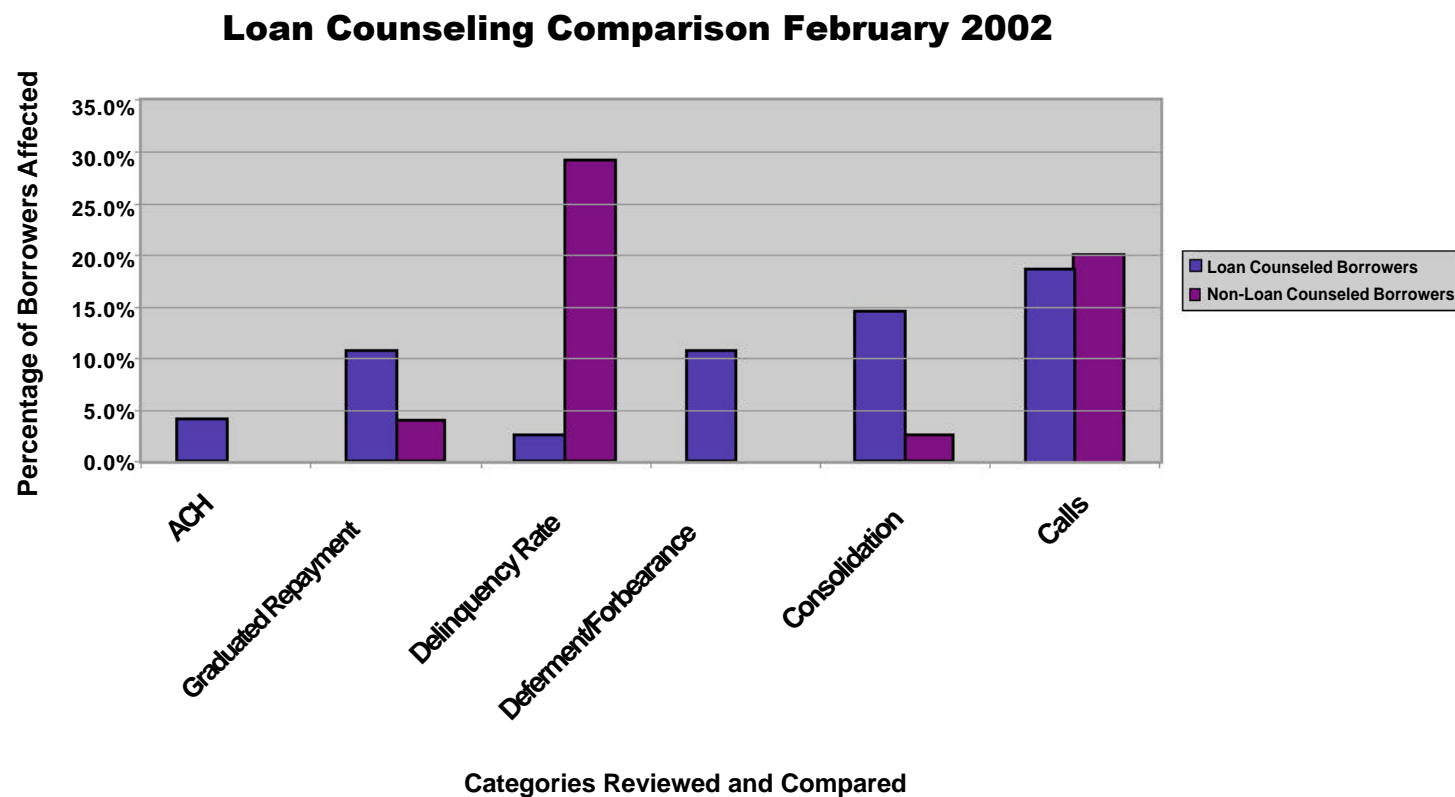
One of the first ASA/AFSA pilots targeted borrowers who are nearing the end of their grace period and about to enter repayment of their student loan. AFSA representatives called approximately 500 borrowers with grace periods scheduled to end in January through April 2002. They were able to speak with 73 of the 500 borrowers, providing them with a counseling talk-off that was recently revised by ASA. Prior to the first payment, ASA provides each borrower with a “financial first aid kit” of information to assist the borrower achieve successful repayment. AFSA will continue to monitor the repayment behavior of the borrowers included in this pilot against a control group.

