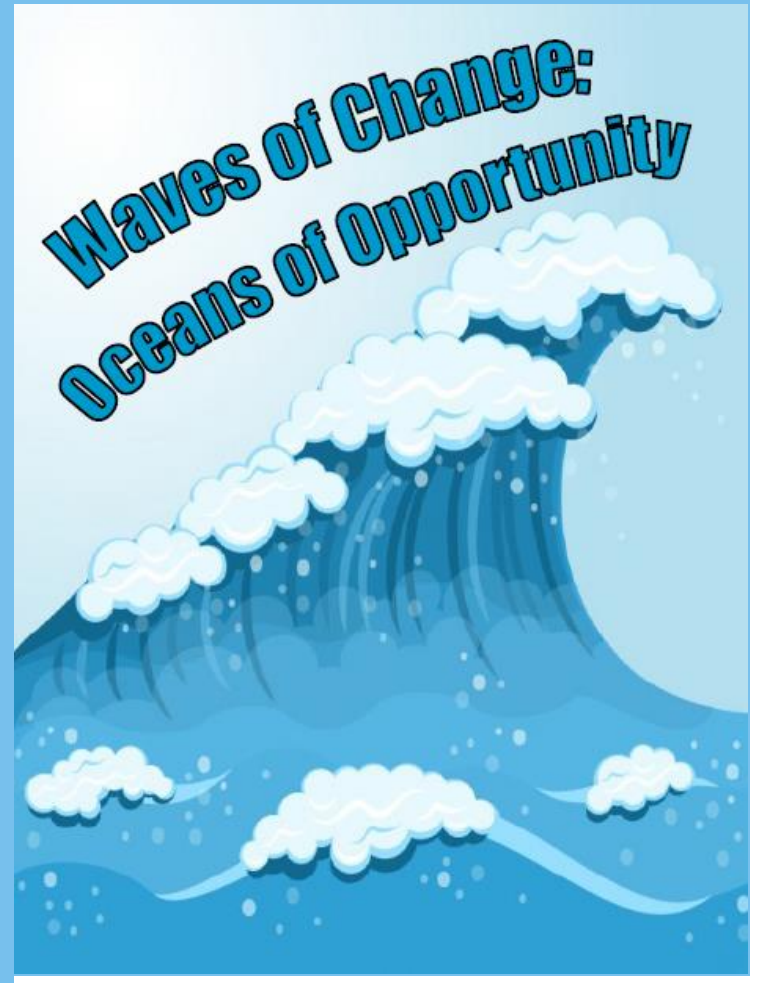


# Who's Defaulting and Why

An In-Depth Look  
at the Root  
of Loan Default

John Brown  
Great Lakes Educational  
Loan Services, Inc.



# Today's Agenda

Define what is a defaulted borrower analysis

Review the timing of loan default

Share reasons for loan default

# Today's Agenda

Share characteristics of loan defaulters

Examine default factors unique by institution

Walk through how to conduct a defaulted borrower analysis

# **GETTING TO THE ROOT: WHAT IS A DEFAULTED BORROWER ANALYSIS?**

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# Defaulted Borrower Analysis



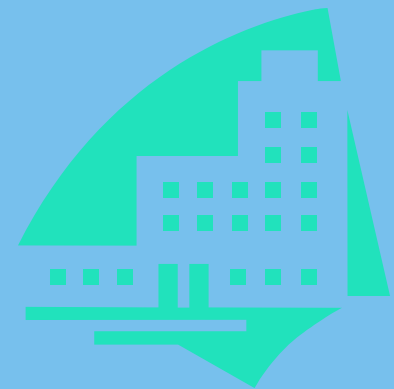
WHAT

- Identifying common characteristics of student loan defaulters to determine who's defaulting and why
- Using data to create a picture of borrowers at-risk of default

# Defaulted Borrower Analysis

WHAT

- Some characteristics are universal, however some are unique to your institution



