APPROACHING THE TIPPING POINT: The Implications of Student Loan Debt and the Need for Education Debt Management

Executive Summary

Our nation's student loan system is approaching a tipping point from a social, economic, and public policy perspective. Rising college costs, a sluggish job market that has driven a record number of Americans to seek out higher education, and a constraint on federal and state budget dollars afforded to grants, have all combined to produce an explosion in student loan borrowing. Simultaneously, dwindling job opportunities and stagnant wages are putting increasing pressure on student loan borrowers staring down the barrel of repayment. Some student loan borrowers are finding themselves in no better – or even worse – financial position after attending college. For the first time in the history of federal student loans, students and parents who have borrowed for college are asking "Was it worth it?"

Each year millions of students enter college to better themselves academically and secure a stronger financial future. However, the reality is that to achieve this goal, a majority of students must take on debt that has the potential to ruin their financial future before they even get started. While grants at one time accounted for the majority of student aid, over the last 30 years there has been a massive shift toward student loans to cover the costs of financing higher education. Federal student-loan borrowing in the 2008-09 academic year grew 25% over the previous year. This growth in education debt outpaces the growth in both college and health care costs, and for the first time in history, outstanding student loan debt now exceeds credit card debt.

Most borrowers make a good faith effort to repay their loans, but for many, these loans become unmanageable at some point in the repayment process and borrowers fall behind on payments or stop paying altogether. Unfortunately, missteps with education debt can have a devastating effect on a borrower's financial future. Delinquency and default on education debt affects generations of borrowers and their ability to take on additional consumer debt, secure better housing, choose a public service career, save for retirement and their own children's education, return to school themselves, or even retire and live on social security.

The Chronicle of Higher Education reports that 20% of borrowers with government -backed student loans that entered repayment in 1995 have defaulted. Our nation's student loan problem, though, is not just about those who default. It stands to reason that, if 20% have defaulted, an even higher number of borrowers are struggling day-to-day to make loan payments—becoming seriously past due, but not actually defaulting. These borrowers still experience delinquency's consequences, such as ruined credit, higher interest rates on other consumer credit, difficulty or inability to obtain a car loan or mortgage, and so on. If these student loan repayment issues continue unchecked, the deteriorating health of borrowers' finances cumulatively has the potential to create another credit emergency like the recent mortgage crisis.

News accounts of student loan struggles are now commonplace. Student loan horror stories are burning up the blogosphere and grassroots advocacy groups calling for greater student loan protections are emerging like never before. The public's faith in the student loan program—our nation's primary form of financial aid—has been shaken.

Yet there could not be a worse time for chinks to appear in the armor of our nation's student loan program. Unmanageable student loan debt runs at odds with our national, social and economic objectives. President Obama has set the imperative of having the "highest proportion of college graduates in the world" by the year 2020.

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To achieve this goal our education financing policy dictates borrowing to pay for a college education. Concurrently, the consumer-based 21st-century American economy is in dire straits. We need to stimulate the housing market, increase consumer spending and expand access to credit. Therefore, we can ill afford to have a higher education financing system that piles on additional debt without giving borrowers the tools to manage that debt. To do so risks producing a population of consumers so hampered by their education debt obligations, they are unable to fully participate in spurring our economy.

As more and more students borrow to attain a college degree, there must also be a tandem effort to help borrowers successfully complete student loan repayment. Proactive communication to student loan borrowers has been proven to protect the financial health of borrowers, lower the cost of the loan program to the federal government, and ensure return on taxpayer investment. Currently, however, there are few advocates providing proactive, impartial advice about student loan repayment. As a result, borrowers are left to navigate this complicated process without a safety net, and are expected to make decisions that will forever shape their financial future without appropriate guidance.

Congress has instituted numerous repayment options to help mitigate student loan struggles. However, with increased options comes increased borrower confusion. Even though Congress did improve repayment options for borrowers through the Student Aid and Fiscal Responsibility Act (SAFRA), this same legislation failed to include a corresponding investment to fund proactive communication of these options to borrowers in the form of education debt management. It's not that federal student loan borrowers don't have options; sadly, it's that so many borrowers simply don't know that options exist. Programs previously developed with federal funding through the Department of Education have demonstrated that students provided with proactive education debt management services in the form of targeted communication are 50% less likely to fail in loan repayment.

