



Department of Education
Loan Servicing

Counseling Your BorrowerstoAvoidDefault

A guide to helping your borrowers reduce delinquency and avoid default





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1 . Overview

There is always much discussion about the impact of debt on the futures of America’s college graduates, and rightly so. Loan defaults can have a big impact on borrowers and their families, on schools, and on American taxpayers. This guide provides information and resources you can use to help borrowers avoid default and delinquency.

Definition of Default

The U.S. Department of Education (ED), Federal Student Aid published an electronic announcement clarifying the definition of default as it applies to student eligibility and cohort default rate calculations. For more information, please [click here](https://www.ifap.ed.gov/eannouncements/022511DefiDefaultEligiCDR.html) (https://www.ifap.ed.gov/eannouncements/022511DefiDefaultEligiCDR.html).

Student Eligibility

A borrower who is 270 days or more past due in repaying a William D. Ford Federal Direct Loan Program (Direct Loan) Loan or a Federal Family Education Loan Program (FFELP) Loan is considered to be in default. Such borrowers are not eligible to receive additional Title IV federal student aid unless they have made satisfactory arrangements with the holder of the loan to repay the loans.

Cohort Default Rate Calculations

For purposes of calculating a cohort default rate, a FFELP loan held by a FFELP lender is considered in default on the date the default claim is paid by the guaranty agency to the lender (claim paid date). However, since neither Direct nor FFELP loans held by the Department of Education (purchased from FFELP lenders) have a guaranty agency to pay a default claim, an alternate default date for cohort default rate calculations was developed. The regulations provide that for both a Direct and a FFELP loan held by the Department of Education, the date of default is when the loan is 360 days past due—a date that approximates the average time a default claim is paid by a guaranty agency on a FFELP loan held by a FFELP lender.

In summary, the chart below describes when the various types of loans are considered to be in default for the calculation of a school’s cohort default rate.

If the loan is a...	And the holder is the...	The loan is included as a defaulted loan in the school’s CDR calculation when...
FFELP Loan	FFELP Lender	The default claim is paid by the guaranty agency
FFELP Loan	Department of Education	The loan is 360 days past due
Direct Loan	Department of Education	The loan is 360 days past due

Helping Students with Financial Literacy

Default prevention begins at day one for incoming freshmen and new students. Together, we can support students in making sound financial decisions by helping them:

- ▶ Understand what they owe by visiting [NSLDS.ed.gov](https://www.nsllds.ed.gov).
- ▶ Understand the financial obligation that comes with their loan.
- ▶ Access basic financial literacy information, including Path to Success, our online, interactive learning experience.
- ▶ Realize that making payments on student loans while in school can reduce the total loan cost.

Consequences of Default for Borrowers

In your communications with borrowers, you should make it clear that defaulting has serious consequences. Student loan borrowers should understand that, if they default:

- ▶ The full amount of the loan becomes immediately due.
- ▶ Outstanding interest is capitalized and collection fees may be added to the principal.
- ▶ Wages may be garnished and income tax refunds and other payments seized and/or withheld.
- ▶ The default is reported to credit bureaus, resulting in serious damage to their credit rating.
- ▶ They may have difficulty borrowing for a home, a car, or other items on credit.
- ▶ They may be ineligible for additional federal student aid.

Consequences of Default for Schools

Keep in mind that when you're counseling a student borrower who has delinquent loans, you're also helping your school avoid some serious consequences as well:

- ▶ Schools with high cohort default rates may lose their eligibility to offer federal loans such as Direct Loans, Perkins Loans, and Pell Grants.
- ▶ Schools that cannot offer federal student aid may have difficulty attracting and retaining students.

For these reasons, even schools that are not required to use a default prevention and management plan should consider having one based on techniques that have proven to be successful. This will help your students successfully repay their loans while ensuring the school's continued ability to offer federal financial aid.

2.

Creating a Default Management Plan

Identifying “At-Risk” Student Borrowers

One of the most important parts of a successful default management plan is to identify and counsel student borrowers who are most at risk of defaulting. Following are some examples of how to identify potentially at-risk student borrowers.

Start by evaluating the data the school has about former students. Review the data for patterns, including:

- The course of study (Classification of Institution Program Codes “CIP” Codes)
- The grade point average (Satisfactory Academic Progress “SAP”)
- Attendance patterns
- Separation reasons

The U.S. Department of Education considers students who have withdrawn from school prematurely or who have not met standards of satisfactory academic progress to be at risk. By counseling these student borrowers and learning the causes of withdrawal or unsatisfactory academic progress, your school may be able to help students complete their academic programs and successfully repay their loans.

