



# Delinquent Borrower Counseling

6 steps to preventing defaults



# 1 Contact Borrower

Begin Step 1



NO

**Leave message**

Hi, this is *name* from the financial aid office at *school name*. We're contacting former students to inform them of a new service we're offering. Please contact me at *telephone number* or stop by the financial aid office. Thank you and have a good day!

YES

**Establish identity of the person that answers**

Hello, this is *name* from *school name*. Is this *borrower name*?



NO

**Establish additional contact information**

Do you know the best time that I might be able to reach him/her? Is there a particular time of day to call or is there a better way to contact him/her?

YES

**Introduce self**

I'm calling from the financial aid office at *school name*. We're contacting former students to inform them of a new service the school is offering. May I have a minute of your time?

YES



**Tips**

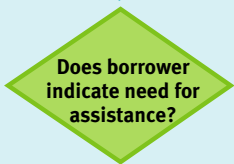
- ★ Before calling, verify that the account is delinquent as of today by checking the servicer's Web site or calling the servicer. You don't want to bother someone who has recently made a payment or applied for a deferment or forbearance.
- ★ Always identify yourself to the person who answers, and then ask to speak to the borrower. This sets a tone of openness.
- ★ If your call is answered by someone other than the borrower, it's important that you do **not** disclose any private information to that person, such as the borrower's Social Security number, loan amount, or even the fact that the borrower has loans.
- ★ Remember, the delinquent borrower is your former student. The debt is **not** owed to the school, which allows you to take a different approach than that of a collector.

Begin Step 2



### Open the call

We're providing free student loan assistance, including answering any questions you may have and helping you with any issues that may arise. If you have student loans, what can I help you with or what questions can I answer?

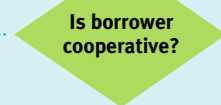


NO

### Explain situation and offer assistance

Your lender has contacted our office to let us know that you are currently *number of months* overdue on your loan payments. Since we're providing a new counseling service at no cost, I can offer assistance to you. I'm familiar with several different options that can help you get caught up on your payments and reduce or postpone your monthly payment.

YES

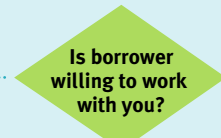


YES

NO

### Explain consequences of default

Being late on your payment can have serious results—the worst of which is default. If you default on your loan, the federal government can garnish your wages and your tax return. Your credit will be ruined for many years, and when you do repay it, you may be charged up to 18.5 percent on top of the total loan. I don't want that to happen to you, so please let me help you and get you back on track!



YES

NO

### Provide contact information

I'm sorry that you aren't interested in assistance right now. Let me give you my contact information in case you change your mind. *Provide telephone number, e-mail and office hours. You also may wish to send a letter to the borrower listing their options.*

## Tips

- ★ An excellent way to introduce your call to the borrower is to sell it as a “free service.” Explain that the school is offering this service to its student borrowers to assist them with any questions about loans during repayment.
- ★ The borrower may not immediately open up to you. You may need to prompt them by letting them know that you're aware they may be having trouble making payments. Then you can explain that you have information about different options on temporarily reducing or postponing the payments.
- ★ It's important **not** to use the consequences of default as a threat, but as an explanation of why you wish to help. Assure the borrower that you do **not** want these things to happen to them, and there are options available. *"I realize there are other priorities in your life. Did you know that by not paying your student loan, you will have a harder time getting a home or auto loan? Establishing good credit with your student loan can help you in the future."*
- ★ See *Managing Difficult Borrowers* on back page.

# 3

## Can Borrower Make Payment?

Begin Step 3

### Explain outstanding loan amount

Let's take a look at your loan account and figure out the situation. It looks like you're *number of months* delinquent—this means that your loan is past due. The easiest way to resolve the issue is for you to pay the past-due amount. You'd need to pay *amount* to get caught up on your payments. Are you able to make a payment in that amount at this time?



NO

4

YES

### Contact lender with borrower!

Also, you may wish to discuss changing repayment plans as a proactive measure. If so, go to Step 6.



RESOLVED!

### Tips

- ★ Use information from lender or guarantor's reports or Web site to determine the borrower's past-due amount. Explain where the amount came from (number of months past due, interest accrued, etc.).
- ★ If the borrower can't make a payment, discuss what's preventing them from making a payment—this should lead into a discussion of deferments and/or forbearance.
- ★ If the borrower agrees to make a payment, introduce the repayment plan options before you contact the lender. Explain that by selecting another repayment plan, they could reduce their payment, making it easier to manage future payments.