Existing default prevention policies, processes and incentives tend to be reactive and too late to save the borrower before their credit is impacted. Effective debt management counseling requires proactive outreach to targeted borrowers, as well as the time and individual attention required to provide personalized recommendations. To ensure the greatest borrower success, debt management programs should be delivered by those who are free of potential conflicts of interest so that counselors can operate as unfettered advocates for borrowers. The Department of Education is currently utilizing federal loan servicers to fill this role. However, servicer-borrower interactions simply aren't geared toward the delivery of comprehensive debt management counseling that can effectively impact borrower behavior. A two-minute phone call between a servicer and a borrower can set up a forbearance after someone has run into problems, resulting in a loan in good standing – an adequate quick-fix remedy for borrowers who sincerely face a temporary period of economic hardship, and a win for the servicer who has kept the loan in "good standing." But forbearance may not be the solution. Education debt management is about finding the best long-term resolution to a borrower-specific problem, not just putting the problem off until another day with forbearance. In any given situation there may be four or five options that would be better for the long-term economic health of the borrower than forbearance. An education debt management counselor takes the time to explore those options.

Policymakers should reinstate and expand the federal investment in innovative and proactive education debt management programs that have proven to help student borrowers take advantage of all the available remedies put in place by Congress to avoid delinquency and default. America cannot regain its global competitiveness and bolster its economy without a functional student loan program that ensures student borrowers can survive the payback period without financial demise.

Education Debt is Exploding

The amount students are borrowing in order to participate in higher education is larger than ever. Federal student-loan volume grew 25% in the 2008-09 academic year over the previous year.[1] Outstanding student loan debt levels now stand at an estimated $830 billion for both federally backed and private student loans.[2] Indeed, two-thirds of all students graduating from four-year postsecondary institutions leave school, on average, with more than $23,000 of student loan debt.[3] And, nearly 25% of all graduates from private, not-for-profit four-year colleges and universities graduate with $30,500 or more of education debt. That number more than doubles to 53% of graduates when for-profit, four-year colleges are evaluated. In addition, each year hundreds of thousands of students take out loans to attend college, but do not complete their education.[4] These students must attempt to pay back their loans without a college degree to enhance their resume and job prospects. As a consequence of these rising debt levels, growth in education debt has outpaced the growth in college costs, health care costs, and for the first time in history, credit card debt.[5]

Aggravating matters is the rising cost of a postsecondary education, which has consistently outpaced inflation. From 1989 to 2005, the college inflation rate was nearly double the general inflation rate.[6] As a result, student loans have become a necessity for most students who seek a college education. While it may be easy to blame the ballooning debt on college costs, cost of higher education is just one of a few factors that have led to our nation's dependence on debt to finance higher education. Over the years, wage stagnation, the overall economic environment and budget constraints that have lessened grant aid, have all led to the reliance on debt.[7]

While controlling costs and expanding grants are worthy of a policy debate, the reality is that neither solution can happen quickly, nor will either be a magic bullet that will eliminate our dependence on debt to finance education. Pell grant increases, while welcome, would have to significantly leapfrog to catch up with college costs today, even if college costs stay at present levels. According to an analysis by *The Chronicle of Higher Education*, "restoring the grant's purchasing power to mid-1970s levels would be extraordinarily expensive. … For the maximum award to have covered the same share of college costs this year as it did in 1975-76, it would have had to top $12,000, an increase of more than $7,000 over the actual award. The price tag for reaching that level would exceed $40-billion."[8]

Controlling the cost of college will not eliminate the inability for many to manage their education debt after they leave school. The amount students take on to pay for college may be eye-opening, but some studies suggest that those who attend low-cost schools and take out small loans are just as likely, if not more so, to struggle to pay back their loans. In fact, one study found that amount of debt outstanding has little impact on a borrower's ability to repay. According to a study done with borrowers at Texas A&M, "Borrowers who take out $5,000 or less in loans default at a considerably higher rate than all other borrowers."[9] What is clear is that, regardless of the size of the debt, if not given the tools to properly manage that debt, delinquency and default can affect all borrowers.

Not all students struggle to repay their loans, however, for many, their increased education debt has become overwhelming. As more and more students borrow, default rates continue to rise. According to the U.S. Department of Education the national Cohort Default Rate (CDR), which tracks student loan borrowers in the first two years out of school, is predicted to climb to 7.2% for the cohort of 2008 graduates, up from 6.7% for the previous cohort and up from 5.2% for the cohort of 2006.[10] Even more alarming, a recent report by *The Chronicle of Higher Education* shows that one in every five government-backed student loans that entered repayment in 1995 has gone into default.