Determining Your Objective and Call to Action

After you’ve identified the school’s at-risk borrowers, think about the ways you currently communicate with students about loan repayment and consider enhancing or expanding those programs as part of your plan. You may want to:

- Enhance your school’s entrance and exit counseling sessions to make sure student borrowers understand their repayment obligations.
- Offer financial literacy programs more frequently throughout the loan process and in a wider variety of formats. See page 3 for information about Path to Success, our interactive financial literacy experience.
- Communicate with students earlier and more often while they are in school and during repayment.

Then, think about what additional efforts you’d like to make and the resources you have available to implement them. For example, do you have the time, staff, and money to make telephone calls to student borrowers?

The final item to consider is what you want the student borrower to do after you’ve communicated with him or her. In most cases, you’ll want to encourage the student borrower to contact the servicer to:

- Make a payment to satisfy the delinquency,
- Work out a plan to make the student borrower’s payments more affordable, or
- Temporarily postpone payments until the student borrower is in better financial shape.

Choosing Your Communication Channel

Depending on your budget and the scope of your default management plan, you'll want to consider a variety of ways to communicate with student borrowers who have delinquent loans. These can include emails, text messages, printed letters, telephone calls, and messages on the school's website. Each channel has its strengths and weaknesses, and you may want to adjust your communication channel strategy periodically to align with the results you achieve.

Pages 7-12 of this guide provide sample letters and emails for a three-step default prevention series. Each succeeding letter and email creates an increasing sense of urgency for the student borrower to contact the servicer and resolve the delinquency. This guide also provides a sample telephone script for you to use when talking with student borrowers who have delinquent loans.

You can choose to use any or all of these resources in your efforts to counsel student borrowers with delinquent loans.

Note: Email is an unsecured communication channel. Do not state the student borrower's loan status as current or not current in the communication. Please refer to your school's communication policy for guidance.

Tips for Success

No matter how you communicate with student borrowers who have delinquent loans, your success will be enhanced if you have up-to-date contact information. Update the school's records frequently to ensure the student borrower's most current demographic information such as email address, phone number (including cell phone), and street address is on file.

In addition, you might want to re-familiarize yourself with repayment options for federal loans as well as In-School, Unemployment, and Economic Hardship Deferments as part of your give-and-take with the student borrower over the phone. We also

suggest you:

- Obtain additional email contact information (something other than an ".edu" address) and phone numbers.
- Let the student borrower know you want to help him/her solve the problem.
- Make sure the student borrower understands the seriousness of the situation and the consequences of default.
- Listen to the student borrower. He/she will be more likely to accept your counseling if you show compassion for their situation.
- Treat the student borrower with respect at all times.

Evaluating Your Results

To evaluate the success of your efforts, go back and review your objectives. You might, for example, consider your counseling to be successful if it results in:

- A stable or declining cohort default rate for your school.
- Fewer overall delinquencies.
- More delinquencies being resolved at the early stages.
- Fewer delinquencies reaching default.

Let the Student Borrower Know That Help Is Available

A student borrower may not realize that options are available to help him/her get back on track. Make it clear in all of your communications that your goal is to resolve their problem. Offer understanding and assistance at all times, and remind them their loan servicers offer programs and resources that can help, too.

3. Default Prevention Communications

Sample Email #1:

Subject line: Your student loan account Please

contact your student loan servicer. Dear ##First

Name/Last Name##:

Your student loan obligation is important, and how you manage it will help determine your future financial success. If you're experiencing financial difficulty, we recommend contacting your student loan servicer immediately. You may be able to:

- ▶ Change repayment plans, such as to one that's based on your income.
- ▶ Consolidate your loans and possibly reduce your monthly payments through an extended repayment term.
- ▶ Temporarily suspend payments.

Your loan servicer can explain all of these options and work closely with you to address your needs. By

addressing this issue as soon possible, you can help yourself stay on the path to financial success, now and for the future. If you have any questions before contacting your servicer, please don't hesitate to [contact us](#) <customize link with your school's contact information>. We're here to help.

Sincerely,

Name

Financial Aid Office

Sample Email #8:

Subject line: Your student loan account

Please contact your student loan servicer today.

Dear ##First Name/Last Name##:

We're here to help you manage your student loan obligation, and we want to support you in making the best decisions for your financial future. We recommend contacting your loan servicer as soon as possible.

If you're experiencing financial difficulty, there could be serious consequences regarding your student loans. These may include:

- ▶ The full amount of your loan becoming immediately due,
- ▶ Your credit rating being damaged, and
- ▶ You may even have difficulty borrowing in the future.