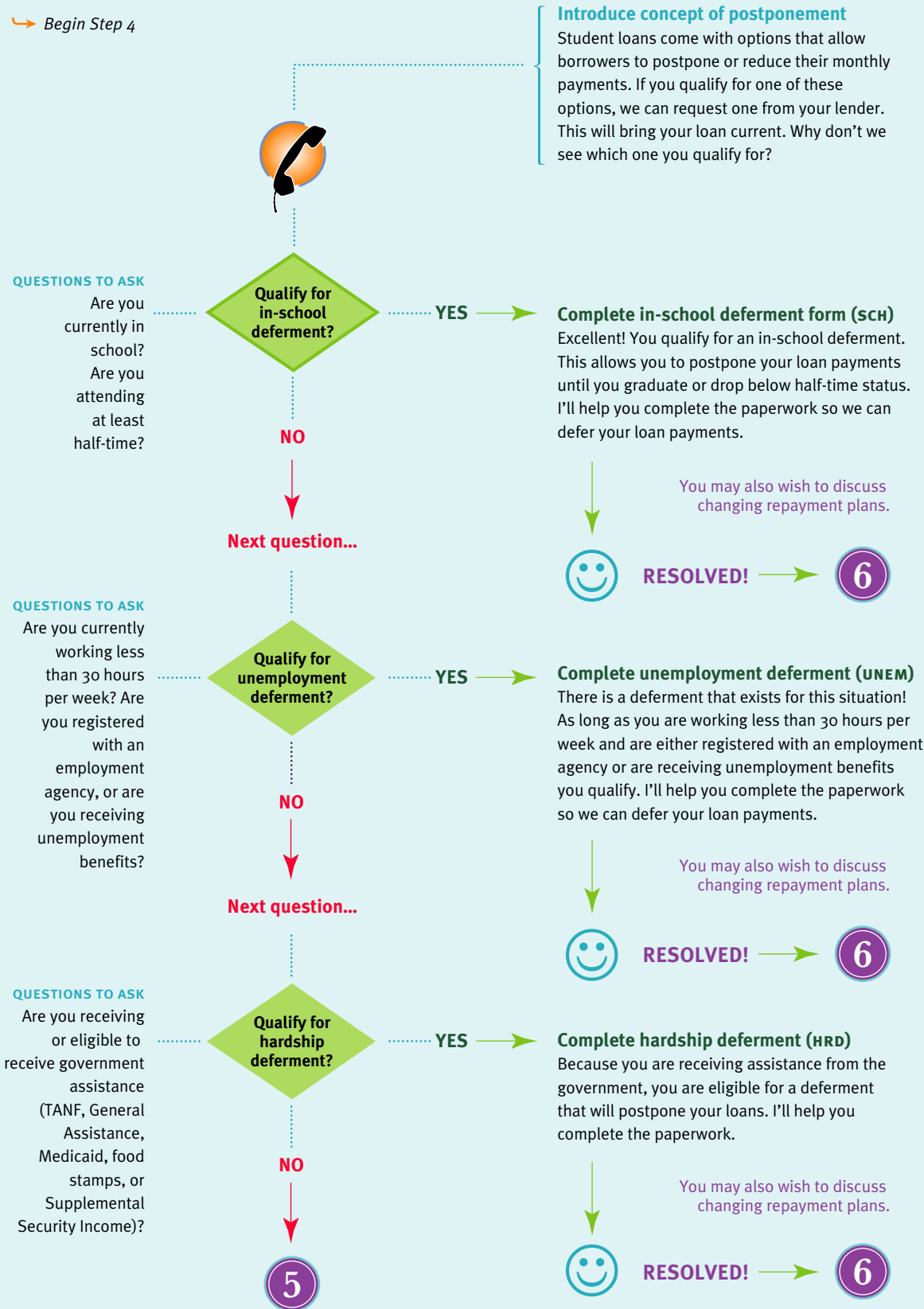


Before looking up the borrower's delinquent amount, verify their Social Security number and ask for the spelling of their last name. Or follow your school's own privacy procedures.