This statistic jumps to nearly one out of three for community college borrowers.[11]

These sobering statistics fail to capture the borrowers who are delinquent on their loans but don't technically default. While a defaulted federal loan is one that is 270 days in arrears, a typical delinquency of 60 to 90 days also triggers negative reporting to consumer credit agencies.[12] Negative information damages credit scores, increases the costs for future loans, and reduces the availability of credit to borrowers. Such information can remain on a borrower's credit report for up to seven years after the delinquency is reported.[13] Unlike other consumer debts, all types of student loan debt are given special legal standing: they are generally considered to be nondischargeable in bankruptcy unless there is a showing of extreme or undue hardship, an extremely difficult test to satisfy.[14]

Individual testimony of student loan recipients provides striking examples of borrowers who gave little thought to the financial hole they were digging for themselves. Valisha Cooks, in her testimony to the U.S. House Committee on the Judiciary on April 22, 2010, stated that she graduated college with $41,000 in federal loans and $36,000 in private loans, but because of repayment challenges upon graduation, her student loan debt ballooned to an amount she is unable to sustain on her current salary.[15] Ms. Cooks said she received no debt counseling at the time she took out the loans.[16] While pro-forma loan counseling is required for federal loans, it does not provide the one-on-one counseling for borrowers when it's needed—when the first bill is due or when they run into problems during repayment. Ms. Cooks' experience highlights that much more needs to be done to ensure students have the proper counseling to make informed decisions about their finances, and the guidance needed to successfully repay their loans.

Stories like those of Ms. Cooks are all too common and underscore that standard federally mandated due diligence efforts are not achieving their intended purpose. Additionally, these stories are not restricted to young graduates – there is a cross-generational effect of student loans, and the economic realities faced by many student borrowers are bleeding through all segments of our population. *The Wall Street Journal* recently highlighted the struggle of a parent whose unemployment check is being garnished to repay a parent PLUS loan taken out to fund her son's education.[17] However, a call with an education debt management advisor may have provided that parent with options to handle this situation, such as an unemployment deferment. Similarly, a "Baby Boomer" (the first generation to take on federally-insured student loans when the program began in 1965) recently called into a National Public Radio program for advice on repaying back-owed student loan debt that has ballooned from $10,000 to $67,000.[18] Not knowing where to turn to get advice, this woman chose to call a radio show to address her problems. Too many of these issues go unaddressed by seniors and each year the U.S Treasury Department garnishes social security payments of retirees to reclaim federal student loans.[19] However, with proactive outreach to those in need, education debt management can solve many of these problems for borrowers of all ages and circumstances.

Students who fail to complete college represent the largest group of defaulted borrowers and a group most in need of education debt management services. It is clear that completion of a degree makes an enormous difference in the ability to eventually pay loans back. The benefits of completing a degree are clear: unemployment is lower and salaries are higher among those with bachelors' degrees. However, each year more than 20% of all borrowers take out student loans and drop out of school before attaining a certificate or degree.[20] This equals hundreds of thousands of students every year who fail to complete school for one reason or another, but must attempt to pay back their debt without the enhancement to their job prospects that a degree would have brought.[21] These students are twice as likely to be unemployed as other borrowers.[22] As a result, students who both borrow student loans and fail to persist to a degree are *10 times more likely to default* on their student loans.[23] A recent report by the National Center for Public Policy and Higher Education suggests that, "many borrowers who drop out of postsecondary education may be left behind in the nation's economy."[24] However, there is hope for these borrowers. Data shows that education debt management services targeted to these withdrawn borrowers have a 55% success rate in preventing delinquency in the risky first year of repayment.[25]

The average student today is carrying record-high credit card balances, and the growing population of non-traditional students may have children or elderly parents to support. Not only may these borrowers find themselves struggling without an education-based career path, but they also may lack the means to make their monthly student loan repayments without the post-degree salary bump they were hoping for. A defaulted student loan for an unfinished education can be a mistake that's regretted for a lifetime.

