Sarah Gubins: Good afternoon. Thanks everybody for joining us. I'm Sarah Gubins, the Education and Business Services Analysis at Bank of America, Merrill-Lynch. I'm delighted to have Mary Lyn Hammer, the President and CEO of Champion College Services on to discuss loan default management in the higher education sector.

Also on the call is Bob Bennett, Mary Lyn's partner, and the founder of Groundswell Equity Partners.

Defaults have become an increasingly important issue for many companies given increasing loan defaults in a weak economy and the pending shift from two-year cohort default rate metrics to three year metrics.

Mary Lyn has also been actively involved in regulatory matters in higher education over the years and we'll get her broad perspective on the regulatory environment. So I think there's enough uncertainty that we'll try to keep that discussion fairly high level.

So let me first introduce Mary Lyn. She founded Champion College Services in 1987. Champion offers default prevention for federal and private student loans, job placement verification, skip tracing, consulting services, and custom surveys.

Among her many activities, Mary Lyn has served on three negotiating rule making committees, and she's worked closely with the Department of Education in drafting language for default management. She has also served four terms on the Board of Directors for the Career College Association.

In terms of the agenda, I'd like to start off by asking Mary Lyn some questions and then we'll then open it up to the audience for your questions. If you'd rather email me a question that I can ask, my email address is Sara.Gubins@baml.com.

So with that, let's first start off – Mary Lyn if you could provide some background on Champion Services and your customer base.

Mary Lyn: As Sara said we started our company in the 1980's when student loan defaults first became an issue. And to our knowledge, I was the first full time default manager in the history of the country.

I started at a private career school who had a default rate of 35% and we got the default rate under 10% within two years. And my lucky break was that the school owners allowed me to copyright that program in my own name.

So I went out on my own 20 years ago. The basis of the program was regulatory criteria for default management from 1989 – 1996 in the language called the Appendix B at that time. It's currently in re-written language in sub-part N and I was a negotiator for writing sub Part N. So those are all the regulatory language for cohort default rate.

On average, we cut default rates in half for our clients. We have found that those clients who've chosen to leave our services experience an average of 44% increase. So I believe with a 50% decrease and 44% increase which will probably go up in this next year for those clients who aren't with us through the bad economy, it's a direct reflection of how effective our services are.

Sara: And are your primary customers for-profit schools or do you work with non-profit or state schools as well?

Mary Lyn: We have some non-profit schools. Primarily we've specialized in the high risk schools and mainly because those were the ones with the higher default rates when the economy was good. So that's expanded quite a bit recently from the early 90's, but my passion is for the high risk students mainly because I grew up in an abusive home and I went to a private career school immediately after high school and it was through that education and the support from that school that I was able to break away from that family pattern and change my life. So I specialize in that area and have because I am one of those students and that's always been my motivation. It's never been money. It's always been about the students and I think that is reflected in our results.

Sara: Without going into specific companies, how important are publically traded for-profit institutions within your customer base?

Mary Lyn: Our customer base is more of the privately held companies; mom and pop schools so to speak and corporations who are not publically traded. We have worked with publically traded schools but it's not like that's our main client base.

Sara: Okay. Can I ask who do publically traded companies tend to work with? Are they doing this themselves, or are there competitors of yours that tend to focus more on them?

Mary Lyn: I think a lot of the larger companies just because they're the student numbers tend to try to do it themselves. I don't believe that that's necessarily a good choice in all cases, and the biggest part of the learning curve there, and it's hard for a large corporation, but making a broad decision about default management when you have a great variation in default rate especially right now could be a mistake down the road. So in other words, if you're choosing a lower intensity program than what Champion specializes in, that may be okay for your lower default rate schools, but the higher default rate schools are going to get in trouble just like the mom and pop schools would get in trouble.

So I think it really needs to be customized according to what's in their portfolio and the risk involved with each individual PE ID number.

Sara: Okay. Can you talk about the role that schools play versus lenders versus third party service providers in managing defaults? How do all of those groups work together?

Mary Lyn: Well I'm going to take this opportunity to do a brief description of what the cohort default rate definition is so that it's obvious where one begins and another ends.

