

Student Loan Collection: Snapshot & Strategies



About Ontario Systems



Ontario Systems LLC is a leading provider of accounts receivable and revenue cycle management solutions for the collection and healthcare industries.

Offering a full portfolio of software, services, and business process expertise, Ontario Systems customers include nine of the 10 largest collection agencies, and three of the five biggest health systems in the U.S., with 55,000 representatives in more than 500 locations. To learn more about Ontario Systems, visit OntarioSystems.com.

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Table of Contents

Introduction	3
Student Loan Market Snapshot	5
Top 10 States with the Most Student Debt	
Federal Student Loans	7
Current ED Contracts	
Private Student Loans	10
Student Loan Lifecycle	
The “Bucket” Strategy	
Ontario’s Student Loan Solutions	12

Introduction

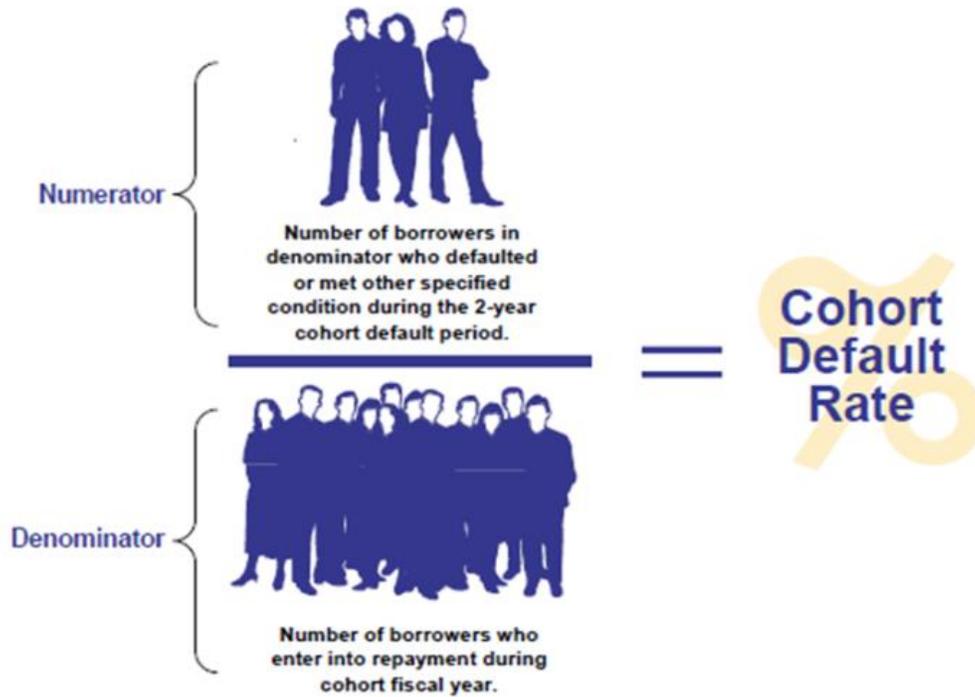
The purpose of this report is to explain how the size (huge) and dynamic (complex) of the student loan market can be used as an opportunity for debt collectors to get involved in the marketplace, either as government contractors, as subcontractors to agencies already working with the government or as their own unique entity.

Title IV of the Higher Education Act of 1965 establishes federal financial aid programs for students. Colleges and universities included under Title IV (including for-profit colleges and universities) are eligible for federal student financial aid programs.

