

PREVENTING DEFAULTS

HELPING PEOPLE AND INSTITUTIONS

Preventing education loan defaults is a shared priority for the entire student loan community. When defaults do occur, the repercussions have a multiplier effect. Individuals who default risk unforeseen and long-term damage to their credit scores, garnishment of future wages, increases in their actual loan balance because of additional collection fees and, most important, the possibility of being denied most forms of consumer credit for years to come.

Colleges and universities also suffer when their students default on their education loans, risking eligibility to receive continued funding from the federal student loan program. Finally, American taxpayers bear a significant burden when defaults happen. Each year, education loan defaults cost the U.S. federal government billions of dollars—money that could be used to fund grants or education priorities.

The good news, however, is increased focus on default-prevention strategies has led to dramatic improvements in student loan defaults. In 1990, more than 22 percent of all Stafford loan borrowers entered default during the first two years of making payments on their loans. By 2008, the cohort default rate for the federal student loan program had fallen into the single digits.

A number of reasons are responsible for the drop in defaults, including collaborative efforts between lenders, guarantors, and schools to jointly develop more effective and innovative strategies and outreach efforts to educate and counsel borrowers on the negative consequences of default.

Since 1997, Sallie Mae has partnered with thousands of colleges and universities to develop successful default prevention strategies for students. Last academic year, its subsidiary, Student Assistance Corp., which works with guaranty agencies, successfully averted default on nearly 93 percent of seriously past-due education loans.

Because of these default-prevention efforts, 1.4 million



Taryn W., default prevention specialist, Sallie Mae

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In academic year 2008-2009, Sallie Mae's default prevention subsidiary:

- Helped 1.4 million customers avoid default
- Successfully averted default on nearly 93 percent of seriously past-due loans
- Prevented \$23 billion in delinquent loans from default, sparing unnecessary cost to taxpayers

“We train our employees to listen, assess their issue and come up with an appropriate plan of action.”

customers resolved their delinquencies and returned to current status in academic year 2008-2009. That translates into approximately \$23 billion in savings for U.S. taxpayers in terms of potential loan defaults that were averted.

Sallie Mae’s default-prevention specialists reach out to customers experiencing some type of repayment problem with their student loans. Once contact is made, Sallie Mae’s goal is straightforward: to determine the reason for the repayment issue and formulate a plan to ensure future repayment success.

TECHNOLOGY, TRAINING, TAILORED PROGRAMS

Advances in technology play a key role in default prevention success. The Internet delivers instantaneous communication, along with customer-savvy default prevention and debt-management tools and resources that can be accessed by customers 24/7.

“Ten or 20 years ago, these efforts could take up to a week to complete,” says Mike Bluel of Sallie Mae. “Now, we’re able to get customers what they need in a matter of minutes.”

Ongoing staff training is an integral component of the default-prevention activities that take place at Sallie Mae’s facility in Muncie, Indiana. Part-time and full-time employees alike must complete intensive default-prevention training.

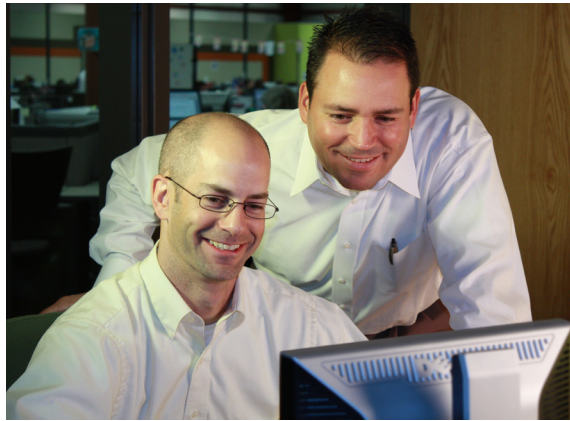
“The customers we deal with don’t want to be delinquent. They truly don’t,” says Kevin Campbell of Sallie Mae. “There’s always a reason, and there’s always a solution. We train our employees to listen, assess their issue and come up with an appropriate plan of action.”

According to Stacie H., a default prevention specialist, the majority of customers are simply afraid to take action when they get behind on their student loan payments.

“Once we talk with customers and are able to show them their options, everything changes,” Stacie says. “They go from frustrated and angry to grateful in knowing they are doing something about their student loans.”

Compassion and empathy are an essential part of the default prevention work at Sallie Mae. Default

prevention specialists must be able to quickly and accurately assess a customer’s repayment issues and then develop a strategy that will ultimately prevent a loan from entering default. More often than not, that calls for lending a sympathetic ear, says default specialist Taryn W.



Mike Bluel and Kevin Campbell of Sallie Mae.

“For me, this job is extremely fulfilling,” she says. “When I can help a customer, whether it’s bringing an account up to date or educating someone about possible repayment solutions, I feel like I’ve really contributed something positive.”

Customers would agree. Says James, a customer she recently assisted, “Taryn was an advocate for me. When people are like that, it makes customers more likely to do what it is they need to do on their end to make things right.”