Based on the federal fiscal year which begins in October and ends September 30th, during the first year, the borrower base is formed, so all borrowers who get out of school with the last date of attendance in the first year are the denominator.

And then we have to track them -- current language is the two year definition and then it also is overlapping right now with the new definition that's a three year definition.

So you take the base year plus one year for what their eligibility is based on now, and then in the future it will be based on the base year plus two additional years.

So the window that they have to be tracked in is a third greater than it has been in the past.

We primarily take the students from the time they get out of school through those periods of time – the two year and now the three year window.

So what we do is we work with the schools to make sure that the borrower education pieces and communications while they're attending school are in place. And the basis of those programs is the same for all students but there is some customization that needs to be done based on who the student is, what area of the country they live in, what type of student – you know like what they relate to. You have to put borrower education in terms of something that they will relate to like somebody who's studying to be a car mechanic is going to be motivated by having good credit so that they can buy car parts. Somebody who is attending a salon or going to be working in a salon would be motivated by being able to buy salon products for their salon. So what you give is examples to motivate them vary but the basics of it are the same.

Sara: Okay. I want to talk a little bit more about some of the details on CDR's and then kind of dive into the services that you offer and what schools can do to improve default rates. We've seen an increase in default rates over the last year or two and given the economy, I'm wondering where you think those are headed over the next few years?

Mary Lyn: Well I think there are so many variables playing against the students in the schools right now that the potential is extremely high even for those schools who've traditionally been low. We have a record bad economy which is obvious to everybody. The transition from the FFELP lending community to direct loans is very detrimental to the students and the schools. The FFELP lenders have been pulling out for the last two to three years so the students are left with multiple lenders and multiple payments that are not manageable for them.

With the loans that are from the FFELP community that are being purchased by the Department of Education, that's an additional servicing factor, additional payments. And so you've got these basically financially illiterate students not because they want to be illiterate, it's just that they're young, they don't have the knowledge trying to deal with five to eight different lenders and servicers and payments, and because the default rates are based on the number of students who go into default, if you miss one of those loans, they're in default. So you've got six loans and we recover five of them and one of them falls through the cracks, it's a default in the school's default rate and it's a default on the student's credit record.

Sara: That's interesting. So because of the shift, you're actually seeing students ending up with more loans with multiple institutions then they would have before.

Mary Lyn: Well the balances are the same but the number of payments that they have to deal with and the number of deferments that they have to deal with – they have to submit a deferment to every single one of those people. If they're unemployed and they have six servicers, they have to submit six different forms to six different people, so if anything goes wrong in that process, they're a defaulter.

Sara: Interesting. So it's fair to assume that you expect default rates to continue to go up – the overall cohort default rates to continue to go up at least in the next year or two.

Mary Lyn: Yeah and they're not bad people, they just need – the high risk students needed a helping hand and I truly believe that the difference between a high rate with a school and a low rate with a school is how much assistance they get. And our staff is trained to be customer service oriented and they're the helpful hand to the students. Collection methods don't work because that alienates them. They already have collection calls. But that's what the difference is. And what's going on with the default rates now are that you may have had 25% of your student base that was a high risk student in the past during a good economy, and now you have 80 or 90% of your student base that is a high risk student because of the situations they're dealing with.

Sara: Do you think that -- I understand why defaults would go up because of the move toward FDL means that you end up with a lot of different loans. Do you think students who start out in direct lending and continue – so they would only have the one loan but it would be from direct lending, do you think they would be more likely to default simply because they wouldn't have the default management services that some of the FFELP lenders were providing before?

Mary Lyn: Well if they have one servicer it's less likely that they will make a technical mistake, so that would reduce your risk there. The level of servicing that's available out there is almost bare minimum. It's not bare minimum. And all of the servicers that said this, that they can't effectively service the loans for the amount of money that the government is paying them, but that's the reality. I mean nobody's going to go into the red just to have business.