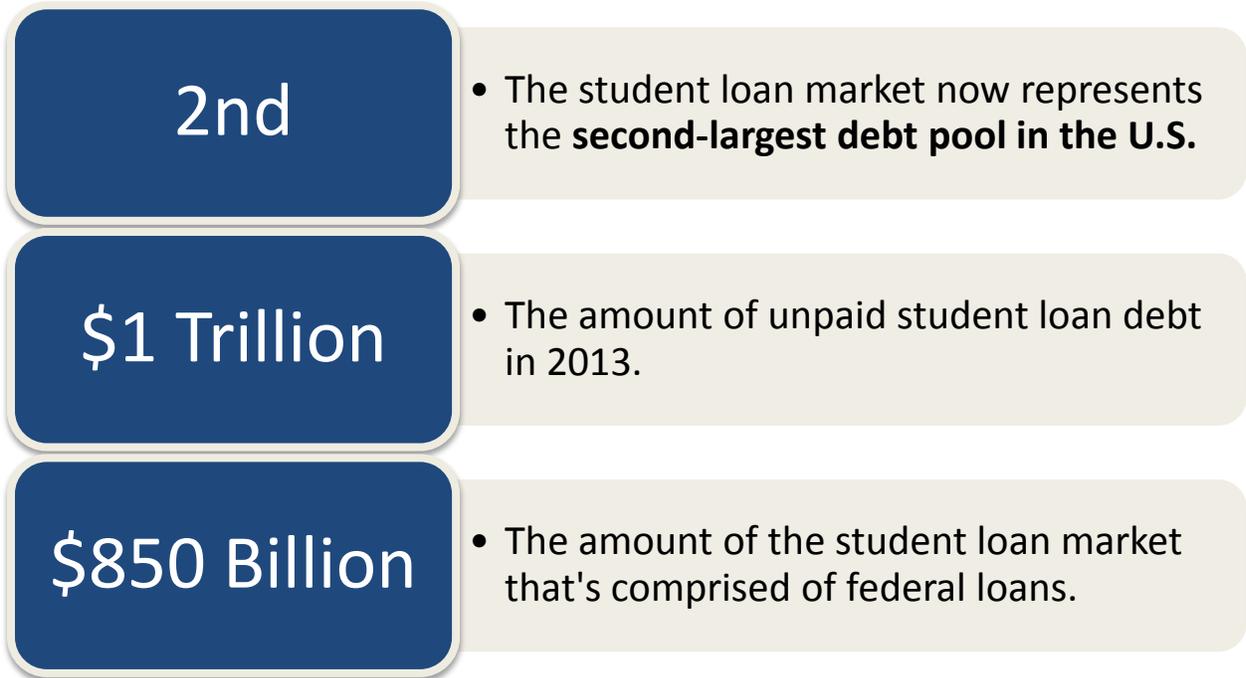
A **Direct Student Loan** allows the borrower to consolidate multiple federal education loans into one loan. The result is a single monthly payment instead of multiple payments. A **Perkins Loan** is a need-based student loan offered by the U.S. Department of Education. Perkins Loans carry a fixed interest rate of five percent for the duration of the 10-year repayment period. There is a nine-month grace period, so that borrowers begin repayment in the tenth month upon graduation, falling below half-time status or withdrawal from their college or university.

Other Common Terms and Acronyms	
ATO	Authority to Operate
CDR	Cohort Default Rate*
ED	Department of Education
FFEL	Federal Family Education Loan
FISMA	Federal Information Security Management Act
MGRS	Modified Graduated Repayment Schedule
SLA	Service-level Agreement

***Cohort Default Rate Explained:** A cohort default rate is a “snapshot” tool that determines a loan portfolio's performance at a particular point in time. CDR calculates the number of borrowers who defaulted or met other specified conditions during the two-year cohort default period, divided against the number of borrowers who entered into repayment during the cohort fiscal year.



Student Loan Market Snapshot



Unpaid student loans are the highest-growth collections market nationwide.

The student loan market is the second-largest debt pool in the U.S.; and since it's also the fastest-growing collections market, it may soon become the biggest pool nationwide.

While there are more students graduating from college, more of those young adults are graduating with debt. The 57 percent of bachelor's degree recipients from public four-year colleges who graduated with debt from 2011-12 borrowed an average of \$25,000. That's 22 percent – or \$4,500 more compared to the average debt of the 52 percent of graduates who had education debt ten years prior.

According to data from the New York Federal Reserve Bank, the share of 25-year-old Americans with student debt was 43 percent in 2012, compared to 25 percent in 2003; in the same amount of time, the average loan balance rose 91 percent, from \$10,649 to \$20,326.

- **Why has this occurred?** The cost of college has skyrocketed over the past decade, largely due to the steady increase of college tuition. State governments and private donors have scaled back on much of the funding for higher education, and unfortunately, students have been left to fill in the gap.

Top 10 States with the Most Student Debt

10. Michigan

- Average debt: \$28,840
- Percentage of students with debt: 62%

9. Ohio

- Average debt: \$29,037
- Percentage of students with debt: 69%

8. New Jersey

- Average debt: \$29,287
- Percentage of students with debt: 65%

7. Maine

- Average debt: \$29,352
- Percentage of students with debt: 67%

6. Iowa

- Average debt: \$29,456
- Class of 2012 pct. with debt: 71% (3rd highest)

5. Rhode Island

- Average debt: \$31,156
- Percentage of students with debt: 69%

4. Minnesota

- Average debt: \$31,497
- Percentage of students with debt: 70%

3. Pennsylvania

- Average debt: \$31,675
- Percentage of students with debt: 70%

2. New Hampshire

- Average debt: \$32,698
- Percentage of students with debt: 74%

1. Delaware

- Average debt: \$33,649
- Percentage of students with debt: 56%

Federal Student Loans

The Department of Education is now doing five times more disbursements than it was just a few short years ago. Before 2010, Federal Family Education Loan providers were working with nearly 80 percent of the student loans originated. But on July 1, 2010, the Department of Education took over origination of those loans.