# Defaulted Borrower Analysis



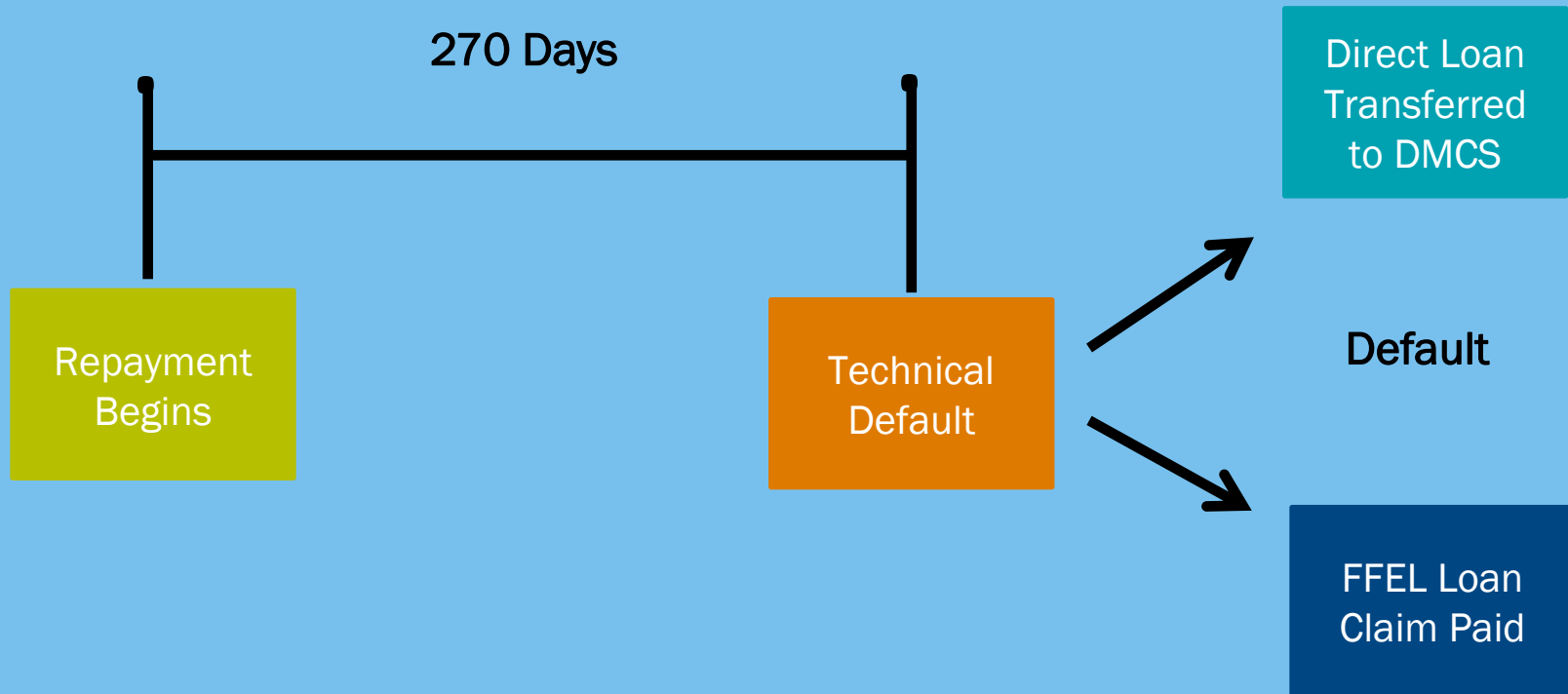
WHY

- Enables you to develop specific strategies to help students avoid default
- Allows you to correct ineffective practices throughout your institution
- Enables you to identify high risk students
- Helps you to identify the relationship between loan default and student success

# TIMING OF LOAN DEFAULT



# When Does a Loan Default?



# When Does a Loan Default?

## Technical Default

- 270 days of delinquency
- DF reported as the loan status code
- Borrower ineligible for Title IV aid
- Servicer continues due diligence



# When Does a Loan Default?

## Actual Default

- 360 days of delinquency – Direct Loans
- Claim paid by guarantor – FFELP Loans
- Default status reported to the credit reporting agencies
- Collection costs can be assessed



# When Does a Loan Default?

- From date of **technical default** until **actual default** the borrower can be saved
  - Payment
  - Deferment
  - Forbearance

# REASONS FOR LOAN DEFAULT

“While the majority of federal student loan borrowers continue to successfully repay their student loans, there are still too many borrowers who are struggling, or who may be at risk of defaulting on their loans.”