The consequences of delinquencies and default on generations of borrowers elevate the impact of student loan credit problems from an individual problem to a societal problem: More borrowers with inferior creditworthiness will only serve to weaken the nation's overall economy. As journalist Anya Kamenetz wrote, "Increasingly, high unmanageable debt burdens are falling on those least prepared to deal with the stresses and costs of college …This is starting to look more and more like the mortgage bubble."[26]

The Negative Perception of Education Debt

This rising debt level has created a perception problem for higher education. Borrowing for college has traditionally been viewed as a good investment in the future, one that will pay for itself over time in greater lifetime earnings. But recent poll results on the financial stability of 18-29 year-olds provide sobering data about student loan recipients' ability to repay and their perceptions of their educational experience as a result of that debt.[27] A mere 16% of poll respondents said they were confident they could "live comfortably and save an adequate amount for retirement or other needs."[28] Another 40% of respondents said they "can get by every month but...find it difficult to save and invest."[29] And about one-third of all respondents said they "find it hard to make ends meet every month."[30] Indeed, 46% of individuals questioned reported that, in their view, a four-year college degree is "an economic burden that is too expensive and requires taking on debt," and as a result, almost 16% said that they didn't think college was worth the amount of debt they would have to take on, and so chose not to attend at all.[31]

Now, the economic realities faced by many student borrowers are streaming through to the mainstream media. *The New York Times* wonders who's to blame for excessive student borrowing.[32] *The Wall Street Journal* reports on a doctor with $555,000 in debt.[33] *USA Today* talks about students "suffocating under tens of thousands of dollars in student loan debt."[34] From national media outlets to regional and local, from traditional to online to social media, student loan tales of woe are making headlines.

Furthermore, apathy toward higher education that results from too much debt runs at odds with President Obama's objective which seeks to have "the highest proportion of college graduates in the world" by the year 2020.[35] To achieve this goal, the reality of our education financing policy dictates borrowing to pay for a college education. However, while more and more students have no choice but to borrow and are being asked to borrow in higher amounts, the fear of borrowing may dissuade many low- and middle-income students and families from even trying to attend college. We must enhance our federal student loan program to offer borrowers needed support and proactive counseling during repayment, and by doing so, we can transform the public's perception of student loans to one of a manageable option that is a worthy investment in one's future.

Nowhere to Turn for Support in Deciphering Payment Options

Most student loan service providers would probably agree that the majority of struggling student loan borrowers are working in good faith to repay their loans but a life event may be a stumbling block. Unemployment, underemployment, illness, temporary economic hardship – these are all commonplace challenges which can derail repayment, but they are challenges for which Congress has actually already built remedies if you know how to access them.

Over the years, Congress has taken a number of steps to rework the federal higher education financing system to expand access to higher education. Historically there have been two competing federal student lending programs: the Federal Family Education Loan Program (FFELP)[36] and the William D. Ford Federal Direct Loan Program (DL).[37] Under FFELP, the Department of Education guaranteed loans to borrowers issued by private lenders. The alternative DL program, created in 1993, issued borrowers' loans directly from the Department of Education.[38] Neither federal student loan program focused much attention on repayment matters. However, as student loan default rates hit all-time highs, exceeding 20% in the late 1980s and early 1990s, default prevention became a priority.[39] Over the years, Congress initiated a blend of harsh consequences for defaulted borrowers with borrower-friendly repayment options meant to encourage repayment and keep loans current.[40]

Harsh Consequences of Default
Negative Credit Reports
Wage Garnishment
Tax Refund Offsets
Added collection costs

Borrower-Friendly Repayment Options
Deferment
Forbearance
Loan Forgiveness
Extended Repayment
Income-Contingent Repayment

These programs were put into place to mitigate the repayment burden, but no effective and consistent communications mechanism was ever formally introduced to proactively educate the borrowers that alternatives to default did exist or how to access these options. The majority of communication is limited to one-size-fits-all due diligence activities to delinquent borrowers on the very brink of default, with little to no emphasis on borrowers before this point or attempt to reach them before their credit is affected.