# Qualify for a Deferment?

4

→ Begin Step 4



## Tips

- ★ Remember, a deferment is always preferable to a forbearance, which allows interest to accrue. You'll have to ask the borrower a few additional questions to find out if they qualify for a deferment. It will be very beneficial to them!
- ★ The three most common deferments are for:
  - ▶ attending school (SCH)
  - ▶ unemployment (UNEM)
  - ▶ economic hardship (HRD)
 Use the prompting questions to the left of the diamonds to determine whether or not the borrower qualifies for each. And remember you may be able to ask for a retroactive deferment to cover the delinquent period.
- ★ Ask for the spelling of the borrower's last name and their Social Security number, so you can begin to fill out the deferment form. This allows you to further verify they are the borrower.
- ★ You may choose to mail the borrower the form, or you might ask that they visit the financial aid office. Usually mailing the form to them is easier. Be sure you highlight the area they are to complete, and enclose a stamped or postage-paid return envelope addressed to you with the form. Once you have received the form from the borrower, double check the accuracy, complete your section, make a copy for yourself and one for the borrower, then either fax or mail the form to the lender/servicer.
- ★ After determining that the borrower qualifies for a deferment, you may wish to discuss changing repayment plans to help them better manage payments after the deferment ends.

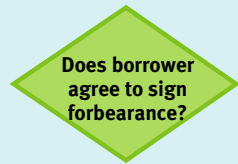
# 5

## Agree to Forbearance?

### Tips

- ★ When everything else fails, a forbearance (FB) is a useful option to cure a delinquency. The reason for a forbearance can be as simple as “experiencing financial difficulty.” Remember you may be able to ask for a retroactive forbearance to cover the delinquent period.
- ★ Ask for the spelling of the borrower’s last name and their Social Security number, so you can begin to fill out the forbearance form. This allows you to further verify they are the borrower.
- ★ You may choose to mail the borrower the form or you might ask that they visit the financial aid office. If you mail the form, be sure you highlight the area they are to complete and enclose a stamped- or postage-paid return envelope with your address. Once you’ve received the form from the borrower, double check the accuracy, complete your section, make a copy for yourself and one for the borrower, then either fax or mail the form to the lender/ servicer.
- ★ After speaking to the borrower about forbearance, you may wish to discuss changing repayment plans to help them better manage payments once forbearance ends.

Begin Step 5

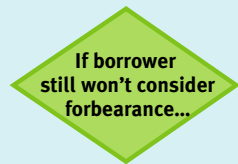


YES

NO

#### Questions to ask

- ▶ What are your plans to prevent the loan from defaulting?
- ▶ How would you like to proceed?
- ▶ Since this is a free service that will help you financially and save your credit I recommend you let me assist you in completing the form... you won't regret it.



NO

#### Explain forbearance

Although you don't qualify for a deferment, due to your financial situation, we can request forbearance of your student loan(s). Like a deferment, forbearance allows you to postpone your payments, however, the interest will continue to accrue on the loan(s). You can choose to pay the interest, but if you don't, it will be added to the principal of your loan. This forbearance will bring your loan current and out of delinquency. This sounds like your best option—let's have you apply for one—you'll be glad you did.

#### Complete forbearance (FB)

I'll help you complete the form and make sure your lender receives it. Remember that submitting this form does not guarantee your request will be approved. It's up to your lender/servicer's discretion. You'll receive official notification of the approval/ denial within 30 days.



RESOLVED!



You may also wish to discuss changing repayment plans.

#### Provide contact information

I'm sorry that you aren't interested in the forbearance right now. This option will bring your loan current and help you avoid bad credit ratings and other serious results. Let me give you my contact information in case you change your mind. *Provide telephone number, e-mail address and office hours.* Thank you for your time.

# Switch Repayment Plans?

6

→ Begin Step 6



Does borrower want to change plans?

NO

In case you change your mind in the future, let me give you my contact information. *Provide telephone number and e-mail address.* Thank you for your time.

YES

Put the student in contact with the lender/servicer to change plans.

## Explain Repayment Plans/Consolidation

By changing repayment plans, you'll be able to lower your monthly payment, making it easier to afford. Let me briefly explain each repayment plan and how they can alter your monthly payment amount. *Review the plans listed below. You may wish to use EdWISE® (or another online calculator) and enter the borrower's actual loan amount.* By contacting your lender, we can switch you to one of these plans—are you interested in changing plans to lower your future payment?

