

# AMERICA'S STUDENT LOAN PROVIDERS

[www.studentloanfacts.org](http://www.studentloanfacts.org)

## What do student loan guaranty agencies do?

America's student loan guaranty agencies help families throughout the country plan for and pursue their postsecondary education dreams. Through their administration of the Federal Family Education Loan (FFEL) Program, the largest source of student financial aid, guaranty agencies work with parents, students, schools, lenders and secondary markets to help ensure access to postsecondary education. Their responsibilities include informing students and parents of their educational and financial aid opportunities, administering loans to borrowers and ensuring they are aware of their repayment obligations and options, preserving loan default rates at historically low levels, and assisting school and lender partners that participate in the student loan programs.

Guaranty agencies make agreements with the federal government to stand behind funds made available by private lenders and secondary markets to eligible students and parents for certified postsecondary education expenses. Specifically, guaranty agencies perform the following functions:

### 1) Information Counseling, Outreach and Community Service

Guaranty agencies conduct pre-borrowing debt counseling and repayment counseling and promote financial aid awareness through workshops, media events, financial aid nights, awareness months, hotlines, Web sites and publications. They provide specialized outreach services regarding access to college to a variety of audiences including students in middle school, students in districts with low college placement rates, high poverty rates and high dropout rates, first-generation college-bound students, and high schools with a 50 percent or greater minority student enrollment.

### 2) Loan Origination

Guaranty agencies review the borrower's loan application and work with schools to ensure that the information is accurate and that all eligibility requirements are met prior to the borrower's loan being disbursed. Guaranty agencies store both electronic and paper Master Promissory Notes (MPNs), relieving lenders and colleges of that burden. The electronic MPNs have built-in edit checks to facilitate the application process. In some cases, the guaranty agency will disburse the loan proceeds to the school. They also keep track of amounts borrowed by students to ensure that statutory limits are not exceeded on either an annual or cumulative basis. In fiscal year 2004, guaranty agencies approved more than 10 million loans totaling approximately \$75 billion.

### 3) Default Aversion

In partnership with lenders, secondary markets and postsecondary institutions, guaranty agencies create default aversion programs and train staff in default prevention techniques; locate and counsel the delinquent borrower on the consequences of default and the options available to avoid default; assist the borrower in obtaining a deferment, forbearance or more reasonable repayment terms; and develop and disseminate information on default avoidance. A recent survey of guarantors found that in fiscal year 2002, more than \$22 billion in delinquent FFEL loans were successfully returned to repayment status.

### 4) Claim Adjudication

When a borrower defaults on a loan, his or her lender may file a default claim with the guaranty agency. The guaranty agency reviews the default claim to ensure that the lender has met all the due diligence requirements for preventing the default prior to submitting the claim. The guaranty agency then purchases the defaulted loan from the lender and works with the borrower to help restore him or her to repayment status.

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The federal government will reinsure the guaranty agency for the defaulted loan, but at a rate not to exceed 95 percent of the defaulted amount (for loans disbursed on or after October 1, 1998) and only after the guaranty agency can demonstrate that it has met all the due diligence requirements for restoring the borrower to repayment status. The reinsurance rate depends on the guaranty agency's overall performance in preventing defaults, and can be as low as 75 percent, depending on the agency's default rate. Guaranty agencies have a strong incentive to work with borrowers to prevent defaults, since they can absorb a significant portion of the costs associated with defaults.

## **5) Default Collection Efforts**

To protect the federal and taxpayer interest, guaranty agencies work diligently to collect on defaulted loans through in-house staff activity coordinated with other state agencies (e.g., motor vehicles, state tax department, state lottery agencies, etc.), use of professional collection agencies, administrative wage garnishment, tax offsets and appropriate litigation. In fiscal year 2002, collections on defaulted FFEL loans exceeded \$2.7 billion. Guaranty agencies also offer specialized loan rehabilitation programs to help borrowers repay defaulted loans, which has been a powerful post-default collection tool that serves borrowers and saves taxpayer money. According to the Department of Education, the average percentage of gross recoveries from rehabilitation by guaranty agencies has nearly tripled from 6.2 percent in fiscal year 2001 to 18.4 in fiscal year 2003.

## **6) School and Lender Oversight and Compliance**

Guaranty agencies conduct program reviews, provide schools and lenders with training and interpretation of federal regulations and program rules, and review and help resolve individual borrower complaints.

## **7) Financial Aid Program Data Management and Reporting**

Guaranty agencies provide federal and state governments, lenders and schools with detailed, accurate and timely reporting of program activity. In fiscal year 2002, guaranty agencies conducted more than 5,700 technical assistance visits to colleges and lenders.

## **8) Additional Services**

Other services guaranty agencies provide include conferences and training on financial aid issues; national, state and campus-based research studies related to financial aid; and assistance to postsecondary institutions in enhancing their computer systems to improve their processing of student loans. Guaranty agencies partnered to create and maintain the "Mapping Your Future" Web site ([mapping-your-future.org](http://mapping-your-future.org)), which provides a comprehensive resource for students and families about college, career and financial aid choices. To simplify policies and procedures and save college and lender resources, guaranty agencies established the Common Manual, a unified student loan policy overview, and CommonLine, a standard electronic file format used by lenders, guarantors and schools to process FFEL Program and alternative loans. Two-thirds of student loan guaranty agencies also administer the state grant and scholarship programs for their states and many also administer their state's college savings program. They are closely involved with governors, legislatures, budget offices and higher education executive officers in policymaking, coordinating the delivery of aid and providing a variety of outreach and counseling services.