Like all other aspects of the economy, the financial credit crisis in 2008 hit the student loan sector hard, drying up many sources of capital traditionally accessed by private banks lending to students. In response, Congress enacted the Ensuring Continued Access to Student Loans Act (ECASLA),[41] which allowed the federal government to buy outstanding FFELP loans. For the first time since its inception, public capital was injected into FFELP.[42]

ECASLA brought much-needed liquidity to the FFELP loan market. FFELP lenders were able to sell new loans to the Department of Education through a variety of programs. Simply put, ECASLA kept capital flowing for student loans during a time when standard capital sources were unavailable. However, supporters of the competing DL program were quick to jump on the government's infusion of capital, underscoring the episode as more evidence that the student loan regime was in need of a top-to-bottom revamp.[43]

After years of debate in Congress, President Barack Obama entered the White House determined to change the way federal student loans are financed. Indeed, within a year of taking office, President Obama, along with Congress, had abolished FFELP and reorganized the federal education loan system though the Student Aid and Fiscal Responsibility Act (SAFRA) contained in the healthcare overhaul reconciliation bill signed into law March 2010.[44] This legislation also expanded some of the existing repayment options available to students, but fell short of providing borrowers with the education debt management services needed to navigate the system that has been created through various iterations of higher education legislation over the years.

As a result, borrowers are often presented with a complicated rubric of choices about their loan repayment options. While policymakers should always work toward enhancing and adding programs that ease the borrower repayment burden, the problem does not lie in the number or type of options available alone. It's not that federal student loan borrowers don't have options; sadly, it's that so many borrowers simply don't know that options exist.

Even when a borrower chooses the appropriate plan, it can still be difficult for them to steer through the process and rules that govern each program. Take, as an example, the case of a married couple seeking guidance on Public Service Loan Forgiveness for their parent loans. As a nurse and a firefighter, the couple wished to maximize the benefits of the public service loan forgiveness program. The couple dedicated many hours to researching the program but were unable to find the information they needed online or through multiple phone calls to their loan service provider. In desperation, they wrote to their U.S. Senator:

A student borrower with federal student loan debt could have the following options to choose from, although not all will apply to their situation.

Standard repayment involves paying your loan over a 10-year amortization schedule. The monthly payment under this plan is the highest of the options, but borrowers pay the least amount of interest.

Deferment involves the suspension of monthly payments due to an economic hardship or for reasons such as current enrollment in higher education, military service etc. Interest will be paid by the government on subsidized loans only during this time.

Forbearance involves the suspension of monthly payments due to an economic hardship. Interest will continue to accrue. Extended repayment pushes the amortization schedule out to 25 years, reducing the monthly payment for the debt. To be eligible for extended repayment, the borrower must have more than $30,000 in federally-backed student loans.

Graduated repayment begins with small manageable payments, and increases the payment amount every two years. Under this program, the repayment period is 10 years and the largest payment will not be more than three times larger than any other payment.

Income-based repayment is applicable for borrowers who fall below certain income thresholds. Payments are calculated based on income and family size and takes poverty levels into account. A borrower's remaining debt can be cancelled after 25 years of qualified payments. However, payment amount will change as income levels change.

Income-sensitive repayment (FFELP only) has a minimum payment based on a borrower's income, between 4%-25% of income, and a maximum repayment period of 10 years.

Income-contingent repayment (DL only) bases payments on a borrower's and spouse's adjusted gross income. Any remaining balance is canceled after 25 years of repayment.

Public Service Loan Forgiveness: (DL Only) After making 120 payments under the DL program and 10 years of full-time "public service" employment, a borrower's loans can be forgiven. FFELP borrowers can consolidate into the DL program to take advantage of this option.

Teacher Loan Forgiveness: Individuals who teach full time for five consecutive, complete academic years in certain elementary and secondary schools that serve low-income families and meet other qualifications may be eligible for forgiveness of up to a combined total of $17,500 in principal and interest on their FFEL and/or Direct Loan program loans. (Only for Stafford loans issued on or after October 1, 1998)

> *"I have made several phone calls and have spoken with a different individual each time. None of these individuals has a direct line which I can call so each phone call means I have to start from square one. This is VERY frustrating . . . My husband and I have thoroughly researched the program online and have found inconsistencies . . . Is there a single individual with expertise in the Public Service Loan Forgiveness program whom I could call with any additional questions that may arise during the application process?"*

This story illustrates the pain and confusion that even those student loan borrowers who are working in good faith to manage their debt can feel when navigating student loan repayment. Student loan repayments are further complicated when the borrower incurs other debt like car loans, mortgages and credit cards. And the situation is about to take an even more complex turn.