So they make a phone attempt. The language is phone 'attempt' approximately every 45 days. That's not much. And most of them use predictive dialing systems so there's never actually a live person on the other end of the phone and I don't know about you, but the minute I pick up the phone and I hear clicking or somebody's not there, I hang up.

So a lot of times when we get accounts, we'll get a hold of the students and they'll say, you know, I've never talked to anybody. And then a lot of the servicers have maximum time frames for how long they're on the phone with a student. They have a maximum of two minutes and it takes longer than that to deal with some of these complicated situations.

We have students where they've got five or six different servicers and we have to call every one of them. We're on the phone with the borrower for 20-30 minutes. That's what it takes.

Sara: Do you see any relationship between a school's job placement rates and its default rates?

Mary Lyn: I think that that difference is more obvious when there's not intense default management. One of the things that differentiates our company from others is that we consider every borrower equally important. And there's a lot of borrowers that go into default just based on they dropped out of school, and the fees involved with the loans are the only balance. So they'll have a couple hundred dollar balance.

Well the guarantee agencies and the large collectors look at the loan balance, but in a school's default rate, it's based on number of borrowers. So that $200 borrower will adversely affect the school just as much as somebody with an $80,000 balance.

So when we take schools on, normally the drop to grad ratio in defaults is 80/20, 80% being dropped to those who wouldn't have gotten a job from the education.

After they've been on our system for a period of time it goes down to 50-50. That's what our portfolio shows at this time.

Sara: So normally 80% of default for a school would be from students who dropped, but if they're in the program it's more like 50% of the defaults are coming from students who dropped? Is that correct?

Mary Lyn: Right. That's what our overall portfolio is showing at this time.

Sara: Okay. So you got started in the business really at the height of the student loan default boom. How do you compare what was happening then versus what's happening now in terms of the pace of default?

Mary Lyn: Well back in the beginning there was a lot of corruption in the lending industry so that's not all that different from now. The data was corrupt and nobody had ever made anybody accountable. I mean I remember kids I went to school with who bought cars with their student loan money. 1986 was the first time the country had a national computer system for tracking students and getting the federal tax returns to pay down the loans. And I was in mortgage lending when that all went down and I remember people calling and they were all kinds of upset because their tax returns were kept.

So our country was not capable of collecting the money prior to that and they didn't make it a focus. It wasn't until Graham Rudman came out where they decided to do a balanced budget movement saving 10% across the board. And it was through budget reconciliation that cohort default rates came from.

So that was all part of saving money. And then the first year that the government implemented the cohort default rates, about 2,000 schools closed.

So there was corrupt data that people were held accountable for. Their rates were based on corrupt data so it wasn't necessarily there, and that's the difference between then and now is that now the data is not as corrupt, the lenders are being held accountable – of course most of them pulled out – or the vast majority of them pulled out, and so we're dealing with more accurate data but bad situations. So that's the primary difference. I mean there was some recession going on back then but not to the extent that it is now.

Sara: I also wanted to ask a bit about the pace of defaults and delinquencies, and maybe actually it might be good to just step back and explain what a default and what a delinquency are?

Mary Lyn: Okay. There's two different definitions. The one for the FFELP loan is that they are technically in default at 271 days past due. So a delinquent account is somebody who has a due date within that 270 day window.

On direct loans the definition is 360 days past due and they automatically go into default after that point. So delinquent borrower and direct loans they actually have an additional 90 days.

Sara: Do you think that will make much of a difference in defaults?

Mary Lyn: It does and that was reflected last year when the President said it came out last year and they released the rates and they were saying how the direct loan program was so much lower. There

were two main factors in that; one that they have a longer period of time to collect the money, and the other is that at that point they had more traditional schools in the program so they weren't servicing the high risk students, and that's the primary factor.

Now in the FFELP loans there's an additional step in there which is the guarantee agency and that's kind of like the mortgage insurance and student loans. When the student defaults on the loans, the insurance company who's the guarantee agency, pays the lender back. And that same process takes 60-90 days generally.

So one of the things that's happening with the default at this point is those students who have been assigned to the government from the FFELP industry don't have to go through a claim process now. So they're going into default right up to 270 days past due. So that's also adversely affecting the default rate.