Current ED Contracts	
Progressive Financial Services	Collecto, Inc. dba Collection Company of America
Allied Interstate, Inc.	Pioneer Credit Recovery, Inc.
NCO	The CBE Group, Inc.
Performant Recovery, Inc.	Premiere Credit of North America, LLC
GC Services	Account Control Technology, Inc.
West Asset Management, Inc.	FMS Investment Corp.
ConServe	Financial Asset Management Systems, INC. (FAMS)
Collection Technology, Inc.	Van Ru Credit Corporation
Delta Management Associates, Inc.	Immediate Credit Recovery Inc.
Coast Professional, Inc.	National Recoveries
Enterprise Recovery Systems, Inc.	Windham Professionals, Inc.

ED also has a [Request for Proposals](#), which is taking place in two parts, to find new collection agencies to work with in the upcoming year.

The U.S. Department of Education, Office of Federal Student Aid, is conducting a two-phase solicitation in accordance with the Department of Education Acquisition Regulation (EDAR) The resulting contracts will be funded with non-appropriated funds. ... The Government anticipates awarding multiple Indefinite Delivery/Indefinite Quantity (IDIQ) contracts under NAICS code 561440. The resulting IDIQ awards will have a Base Ordering Period of five (5) years with a single, five (5)-year Optional Ordering Period.

As of summer 2014, the collection agencies advancing to stage two in the RFP included:

- Account Control Technology
- Collection Technology, Inc.
- GC Services
- Performant Recovery
- ConServe
- Immediate Credit Recovery, Inc.
- Pioneer Credit Recovery, Inc.
- Van Ru Credit Corp.

- Premiere Credit of North America
- Delta Management
- Progressive Financial Services
- West Asset Management, Inc.
- Enterprise Recovery Systems
- The CBE Group, Inc.
- Windham Professionals
- National Recoveries, Inc.
- Financial Management Systems Investment Corp.
- NCO Financial Systems, Inc.
- Coast Professional, Inc.

There were also 22 *new* companies that ED advanced to stage two of the RFP:

1. Gatestone & Co. International, Inc.
2. Northstar
3. United Collection Bureau, Inc.
4. Team of: Value Recovery Holding + Value Recovery Group + Reliant Capital Solutions + Credit Control
5. AllianceOne, Inc.
6. Team of: Asset Resolution Corp + Kentucky Higher Education Student Loan Corp
7. Convergys
8. Integrity Solutions Services
9. Weltman, Weinberg, and Reis
10. Automated Collection Services
11. iQor
12. Team of: Automated Collection Services + National Student Loan Program + Central Research
13. Municipal Services Bureau Services
14. Regional Adjustment Bureau Inc.
15. Williams & Fudge
16. EOS CCA
17. National Enterprise Systems
18. Team of: South Carolina Student Loan Corp + EdVantage Corporation
19. Texas Guaranteed Student Loan Corp.
20. Team of: CBX Technologies, Inc. + HF Holdings
21. Sutherland Global Services
22. Client Services, Inc.

While collection agencies can compete directly for federal contracts, there are also opportunities to become sub-contractors for the agencies currently working with ED. The Department of Education actually incentivizes companies to give up to ten percent of their work to small business subcontractors (for ED, a “small business” is a company with \$14 million or less in average annual billings over the last three fiscal years).

Collection agencies can also work as subcontractors if they get an ATO from the Department of Education; keep in mind that ATOs are only available to companies with a direct task order from the Department. Once a collection agency becomes a subcontractor for a company working directly with ED, the Department will demand to see a random sample of accounts to make sure that contracted agencies on the contract aren't keeping the best accounts for themselves and leave the rest to their subcontractors. Collection agencies with government contracts must transfer them to the subcontractor within 10 business days of getting them from the Department of Education, and they must stay with the subcontractor for a minimum of four months.

Private Student Loans

Private lenders, such as private credit markets and traditional banks, still have a huge role to play in the industry. And while the private side of student loans is no longer a big player in origination, there's still plenty of market viability when it comes to portfolio size. Despite all this, the debt collection market woefully remains fractured and less developed for student loans. Having more good actors in the market – who understand the growing role of the federal government and evolving compliance requirements – can only make the student loan industry friendlier to consumers, more structured for collectors and therefore more profitable for everyone.