Results are instructive as to what information borrowers need and want. Analysis of the AFSA representatives’ notes from the 73 borrowers contacted in the pilot indicate the following themes:

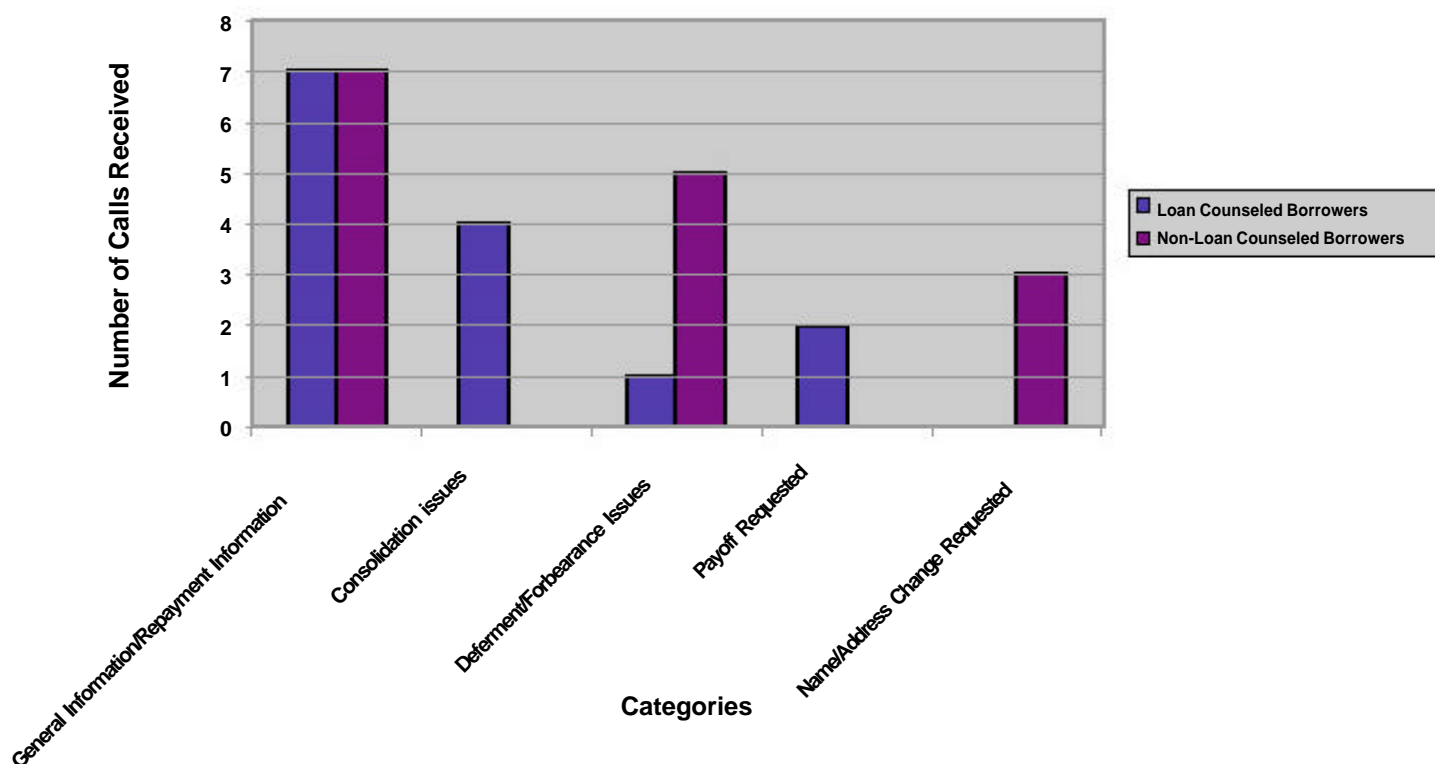
- 31% of the borrowers welcomed the information on repayment options. The representatives’ notes comment on the reactions of the borrowers to the phone calls as “happy we called,” “very receptive,” and “expressed gratitude.”
- 28% of the borrowers were interested in having their loan payments automatically deducted from their checking or savings accounts.
- 25% of the borrowers were interested in learning about deferments. In order of their popularity, unemployment (33%), hardship (28%) and in school (17%) deferments led this category.
- 17% of the borrowers wanted information about loan consolidation.
- 14% of the borrowers were interested in prepay and payoff options.