Sara: So before, the guarantee agency staff essentially added some days before they would be counted as a default.

Mary Lyn: Right.

Sara: And so how have the pace of the defaults and delinquencies been trending in the last couple of months and I guess over the last year?

Mary Lyn: Well last year in October, the delinquent rate doubled basically. They were twice as high as the year before. So at that point, we actually developed an additional program offering for our clients – which we were already the most intense program out there, but it was like our old program on steroids and we doubled phone calls to the delinquent borrowers, we added borrower education pieces to the grace period, we added pieces for skip tracing. I mean we just added, added, added because that's what it would take to get it under control.

And just to give you an example, over the last year for those clients who've been with us for more than two years where we've got a year-to-year comparison, we reduced their default rates by 14.3%. For new clients who came on board we have dropped their default rates by approximately 1/3 in the last year.

In our old program which had historically cut rates in half, the default rate has actually gone up about 45%; the program that had always cut rates in half. So that shows there's a direct correlation between the intensity of work done.

Sara: So for the standard program that you had been doing before where rates were cut in half, you actually saw that over the past year rates were up 40%?

Mary Lyn: Yeah.

Sara: Wow. Okay.

Mary Lyn: But you know a lot of the reason is because the enrollments are higher, so the enrollment grows on average is about 20-25% for the institution – on average, and then the delinquent rates are

double. So if your total delinquent during the whole measuring period, you historically had 30% of your students delinquent, you now have 60% of your students delinquent.

So even if we are recovering at the same rate that we did before, it's with a larger percent of the population.

Sara: In this new program where you're essentially being much more intense about the level of service thing, there you were actually above a C default rates go down.

Mary Lyn: Yeah. And we have less than 1,000 students on the old program. I mean very few people -- my clients have been with me a long time and I basically called them up and said you have to do this. You're going to be in trouble if you don't. And luckily most of them did it, and those who didn't are now calling us up and going okay we did it and they're upgrading. So we have maybe two or three hundred students on the old program at this point.

Sara: Okay that makes sense cause I was going to say we haven't – I mean we've seen default rates up, but certainly not up 40%. But it sounds like the number of schools that were for that data was actually pretty low because somebody had moved into the new program.

Mary Lyn: Right. And those were historically low schools. So a 40% spike was going from 6% to 10%. Still not where they want to be and a lot of schools take advantage of the disbursement benefits they get for three years under 10%. So we kind of have two batches of clients at this point. One is those schools who are afraid of losing eligibility, pushing the 25% in a two year window, and 30% in a three year window. And then we have those schools who have been using the disbursement benefits where that increases their cash flow, and if they go over 10% they lose those benefits.

So they're two completely different clients.

Sara: Do you think that given how much default rates have been going up that the department would have any leniency around the rule where if you're above 25% for two years in a row you could lose access to federal financial aid?

Mary Lyn: I don't see that happening. There's no discussions of it. If anything they're cracking down on what they want people to do. The department had planned on being at 50% of volume at this point in time and they're at 83% was the last number I heard. So they don't want to let up on the schools for default management because the schools are helping them collect that money. They're at a huge volume, and I don't care how good a business person you are, you can't grow by that volume and do it well. There's a difference between 50% and 83% when you're dealing with 8 million students. That's a lot of new business.

Sara: And when you said 50% of volume you're talking about how much federal lending is now going through the FDL program as opposed to the FFELP program.

Mary Lyn: Right.

Sara: Okay.

Mary Lyn: It's much higher than they planned because all the lenders are pulling out. Case just announced they're not going to process any more loan applications.

Sara: Right. Well given where Safford seems to be headed then understandable.

Mary Lyn: And if you can't make money, you can't make money. So it doesn't make sense to stay in business.

Sara: I'd like to turn to talking about default management practices and if you can talk about the main steps that you take and the kinds of tools that are available and maybe describe deferrals and forbearance.

Mary Lyn: Well the deferments are based on a student's eligibility for them. For instance if somebody is employed less than twenty-five hours a week and they have to be registered with an employment agency their specific criteria, if a student is eligible for that it's an entitlement for them to have a deferment.