## Tips

★ It's strongly recommended that you use EdWISE ([www.edwise.org](http://www.edwise.org)) or another online repayment calculator to determine estimated monthly payments based on each of the plans. You may wish to use 8.25 percent as the interest rate in your calculations for the "worst-case scenario."

★ If the borrower has missed payments because they have multiple loans/lenders or a very high balance/payment, it may be worthwhile to discuss loan consolidation. Be sure to put the borrower in contact with the lender. Here are a few benefits to mention about loan consolidation:

- ▶ One monthly payment
- ▶ Reduction of monthly payments
- ▶ Different repayment plans
- ▶ No application fees
- ▶ No pre-payment penalties
- ▶ Can lock in a lower interest rate

★ **Standard Repayment Plan** allows you to pay the same amount each month—at least \$50 or the interest that has accrued—with up to 10 years to repay.

★ **Graduated Repayment Plan** ensures your payments start out low and increase over time, with up to 10 years to repay. You'll pay more in interest over the term.

★ **Income-Sensitive Repayment Plan** bases your payment on a percentage of your gross income and the amount you borrowed, but the payments must be at least the same as the interest due. (So you can't have a \$0 payment, even if you're unemployed.) Your repayment term will vary depending on amount of the loan and your income.

★ **Extended Repayment Plan** requires over \$30,000 in outstanding loans and no outstanding loans as of October 7, 1998 (new borrowers). Payments can be fixed or graduated, with up to 25 years to repay.

# Privacy Issues & Managing Difficult Borrowers

## PRIVACY INFORMATION

There are numerous privacy laws that must be followed when dealing with a person's private information, such as student loans. Below is a list of things to be aware of as you contact and counsel borrowers. For more information, refer to the Fair Debt Collection Practices Act and the Privacy Act of 1974.

- ★ □ Don't disclose the borrower's personal information to anyone other than the borrower (or the references listed on the MPN).
- ★ □ Personal information includes Social Security number, the fact that the borrower has loans and the balance of the loans, etc.
- ★ □ Don't communicate by postcard if there is any mention of student loans on the card.
- ★ □ Contact the borrower between the hours of 8:00 a.m. and 9:00 p.m. (Keeping in mind the time change if calling across time zones). Use caution when contacting the borrower at their work place by asking if it's a good time to speak with them.
- ★ □ No matter how your interaction with the borrower proceeds, do not use abusive or harassing behaviors such as shouting, threats, etc.



## MANAGING DIFFICULT BORROWERS

If a borrower becomes upset, don't take any remarks personally. Use the following tools to help solve the borrower's problems, rather than escalate the situation:

- ★ □ **Use the borrower's name:** You may be able to build a personal connection if you use the borrower's name often. In general, people are less likely to be rude if they are being personally recognized.
- ★ □ **Smile:** The borrower can hear your smile and positive attitude—even over the phone.
- ★ □ **Counter anger:** Speaking in a low, unruffled voice will cause the borrower to quiet down and listen more carefully, and typically results in them calming down. It also demonstrates to the borrower that you are not going to get involved in a counter-productive shouting match.
- ★ □ **Give the borrower time to talk:** Many times, the borrower wants you to hear their situation. If they feel you're listening and they think you understand their situation, they'll be more likely to trust your advice. While the borrower is talking, make sure to indicate you are listening.
- ★ □ **Restate:** After the borrower is through talking, restate what they have told you. "If I understand you correctly, you're saying..." This is important because even though you were listening, you may not have heard the borrower correctly!
- ★ □ **Remind them of the consequences of default:** The borrower should have many opportunities to avoid default, and default consequences are serious. Remind them that the situation won't disappear and that it'll be easier to deal with sooner, rather than later.
- ★ □ **Remain professional:** The borrower may verbally attack your institution, your department or even you! When dealing with irate callers, focus on the borrower's issue rather than the borrower's attack.
- ★ □ **Offer assistance:** Tell borrowers that you "would like to help them," if they let you and that you are available to answer any of their questions.
- ★ □ **Rarely agree:** A difficult situation could become worse if you say you "agree." Instead, say that you "understand."
- ★ □ **Assert control:** Although the borrower may rant about their situation, assert control by steering the conversation back to how you can help them.