Default Management in Recessionary Times

Bad economy creating big headaches for loan collections

with Mary Lyn Hammer

Mary Lyn Hammer has not seen numbers this bad since the real estate market collapsed amid an oil bust in Texas—college loan delinquencies have doubled.

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Even before October's seizure in the credit markets, and the subsequent public revelations of how bad the nation's economic challenges were, Hammer was watching with trepidation as the number of delinquencies began to climb higher and higher.

She knows quite well defaults may follow suit.

"I have been doing this for 22 years, and I have never seen a portfolio like this," said Hammer, president and CEO of Champion College Solutions. "I think things will get worse in the short term."

Hammer bases that prediction both on the number of layoffs that have occurred, and the number of companies that have filed their intention to make massive layoffs.

"This is affecting every sector of the economy," Hammer said. "If people get out of school and can't find a job, this is going to hit us on the back end."

This creates some troubling trends for schools, which will lose access to Title IV funds if they are not able to keep their default rate in check. Hammer has already begun to ramp up her company's efforts to help schools manage the anticipated spike.

Some of the steps taken by Champion include:

- Increased training for school staff.
- Increased requirements for information and reference collection.
- Verification of credit and other references.
- Increased call rotation during loan grace periods.
- Beefed up skip tracing efforts.

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Since the climb in delinquencies began, Hammer has noticed increased problems with tracking folks down to either provide them with information on their loan or initiate the recovery process—they can't be found, at least not easily.

In the past several years, when loans went delinquent or defaulted, Champion was able to relay the information to the credit bureaus and within a few minutes get an electronic file containing the necessary information to contact them.

Now, they are finding that the databases are dated, and the information is no longer relevant for tracking the borrower down. Instead, Hammer's staff has had to resort to more manual tasks to track down borrowers, such as checking MySpace pages and other sources.

One of the more important steps is the need to collect more detailed reference information on the front end, and verify it before the loans are dispersed. Good information is vital to keeping loans out of default.

"We really have had to beef up our services," Hammer said. "We had to increase rates as well, which wasn't popular, but the work for skip tracing has increased tremendously."

One of the more important steps Hammer is stressing to her clients is the need to collect more detailed reference information on the front end, and verify it before the loans are dispersed. Good information is vital to keeping loans out of default.

Additionally, making calls during the grace period can help identify problems early.

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What concerns Hammer looking forward is that delinquency and default rates are climbing at a time when the new *Higher Education Act* has increased the amount of money that students can borrow. Schools without a well-managed portfolio could find themselves in trouble pretty quickly.

Hammer has applied to serve as a member of the negotiated rulemaking teams that will begin meeting this spring to hammer out the details of the new *HEA*. Some of the top issues she will be pressing for include unemployment deferments and income-based repayment schedules.

"The upcoming negotiations will be critical," Hammer said. "Things may be moving targets for a while. We've not really been in this situation before."

Career Education REVIEW *Written by Sean P. Johnson.*