With the forbearance it's granted at the lender's discretion so they don't have to give the forbearance. And we're seeing a lot of them not giving the forbearance. If the student doesn't show an intent to pay, if they send in a forbearance and it says I can't pay, the lender says well why should I roll the dice on this person because it just prolongs how long they have to keep them on the books. So that's the primary difference between deferments and forbearances.

Our ultimate goal as a company is to teach the students enough so that they are financially literate and able to handle their own responsibilities by the end of the time period in which we are servicing them.

So our top priority is getting them to make some kind of payment and we're doing that through the income base and income contingent payment program. Those are one of the hardest things to do for the student because you have to collect a lot of back up data, but it's what's in the student's best interest.

Sara: So has IBR become one of the most popular methods that you're using since it was enacted?

Mary Lyn: Yeah. That's where we concentrate our efforts but that's not necessarily where others do. But I believe that if you always do what's in the best interest of the students than everybody's going to win. And the schools should keep in mind that the department is publically publishing two year rates, three year rates, and life of the loan rates. So ultimately if you can teach the student to be self-sufficient, those longer term rates that they're releasing will be lower.

Sara: So typically with your clients do you --- how long do you follow the students for the first two years or is it a longer period than that?

Mary Lyn: Well historically it's been two years and now we're going into a three year definition so we'll be following the students through that third year.

One of the things that needs to be fixed and is not yet is the school's ability to assist in getting a student out of default and that's called a rehabilitation. And that's where if a student makes nine payments in ten months they can come out of default.

If that all happens before the end of that third year, they would be taken back out of the school's default rate. But at this time, there's no system in place for privacy laws that allow the schools to assist in getting students back out of default. And I think that's a shame especially in this economy because there's a lot of people in circumstances that they've never had to deal with and they're not dead beats. They're good people in bad circumstances. And so I think something needs to be done so that we can help them turn their lives around and fix things.

Sara: Is there any legislation that might do that? I'm guessing not. But is there anything out there?

Mary Lyn: Well I've been trying to get information-sharing language passed for about fifteen years. It's been two higher ed bills and ultimately was taken out. Mr. Miller had it in his manager's amendment in HEOA and it was taken out.

People are worried about borrower privacy that the language specifically said it could only be used for default management, so it was one of those situations where the fears were really not based on reality.

So I haven't given up hope. I don't give up easily. I'm pretty stubborn. I'll keep working on it until they put it somewhere.

Sara: Do you work with schools to track cumulative defaults?

Mary Lyn: We haven't in the past. All of the legislation where they're publishing three year rates and life of the loan like rates – that all came out of the higher education act that was passed in 2008. So that's all new. Maybe we could estimate it. That's a lot of how the lenders decide whether they're giving private loans or whether even they were going to do the federal loans with the schools was based on the life of the loan and you can predict that the life of the loan default rates generally are about four times what the cohort default rate is.

Sara: The two year cohort default right?

Mary Lyn: Yeah.

Sara: And how about the pace of deferment and forbearance applications. Has that been increasing at the pace of delinquencies or defaults or faster?

Mary Lyn: Well it depends on how you define what you're calculating. If you're looking at the percent of people on deferment or forbearance to the total number of students, it's gone up significantly. If you're comparing it to the percent of delinquencies it's probably about the same or a little bit higher. And a lot of that is because the skip rates have gone up significantly. The skip rate is where somebody who doesn't have a good phone number or address. Traditional methods of finding these students which are usually through the crediting bureau data has become antiquated.

In the past you could pull down a data file and wherever they've applied for credit would provide an address into that file. Well people aren't applying for credit so those data bases are antiquated and we've had to go to much more manual systems of trying to find the students through the social networking and primarily through references.

Sara: With the move toward three year measurements or CDR's, you'll have to work with your clients for a year longer, but are there other things in terms of the practices used or the tools used that will have to change in trying to manage default rates?

Mary Lyn: Well like I said, we really increased the number of phone calls and everything that we were doing to try to offset that. And the only thing that we could add to what we're already doing would be our ability to help students get through rehabilitation of their defaulted loans and we don't have access to the information to do so. But the minute we do, that would be something that we would add on to what we do.