– *Department of Education, July 2016*

# Reasons for Loan Default

- Unaware and/or confusion
  - Multiple loans
  - Lender vs. loan servicer
  - Multiple repayment options
  - IDR application process
  - Terminology



# Reasons for Loan Default

- Fear and/or panic
  - Don't realize how much they owe until it's time to repay
- Problem too deep to find a way out
  - Don't believe there is a solution to their problem





# Reasons for Loan Default

- Denial
  - Find it too difficult to face facts
- Path of least resistance
  - Feeling overwhelmed
  - Don't care
  - Not satisfied with their education



# Reasons for Loan Default

- Don't know who to talk to
- Procrastination
  - Delayed requests for a deferment/forbearance
- Learned behavior from parents/peers
  - Repeating poor financial habits

# **GETTING TO THE ROOT: CHARACTERISTICS OF LOAN DEFAULTERS**

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# Rate of Completion

- The majority of borrowers who default withdraw without completing their academic program
  - May not benefit from job placement
  - May not receive exit counseling
  - May not respond to communication attempts by their loan servicer



# Rate of Completion

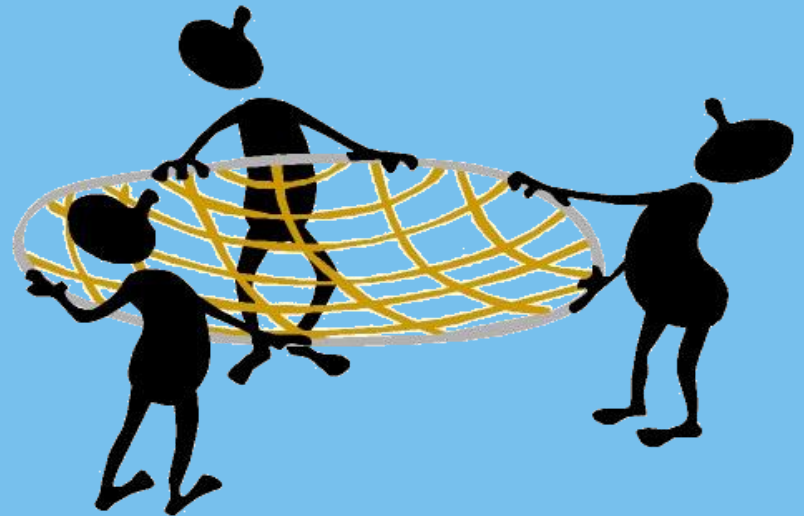
- According to a Department of Education survey, bachelor's degree-graduates comprised 1.1% of all students who were in default

# Financial Status

- They have higher unemployment rates and earn less money
  - Unemployment rate for borrowers who dropped out was 10% higher than that for borrowers who graduated
  - 80% of the survey participants were unemployed
  - 65% received some form of public assistance

# Financial Status

- Students from lower-income families may struggle during times when their income fluctuates because of the unavailability of a family safety net



# Financial Status

- According to Department of Education data, the percentage of borrowers who still owed student loans after 10 years was related to the borrowers' salaries
  - 33% of the borrowers in the lowest income group still owed loans compared to 19% of those in the highest