For the next several years, student borrowers who took out loans pre- and post-SAFRA could be leaving school with a mix of loans. A borrower can have a mix of older FFELP loans from private lenders, Direct Loans, private education loans, ECASLA loans, Perkins loans, and institutional loans. To help manage such a complex student loan portfolio and the accompanying variations in repayment rules and regulations, many borrowers would benefit from experienced, independent education debt management programs run by providers who can help them navigate the repayment process as it relates to their particular needs. The current system asks loan servicers to handle this type of borrower advocacy. However, for many reason, servicers are not in the best position to provide the kind of proactive, neutral, nonprofit advocacy that is needed to serve the best interest of the borrower.

Loan servicers, which handle collection of payment until payment is complete or the loan defaults, do provide some borrower assistance. However, loan servicers typically only react to problems when they arise. The loan servicing business model is one built on high transaction volume at a low per unit (borrower) cost. Consequently, servicer-borrower interactions simply aren't geared toward the effective delivery of comprehensive debt management counseling because it takes time.

For example, under the current incentive structure of the student loan servicer, the servicer receives more federal funding for loans in good standing than for delinquent loans. On the surface it would appear that this is to the borrower's and government's advantage, as the servicer has greater motive to keep loans on track. But a closer examination shows that the numerous payment solutions cloud things considerably. For instance, a two-minute phone call between a servicer and borrower can set up a forbearance, resulting in a loan in good standing – an adequate quick-fix remedy for borrowers who sincerely face a temporary period of economic hardship, and a win for the servicer who has kept the loan in "good standing." However, interest continues to accrue, including the potential for negative amortization during the forbearance, resulting in a larger balance for the borrower to repay when the forbearance ends. A 20-minute call, on the other hand, could completely explain all the options available to a borrower and might end in the borrower's enrollment in Income-Based Repayment (IBR)—a long-term solution as opposed to a short-term, quick-fix. The loan remains in good standing, but the education debt management counselor achieves a far better outcome for a borrower with a low-salary, high debt scenario by preventing interest from ballooning and requiring larger payments down the line. In this example, time per call plays a critical factor: "It's often easier and far less time consuming to get the borrower's verbal consent to a forbearance than deal with the lengthy IBR process, which often involves follow-up calls as well."[45] It may be less time consuming, but it may not be what is best for the long-term financial well-being of the borrower. Education debt management should be about finding the best solution to a borrower-specific problem, not just putting the problem off until another day with a forbearance.

Lessons Learned from Federal Investment in Education Debt Management

Earlier this decade, a handful of nonprofit FFELP guarantors began to invest a greater share of their federal funding into developing programs that improved communication with the borrower and proactively counseled the borrower on the consequences of delinquency and default. Best practices for better borrower communication were identified and developed under Voluntary Flexible Agreements (VFA), individual contracts between the U.S. Department of Education and selected guarantors.[46] The VFAs allowed the participating agencies to experiment with new methods and incentives for preventing repayment problems earlier on.[47] While the original guarantor model was primarily based on defaulted loan collection, some of the VFA models were built on proactive outreach to prevent delinquency and defaults from occurring in the first place.

Data gathered during this time period shows that proper, proactive education debt management can have a positive impact on borrower behavior. For instance, one study showed that borrowers who were successfully contacted and provided with education debt management services were half as likely to fail in loan repayment compared to those who were not contacted.[48] Further, participating VFA agencies saw reductions in Cohort Default Rates of as much as 47% and an average reduction in annual federal default rates by as much as 24%.[49] This data proves that when we work to identify those student borrowers most at-risk for repayment problems, and then successfully engage them by some means, they are more likely to keep their loans in good standing.

These education debt management services have been carefully developed with the investment of the federal government and have proven to stop millions of student loan dollars from defaulting. In fact, according to the Department of Education's own calculations, one guarantor, American Student Assistance, was able to avert over $120 million in defaulted student loans during their time under the VFA model.[50] Unfortunately, all VFAs were cancelled in 2008. In addition, while the primary focus of the 2010 student loan reform legislation (SAFRA) was to generate budget savings through the termination of federal subsidies to private student loan lenders, an unintended byproduct has been a further erosion of the funding of debt management activities by further stressing the finances of the guarantor community. Without changes to existing law, the federal student loan program will lack a suitable vehicle for continued research, development and implementation of education debt management services. We face the very real possibility of losing any progress previously achieved toward the goal of returning our student loan program back to the public policy achievement it once represented.