Sara: I'm going to just ask one more question and then I'll open it up to the audience to see if there are questions on the line. I know you don't want to go too much into detail in terms of the whole regulatory process, but broadly speaking, I'm wondering about your take on the regulatory environment, the proposals that the Department of Education has out there and whether or not in your experience when you've been through negotiated rule makings where they don't reach consensus, do you normally see a lot of change between the end of negotiated rule making what actually ends up in regulatory language?

Mary Lyn: In the past there hasn't been a lot of change. I think the department is listening to people on what they have to say. The main concern seems to be focused on the gainful employment. They also know that there's not a data base for holding some of that information that was part of that language.

There is the notice of proposed rule making portion of that regulatory process where the public is allowed to give comments and I would say make comments because those departments feel that they did their part. They came to the table, they tried to negotiate and all of the non-federal negotiators said no and so they kind of left them at the table and they can publish what was agreed upon, which is what they've done the last few times is to publish what they had what's called Tentative Agreement Done section by section. That's what's happened recently when they didn't get consensus.

But there's a comment period for a reason and they are asking for data to back up people's opinions on all of this and my suggestions to the schools is to get that data together and make your comments because otherwise they're going to go by what they already know. And what the schools provide may be different than what they already know.

Sara: And are you finding that schools are receptive to that and are actually trying to send in data or do they not even have it?

Mary Lyn: I think a lot of the schools don't understand the process well enough to know that they need to put effort into this. I think if they really understood how important it was that they might make more of an effort. And I believe the target date for publishing these is around May 1 and they can have as little as the thirty day comment period and as much as a sixty day. It's probably going to fall somewhere in between but we don't know until they publish it.

Sara: So for the active retainment assessment they were proposing, does anybody have the data to track all of the components that they would need to even calculate it because we've been trying to triangulate some cohort default rates to this active repayment number but since we don't have any real data about delinquencies and deferrals and forbearance by school, we haven't been able to do it. Does anybody have that data?

Mary Lyn: Not to my knowledge. Everybody's got their own data base and the NSLDS is the depository for that data, but historically the data is not updated in the NSLDS until the students hit a late stage delinquency status. So that's in the data between 90 and 120 days past due. So those students who are delinquent or on deferments or forbearances prior to that point are not reported. So they may change and ask the companies to report that data, but right now it's not set up for that.

Sara: Okay. I can keep going but I think I'll see if the audience has any questions. Operator could you open up the line.

Simon Archer, B of A Merrill-Lynch: Thank you very much. Hi Mary. I have a question on the income base repayment programs. Can you just talk about what kind of impact you think it will have on defaults?

Mary Lyn: Well there's a lot of different factors involved on the default rates. I think it's a good thing. I think it's an option that wasn't previously offered, and it's the best option for the students because it gets them in the habit of making payments. So if the students understand it and get the right assistance --- it's confusing, it's hard to get the back up documentation together, so most of them need help to get it done right. But I think it's the best option for them. So if they have the right borrower education it will have a positive impact.

Simon: Okay thanks. And maybe one more question. Obviously given this increasing focus on default management, do you have a sense of if this is their budget, are the schools spending more of their budget on their default management services?

Mary Lyn: I believe that some schools are but not all schools. But I believe some schools are.

Simon: Alright. Thank you.

Mary Lyn: You're welcome.

(At this time we have no further audio questions in que)

Sara: Well in that case I'm going to keep going. So one of the things we're going to focus on high cohort default rates is that the Department of Education has asking accrediting agencies to look at schools that have high CDR's and maybe place some additional restrictions on them. Are accrediting bodies starting to do that and is there much talk about this?

Mary Lyn: They are starting to do that and we've seen a pretty broad – the department hasn't given us specific directions. We're seeing a pretty broad variety of what they're asking for. Some accrediting agencies, mostly the more stringent regionals, are asking for a huge amount of information and reporting for those schools above 10% or if they have an increase of more than 5%.