Your loan servicer can suggest options that can lower or even temporarily suspend your monthly payments. These options may include:

- ▶ An alternative, more affordable repayment plan,
- ▶ Loan consolidation, or
- ▶ Temporary suspension of your payments.

By addressing this issue as soon as possible, you can help yourself stay on the path to financial success, now and for the future.

As always, [we're available](#) <customize link with your school's contact information> to help you if you have any questions before and after you contact your loan servicer. Please don't hesitate to call us.

Sincerely,

Name

Financial Aid Office

Sample Email #9:

Subject line: Your student loan account

Contact your student loan servicer immediately!

Dear ##First Name/Last Name##:

We know that managing your money can be a challenge. It is important to repay your student loan to set yourself up for future financial success. We recommend contacting your loan servicer as soon as possible.

Help is available. If you're having financial difficulty, your loan servicer can suggest a number of options that can lower or even temporarily suspend your monthly payments. These options may include:

- ▶ An alternative, more affordable repayment plan,
- ▶ Loan consolidation, or
- ▶ Temporary suspension of your payments.

But you must contact your loan servicer now. If you're experiencing financial difficulty, there could be serious consequences, which may include the full amount of your student loan becoming due immediately, your credit rating may be damaged, and you may have difficulty borrowing in the future.

We want you to have a successful financial future. Please [contact us](#) <customize link with your school's contact information> if you have questions about how you should handle this very serious matter.

Sincerely,

Name

Financial Aid Office

Sample Letter #10:

Please contact your student loan servicer regarding your delinquent account.

Dear ##Borrower First Name & Last Name##:

Our records show that your student loan account is XXX days past due. This is a very serious matter. You may be able to get back on track if you contact your student loan servicer immediately.

For example, you may be able to:

- ▶ Change repayment plans, such as to one that's more affordable and based on your income.
- ▶ Consolidate your loans to simplify repayment and possibly reduce your monthly payments through an extended repayment term.
- ▶ Temporarily suspend your payments.

Your loan servicer can explain all of these options and work closely with you to help you avoid default. You must contact your servicer right away—the further behind you get on your payments, the more difficult it will be to catch up. Log in to [StudentAid.gov](https://studentaid.gov) to find your servicer's contact information.

Thank you in advance for promptly addressing this delinquency. If you have any questions before contacting your loan servicer, please don't hesitate to contact our office. We're here to help.

Sincerely,

Name

Financial Aid Office

Sample Letter #11:

Your student loan account is now 120 days past due.
Please contact your loan servicer today to resolve this issue.

Dear ##Borrower First Name & Last Name##:

Please read this communication carefully. It's important that you resolve your student loan delinquency right away by contacting your loan servicer now. You may still be able to get back on track and avoid default.

Defaulting on your student loan may have serious consequences:

- ▶ The full amount of your loan will become immediately due.
- ▶ You will be unable to obtain federal student loans until the default is resolved.
- ▶ Your credit rating may be damaged.
- ▶ You may have difficulty borrowing in the future.

But it's not too late to resolve this situation. Your loan servicer can suggest a number of options that can lower or temporarily suspend your monthly payments. These options may include:

- ▶ An alternative, more affordable repayment plan,
- ▶ Loan consolidation, or
- ▶ Temporarily suspend your payments.

But you must contact your loan servicer now—the further behind you get on your payments, the more difficult it will be to catch up. Log in to [StudentAid.gov](https://studentaid.gov) to find your servicer's contact information.

As always, we're available to help you if you have any questions before you contact your loan servicer. Please don't hesitate to call us.

Sincerely,

Name

Financial Aid Office

Sample Letter #12:

Contact your loan servicer immediately.

Dear ##Borrower First Name & Last Name##:

Your student loan is very close to defaulting. To avoid jeopardizing your financial future, you must contact your loan servicer immediately to make arrangements to repay your loan.

Help is available. Your loan servicer can suggest a number of options that can lower or temporarily suspend your monthly payments. These options may include:

- ▶ An alternative, more affordable repayment plan,
- ▶ Loan consolidation, or
- ▶ Temporarily suspend your payments.

Contact your loan servicer now! Time is running short. If you delay and wind up defaulting, the full amount of your loan will become due immediately. And if the default is reported to credit bureaus, your credit rating may become damaged, and you may have difficulty borrowing in the future. Log in to [StudentAid.gov](https://studentaid.gov) to find your servicer's contact information.

We want you to have a successful financial future. Please contact us if you have questions about how you should handle this very serious matter.