In the final analysis, there must be a realization that if students are struggling to pay their loans, the source of capital for the debt is irrelevant - they simply need help to manage it. Whether a borrower has a Direct Loan, a FFELP loan, a FFELP loan purchased under the ECASLA program, or a combination of all of the above, borrowers struggling to pay their loans need quality education debt management services to help them navigate the process. We need to take what was learned from these pilot programs under the VFA and move forward with a focus on what worked well. Looking ahead, the federal student loan program should incorporate a new role for a neutral third-party or parties to provide unbiased borrower support services in the form of robust education debt management.

What Education Debt Management Should Look Like in Action: Proactive vs. Reactive

Education debt management is based on a simple premise: arm borrowers with the right information at the right time to help them avoid repayment problems. Education debt management services are designed to help students budget money, meet payment obligations and avoid delinquency as well as default. Such programs can also provide help to troubled borrowers who need assistance getting their loans back into good standing after becoming delinquent or even defaulting. A critical aspect of education debt management is that it is more effective than the one-size-fits-all, "due diligence" default prevention requirements currently dictated by federal regulation.

Today, the federal student loan program relies on private sector student loan servicers to carry out default prevention, by making a specific number of attempts to contact a delinquent borrower and bring the account current. But due diligence default prevention often falls short because it is only performed reactively, after a borrower falls behind on payment. By this time, it may be too late to save a borrower from having their credit affected. In addition, this action by servicers may not always have the borrower's best long-term interests in mind due to incentive structure and conflicts of interest, and it often does not include any broader efforts to instill financial literacy.

ASA's research concluded that effective education debt management programs are based on the following principles:

- **Proactive and timely outreach:** Contacting, engaging and building relationships with borrowers early, before payment problems occur.
- **Holistic view:** Capturing a borrower's full financial situation including all outstanding debts from student loans, both federal and private, and any consumer loan obligations. Helping borrowers to take a longer-term view of their student loan as it relates to their budget, future plans, and overall financial health.
- **Unbiased advice:** Advice delivered from a neutral third party that gives borrowers all possible options, with the borrower's short- and long-term interests in mind, without any potential conflicts of interest that arise when the advisor has a financial stake in the loan.
- **Personalized approach:** Creates success one borrower at a time through personalized counseling.
- **Respect:** Respects the borrower, regardless of payment status and focuses on a solution rather than the problem.

Raising contact rates

It has long been proven that collections and recovery of debts can be realized through proactive contact with a debtor.[51] Similarly, as with collections, delinquency prevention can be made more effective through targeted and strategic outreach by a neutral third-party advocate. The most efficient education debt management programs strategically target those borrowers at the highest risk for delinquency and default; engage them through one-on-one counseling; and positively impact their repayment behavior. Education debt management is truly a contact sport; borrower engagement is a critical factor in preventing repayment problems before they occur and resolving problems once they arise.

Holistic

In looking to the future, any education debt management program must be robust in nature to accommodate the numerous loans that can make up a borrower's student loan portfolio. Today, a borrower can have a mix of older FFELP loans from private lenders, Direct Loans, private education loans, ECASLA loans, Perkins loans, and institutional loans. In fact, the number of private or "alternative" loans, issued by private lenders with no federal backing grew significantly over a seven year period until the credit market began to dry up in 2008. For the 2003 to 2004 academic year, only 5% of undergraduates borrowed from private lenders to fund their educations. By the 2007-08 academic year, that statistic ballooned by nearly 2 million borrowers to 14% of undergraduate students.[52]

Borrowers currently do not have one place to turn for comprehensive guidance. An effective education debt management program must incorporate a technological infrastructure that allows for a total view of all a borrower's loans, both federal and private, and analytical capabilities that enable targeted borrower outreach. Also needed are knowledgeable counselors with a firm grasp of all the rules and regulations that govern student loan repayment and a keen understanding of how to incorporate successful repayment into a workable monthly budget for the borrower over the long term.

Borrower Advocacy

An education debt management program can employ the most cutting-edge technology, communications and tools, and yet still not be effective without the proper incentive structures that put the interests of borrowers first. Debt management providers should be free of potential conflicts of interest, with no financial stake in the loan, allowing counselors to operate as unfettered advocates for the borrower.

Unfortunately, in the existing federal student loan program today there are limited life-of-the-loan support systems to deliver such an education debt management program. College financial aid officers are able to provide some degree of assistance, but are frequently under considerable demands to meet the needs of hundreds of current students, let alone alumni who have left campus. And as previously mentioned, the federally designated loan servicers tasked with handling this issue simply aren't geared toward the effective delivery of comprehensive debt management counseling.