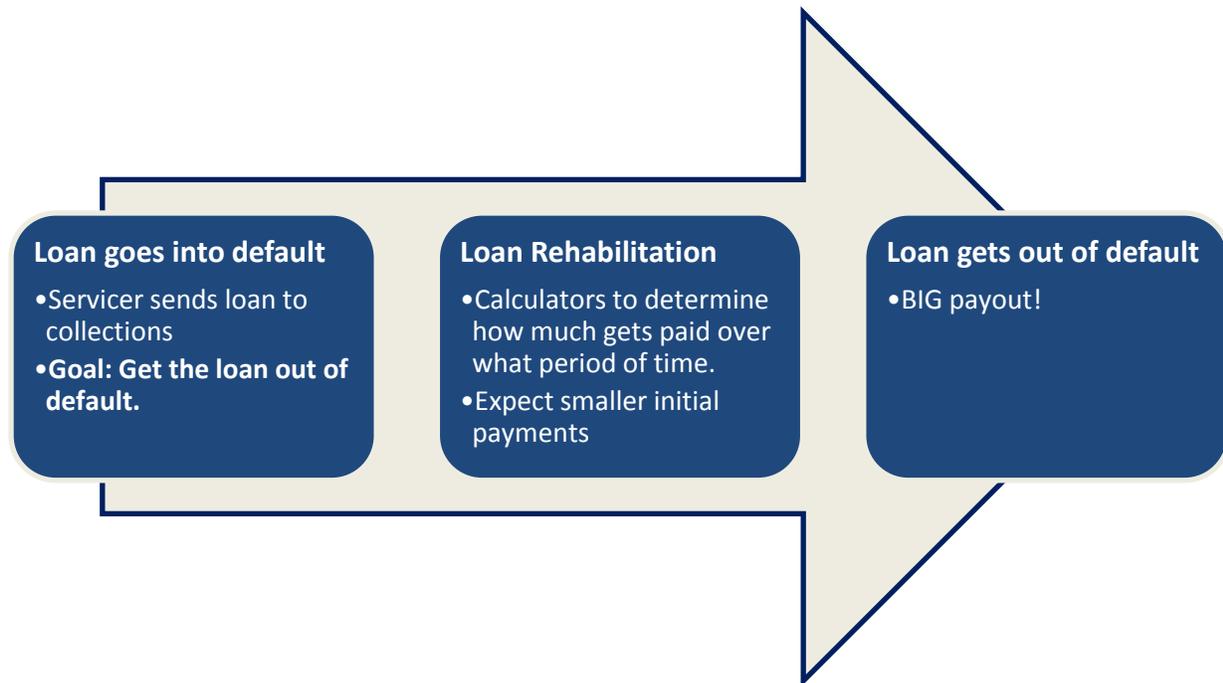
Collection agencies need to make a long-term strategic decision to enter the private student loan market. This is not a way to make a quick buck!

Student Loan Lifecycle



The “Bucket” Strategy

The best way for a collection agency to make money in student loan collections is to make sure it has multiple accounts in multiple stages of default, rehabilitation and recovery.



Since there's so much overlap (and sometimes, repetition) in the collections process, having enough accounts in each stage of the process balances the amount of risk a collection agency may subject itself to when entering the student loan market.

If you're an agency figuring out how to add student loans to your portfolio, having some kind of system in place to automate this workflow is absolutely paramount. The number of variables surrounding how, when and what you can collect is staggering in the federal and private markets; this issue is exacerbated when a collection agency tries to collect both types of loans.

Ontario's Student Loan Solutions

Student loans are the highest-growth collections market in the country, and if you're reading this, you're one of a unique group of agencies that know how to handle it. Partner with a technology provider that's a rare expert. Wish you could handle all the complexities of the Rehabilitation process? Wish you had a system that was made for the Student Loan world? Whether you are handling US Department of Education paper, FFELP Paper, Private Student Loans, or Campus Based Debt, we help you stay on top of the latest rules, regulations, and compliance mandates in this vertical.

Learn more at www.ontariosystems.com.

Want More Student Loans?



[Student Loans – A Primer](#), sponsored by Ontario Systems, provides a comprehensive snapshot of the student loan industry so that collectors can see where there is the greatest opportunity for growth in the market, and how compliance and “consumer first” thinking can ultimately boost ROI. Use our *market entry checklist* to make sure your agency has the compliance and operational resources to expand into student loan collections. Learn how to *build a student loan collections portfolio* that guarantees a bigger payout.

Whether you’re new to the market, or just trying to keep up with the quickly-changing landscape, this is a resource no collection agency should be without!

You’ll Learn:

- Where to look for opportunities in the student loan market
- How to determine if your agency should enter the student loan market
- How to effectively communicate with students and co-signers
- How to use CFPB complaint data to improve collection policies and practices