# Loan Payments

- Defaulted borrowers have lower balances

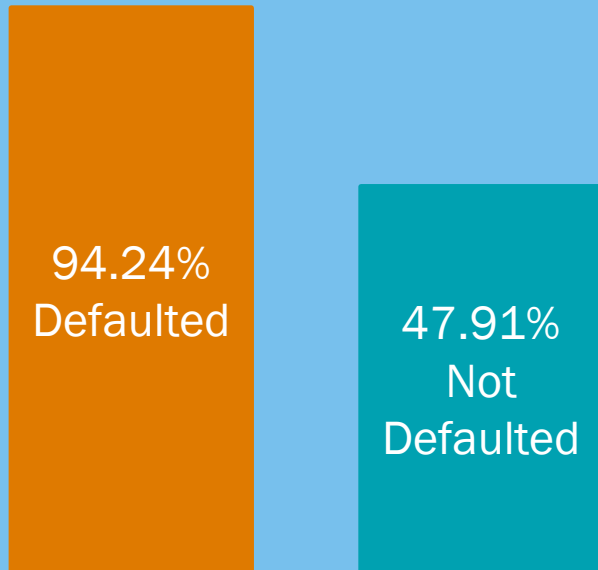
\$6,788 average defaulted loan

# Loan Payments

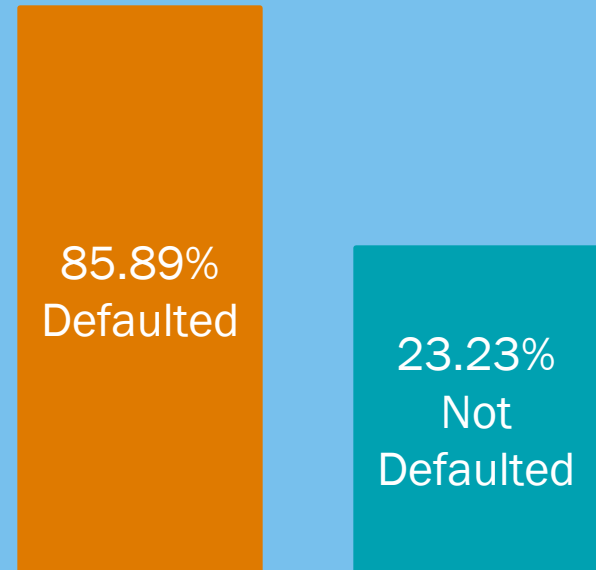
- Most defaulted borrowers never responded to the many attempts made by their lender or loan servicer
  - 98% never made a payment
  - 53% were in repayment 13 months before defaulting

# Loan Payments

Percentage of borrowers who missed their first payment



Percentage of borrowers who missed their first three payments



# Loan Payments

- Report by Institute for Higher Education Policy found that borrowers
  - Were rarely familiar with repayment options available to them before they became delinquent or defaulted
  - Did not fully understand loan terms, interest accrual, and the required significance in selecting a repayment plan

# Loan Payments

## Defaulted borrowers

99%

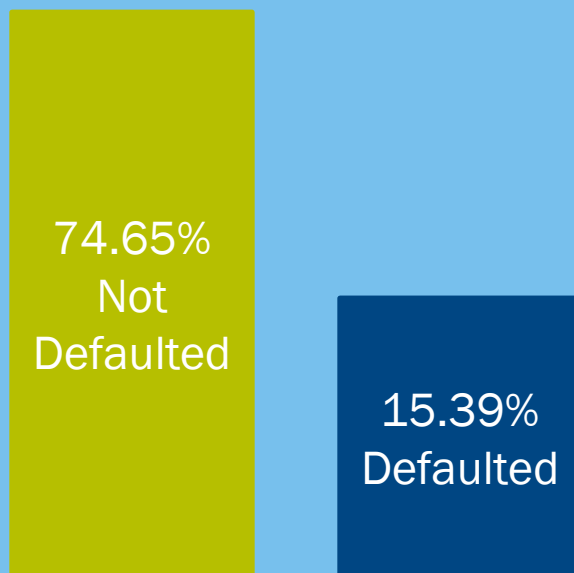
Were in the standard  
repayment plan

76%

Never obtained a  
deferment or forbearance

# Loan Accounts

- Percentage of borrowers with a Great Lakes online account



# Skip Borrowers

Most borrowers in default do not have valid contact information

- 45% didn't have a valid telephone number



# **GETTING TO THE ROOT: DEFAULT FACTORS UNIQUE BY INSTITUTION**

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# “Who” is Defaulting at Your Institution?

- Late admits
- Developmental courses
- Transfers/reverse transfers
- Satisfactory academic progress issues
- Low GPA

# “Who” is Defaulting at Your Institution?

- Program of study
- Zero EFC
- First-generation students
- Received GED
- Excessive debt

# “Why” Are They Leaving?

- What issues are they experiencing
  - Financial
  - Relationship
  - Dependent care
  - Transportation
  - Health



# “Why” Are They Leaving?

- What issues are they experiencing
  - Poor study habits
  - No campus connection
  - Language barrier
  - Excessive financial obligations
  - Lack of family support



# **GETTING TO THE ROOT: CONDUCTING A DEFAULTED BORROWER ANALYSIS**

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# Defaulted Borrower Analysis

HOW

- Determine data elements
- Obtain a Loan Record Detail Report (LRDR)
- Utilize reports provided by loan servicers



# Defaulted Borrower Analysis



HOW

- Query your own internal system to obtain specific demographic data for the defaulted borrowers on your LRDR extract
- Enter into a spreadsheet
- Look for commonalities of your defaulted borrowers

# Defaulted Borrower Analysis



HOW

- Determining “why” may require the input of admission, bursar, academic affairs, and other departments
- Translate the “who” and “why” to create targeted strategies
- Add to your default prevention plan



# CONCLUSION

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# Getting to the Root of Loan Default

- Getting to the root of loan default allows you to create picture of borrowers at-risk of defaulting
  - Some factors are unique to your institution
- Utilize resources, if possible, to assist with your analysis
  - Institutional Research
  - Other departments
  - Grad or work-study students

# Getting to the Root of Loan Default

- Use reports from NSLDS, loan servicers, and your internal systems
  - Loan Record Detail Report
  - Borrower Default Summary Report
- Allow time to work the data
- Share results

**Thanks for Attending**

**John Brown**

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