Personalized

Unlike routine servicing, true education debt management counseling requires time, individual attention and personalized recommendations. The servicers' goal is to make student loan collection as efficient and streamlined as possible. Less contact with the borrower is better to minimize costs and maximize profits. In contrast, the goal of debt management education for student loan borrowers is to proactively encourage borrower engagement and maximize borrower contact. This allows counselors to educate and inform the borrower, so borrowers can make better decisions about their student loans.

The need for personalized solutions and advice for each individual situation cannot be overstated. Great care must be taken to ensure that the payment option selected is in fact the best fit for a borrower's given situation, as even programs such as IBR can increase the total cost of the loan over the extended payment term depending upon the borrower's future career plans. The effective education debt management program must be flexible enough to adapt to the borrower's specific preferences, needs, and future plans. Some borrowers may opt for self-service options provided via the Web while others will require a one-on-one phone call, and others still will need multiple follow-up interactions to fully resolve an issue.

Policy Principles Going Forward

The momentous student loan reform this year may leave policymakers with little appetite for revisiting the student loan world so soon. But without any government intervention, students and families will suffer. To be sure, decreasing total student loan debt amounts by holding down college costs and increasing the federal investment in Pell grants should be discussed at a public policy level. But in the meantime one of the most simple, yet effective, "first-step" solutions for borrowers is being overlooked. **Proactively contacting and engaging borrowers toward better education debt management, by informing them of their repayment options and helping them choose an option in their best interest, has been proven to positively impact borrower repayment behavior.**

The government should consider the following policies:

- Ensure that higher education debt is more manageable through individualized, proactive, borrower communication programs delivered by a neutral, non-profit borrower advocate.

- Implement student loan debt management and delinquency prevention outreach to ensure borrowers are educated and have access to all relevant financial information at all stages of the student loan process so, they can make sound consumer decisions and successfully manage their student loan debt.

- Fund education debt management programs to prevent borrower delinquency and default, at no additional cost to the borrower.

In short, education debt management should be viewed in the same way that policymakers view higher education itself: just another method of ensuring that today's students are fully prepared to meet all the challenges of our consumer economy. Policymakers should reinstate and expand the federal investment in these innovative and proactive education debt management programs that help student borrowers take advantage of all the available remedies put in place by Congress to avoid delinquency and default. America cannot regain its global competitiveness and bolster its economy without a functional student loan program that ensures student borrowers can survive the payback period without financial demise.

Who is American Student Assistance (ASA)

American Student Assistance© (ASA) is a nonprofit, federally funded organization whose mission is to help college students and their families successfully manage higher education debt. Through proactive counseling, guidance, and education, ASA provides borrowers with neutral, personalized federal student loan solutions throughout their entire loan experience.

ASA is an innovator in education debt management and delinquency prevention. As one of only five guarantors to enter into the Department of Education's Voluntary Flexible Agreement Program, ASA was able to develop delinquency prevention best practices, as opposed to the traditional guarantor function of defaulted loan collection. According to the Department of Education, ASA averted over $120 million dollars in defaults as a result of ASA's debt management programs for federal student loan borrowers.

ASA's philosophy is that, by arming borrowers with the right information at the right time, they can positively impact repayment behavior. Using a data-driven approach, ASA identified the key stages of a student loan where the borrower must make critical decisions about repayment, including the start of repayment, withdrawal before graduation, falling behind on payment, and default. ASA develops targeted education debt management programs that are proactive, customized, and well-timed with their outreach.

Established in 1956, ASA was the first student loan guarantor in the nation. In addition to debt management services for borrowers, ASA also serves:

- The U.S. Department of Education (ED) with student loan delinquency/default prevention and recovery services that save taxpayers millions.
- College financial aid administrators with default prevention support, training, and regulatory guidance.
- Education loan lenders with delinquent loan recovery and default prevention services.
- The community as a whole with general information about borrowing for college.

Based in Boston, Massachusetts, ASA:

- Provides default prevention services to 1.8 million borrowers,
- Has the infrastructure in the form of 500 Massachusetts-based employees to support necessary delinquency/default prevention services for federal student loan programs, and
- Manages a guarantee loan portfolio worth approximately $45 billion.

To learn more about the need for proactive education debt management in our nation's student loan program, please visit American Student Assistance online at www.asa.org or contact Corporate Public Relations Manager Allesandra Lanza at lanza@asa.org.

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