Some of the accrediting agencies are focusing on those schools above 20%. So it really is varying quite a bit but they are sending out letters to the schools. We're also seeing email formatted letters from the Department of Education to schools asking them what they have put in place and what they're doing about the default rates. And these are schools who are not in jeopardy of losing eligibility at this time. They're red flagged. So they're on the department's radar screen and they're on the accrediting agency's radar screen.

And just to give the listeners an idea of the risk here, when a school goes above 25%, the language is may impose. So it's not required but it's optional and up to the secretary. Provisional certification, which means that they would only be certified for one year instead of a longer period of time since they may have to post a letter of credit if they don't already have one, or a larger letter of credit, and that's based on potential liability for refunds if the school loses eligibility.

And worst case scenario other than the school closing, is reimbursement which is where the schools cannot draw down funds until after the students have completed portions of their education and then that all leads up in to LS&T which is Limit, Suspend, and Termination where the school loses eligibility.

So there's very costly and high risk of having high default rates even before you're at the loss of eligibility stage.

Sara: Have accrediting bodies or the DOE started to talk about or put any restrictions for schools that are on their red flag list?

Mary Lyn: Well many of them have to answer very detailed questions. It's extensive. Some of the letters we've seen are several pages long asking for very specific action plans. And once the school submits those action plans they will be tracked.

Sara: Okay. So if I have a school today where the last cohort default rate was – call it 23-24% next year probably goes up because the economy's worse and there's just been a lot of change in terms of sub lenders. I start to run into a real risk of going above 25% and certainly when I moved to three year default rates I start to run into the risk of being over 30% for a long time. How quickly if I put in a program could I actually bring down default rates to below the thresholds?

Mary Lyn: Well a lot of it depends on when during the definition a school starts taking action. I'll give you an example of a large corporate client that we took on in November of 2008 and we started with their higher default rates. We dropped their rates by approximately 1/3 but we had almost a year. We had ten months to make that impact.

I basically don't take schools on for a cohort if there's less than three months left because we don't have enough time. We can make a big impact in a short amount of time with our most intense program, but the longer you wait there's already any number of students in default at this point and there's a lot of really late stage delinquency. So the longer you wait the higher your risk.

And our focus is on early intervention and accurate data. Part of the accurate data is finding all of those six or eight loans for every student and that's a big challenge when we take on a new client is that we have to track all of those loans for every single student and it's time consuming.

Sara: Is there any rule of thumb that you use for the percent of student that are typically delinquent or in forbearance or deferral at a school?

Mary Lyn: I'm not ….

Sara: I'm just wondering… like I've read some studies that suggest that 25-30% of borrowers are in forbearance or deferral. I'm just wondering if there are any kind of general stats that you have for your clients about how many are using tools like forbearance or deferral.

Mary Lyn: I can only answer data on our clients. We have about 50% of the data base on some type of alternate payment – 50% of the 2009 data. 2010 is still being formed but on some type of alternate payment plan deferment or forbearance.

Sara: And would that include income base for payment as well?

Mary Lyn: Yes. Yeah at this point in the cohort, and we're pretty early on in a three year rate. We're only half way through a three year rate; most schools are going over the equivalent of 100% of their student numbers that have become delinquent at some point during the cohort so far.

Sara: So being more than -- basically all of the students that were in repayment at some point were delinquent on their payments?

Mary Lyn: Right. So if you have a thousand students in your denominator we're hitting about a thousand students who've been delinquent. Now some of those are who we call repeat offenders, those students who are delinquent we help – they go to delinquent again so they're repeat offenders. So that's where you get into numbers that go above 100%. But that just gives you an idea of hard we're having to work these accounts.

Sara: Okay great. I think we're getting to the end of the hour and we've covered a lot of ground so I think I will wrap it up there unless you think there's anything important that I missed.

Mary Lyn: No that's it. I will give my email address though if anybody has additional questions. It's ml@championcollegeservices.com.

Sara: Great. Well thank you both very much for being on the call. I really appreciate it and if anybody wants to follow up with me I'm at (646) 855-1961. Thank you.

Mary Lyn: Thank you.