“These early trends are evidence that, as in our initial Bright Beginnings loan rehabilitation pilot, borrowers in various stages of

Figure 6: ASA/AFSA Pilots



Incoming Calls Breakdown



student loan repayment welcome the right information at the right time,” says Shari Meehan, ASA Vice President of Wellness Strategy. “These results also had some surprises – we didn’t expect the borrowers’ interest in the automatic debit option for loan repayment. For a borrower who wishes to pay according to plan and maintain a healthy loan, automatic debit is a sound choice for today’s busy lifestyle. This convenience provides the assurance that payment will be made timely but also imposes a rigor on the borrower to have the necessary funds available. Perhaps a wise borrower understands that a convenient repayment option coupled with a self-imposed budget is likely to result in fiscal health.”

ASA and AFSA look forward to technological experimentation as well; the organizations are looking into linking telephone systems that will enable an ASA default aversion representative to transfer the call directly to AFSA. ASA and AFSA also hope to share notes on borrower contacts for greater information continuity.

Industry partnerships extend to all FFELP participants. TG continues to build strong relationships with schools to lower cohort default rates. The guarantor works with Texas Historically Black Colleges and Universities (HBCUs), as well as other colleges with higher default rates, to strategize ways to reduce default. TG has invited many of these colleges to participate in its pre-delinquency program through data exchanges that will give the guarantor early access to dropout

borrower information. TG also participates in the Texas HBCU Consortium, where members review individual institution's default management plans.

Industry partnerships have also been formed with organizations not typically associated with the FFELP. ASA has teamed up with Educational Opportunity Centers in Massachusetts and Washington, D.C. to provide customized counseling to student loan borrowers from all walks of life. Funded by the U.S. Department of Education and mandated by law to focus on low-income, first-generation students seeking a post-secondary education, EOCs provide career, academic, financial aid and referral services.

"The EOCs are natural partners for ASA," states Shelley Saunders, ASA Vice President, Borrower Services. "By merging our talents, ASA and the EOCs can provide the *Wellness* training and support to guide our students on the path to a brighter future."

ASA and the EOCs are collaborating on several initiatives for the upcoming year, including:

- Creating a training program for EOC and ASA counselors on default prevention.
- Providing informative materials on general financial aid and debt management to the student populations served by EOCs.
- Establishing a community presence that offers students face-to-face service.

ASA has already begun an effective partnership with the five EOCs in its Massachusetts region, implementing a "shadow" program through which EOC counselors trained with ASA staff.

Future Updates

As we at ASA, GLHEGC and TG continue to explore best practices in borrower communication and default prevention through our VFAs, we will communicate our findings in future published reports. Only by sharing both our successes and setbacks can we, as an industry, evolve positively to meet the changing needs of borrowers. Our identification of common trends, our proactive approach, and our continued vision of guarantor as service provider, will hold us in good stead as we address future challenges.

Preliminary VFA Initiatives and Results