Sincerely,

Name

Financial Aid Office

Sample Telephone Script:

Hello. My name is [name of caller], and I'm calling from [name of school]. Is this [name of borrower] who attended [name of school]?

OR

Hello. My name is [name of caller], and I'm calling from [name of school]. May I speak with [name of student borrower] who attended [name of school]?

HAVE NOT REACHED THE STUDENT BORROWER.

(Note: Do not reveal any sensitive or personal information [like the amount of money owed] to a third party.)

May I speak with him/her, please?

OR What is a better time or way to reach him/her?

OR Please ask him/her to call me. My number is [number].

STUDENT BORROWER DOES NOT WANT TO TALK/GET HELP.

Okay, but let me give you the number of your loan servicer [loan servicer name]. It's important that you contact them right away to get help with making your payments. The number is [number]. Being delinquent or defaulting on your student loans can damage your credit rating and negatively affect your financial future. Please call today.

STUDENT BORROWER CAN PAY.

Excellent! I'm happy to hear you're able to bring your account up to date. Here's your servicer's contact information [servicer name and phone number]. Thank you for handling this situation promptly. Goodbye.

STUDENT BORROWER DISAGREES.

Let me give you my number in case you change your mind. Please remember, if you default on your student loans, you could damage your credit rating and you may have difficulty borrowing money again. Damage to your credit rating may affect your ability to obtain credit on favorable terms in future. Here's my number. Call me if you want to talk. I'm here to help you.

REACHED THE STUDENT BORROWER.

I'm calling to offer you help with your student loans. Our records show that you may have fallen behind on your payments, and I want to make you aware that you can still get back on track and protect your credit. May I have a few minutes of your time to talk about your student loans?

STUDENT BORROWER WANTS TOTALK/GET HELP.

Good. Our records show that your loan account is past due. Can you make a payment to get caught up on your past-due amount?

STUDENT BORROWER CANNOT PAY.

(The caller should listen, acknowledge the borrower's circumstances, and reinforce the school's desire to help.)

I understand. It's important that you explain your situation to your loan servicer. There are several options available, and you may be able to switch to a different repayment plan that will lower your monthly payments. Or, you could qualify for deferment, forbearance, or loan consolidation. I encourage you to contact your loan servicer now to find out which option will work best for you. Will you do that?

STUDENT BORROWER AGREES.

Good. Here's your loan servicer's contact information [servicer name and phone number]. Please call today and ask about the options I just mentioned. You'll be taking a positive step to a better financial future. Thank you for talking with me. Goodbye.

4. Additional Resources

The following resources will help you with your program for communicating with student borrowers who have delinquent loans:

- ▶ The NSLDS Delinquent Borrower Report at [NSLDS.ed.gov](https://www.nsls.ed.gov) is an invaluable resource for delinquency information on all federal student loan debt. It includes loans made under the Direct Loan program as well as loans made through the FFELP that were purchased by the U.S. Department of Education (ED).
- ▶ [Aidvantage.com](https://www.aidvantage.com) (www.aidvantage.com) provides a wide range of information to help you manage ED-owned loans that are serviced by Aidvantage. Visit us often and download helpful tip sheets to share with your students.

These three resources from the U.S. Department of Education provide free, authoritative information on debt management, default prevention, and student loan repayment:

- ▶ The [Financial Awareness Counseling Tool](https://studentloans.gov/myDirectLoan/financialAwarenessCounseling.action) (<https://studentloans.gov/myDirectLoan/financialAwarenessCounseling.action>) is designed to help students manage student loan debt. It provides five free, interactive tutorials: Understanding Your Loans, Managing Your Spending, Plan to Repay, Avoid Default, and Make Finances a Priority. Students can use this tool to access their loan history and receive personalized feedback to help them better understand their financial obligations. In addition, college financial aid professionals can monitor a student's progress with using the tool and provide assistance as needed.
- ▶ [Default Prevention Resource Information](https://ifap.ed.gov/default-prevention-resource-information) (<https://ifap.ed.gov/default-prevention-resource-information>) provides consolidated delinquency and default prevention resources in one location for schools.
- ▶ [Student Aid on the Web](https://studentaid.ed.gov/repay-loans) (<https://studentaid.ed.gov/repay-loans>) provides detailed information about what students and families need to know about student loan repayment.

Aidvantage Support and Resources:

- ▶ Aidvantage.com/for-school-aid-offices (<https://Aidvantage.com/for-school-aid-offices>)
- ▶ Your Aidvantage CollegeServ® team is dedicated to serving you.
Phone: (888) 272-4665
Hours: Monday-Friday, 8 AM - 8 PM (ET)
CollegeServ@Aidvantage.com

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