

Alaska Supplemental Education Loan Repayment and Default Overview

October 2015

Overview

- Repayment generally begins six months after no longer attending school at least half-time
- Minimum monthly payment is \$50
- Repayment term is generally 10 years

Repayment Options

- Designed to address temporary inability to repay as agreed
- Designed to prevent default and provide relief so the borrower can plan for re-entering repayment
- Repayment options generally increase the borrower's total costs, so counsel to use sparingly
- Generally not available to borrowers who have defaulted on ACPE loan obligation

Deferment – entitlement and postpones payments for 6 months or longer

- In-school, unemployment, active duty military, medical, financial hardship, volunteer service, residency and internship

Forbearance – discretionary postponement of payments

- Skip a payment, summer bridge
- Disaster or military special situation forbearances may be made available regardless of default

Temporary reduced payment plan

- Reduces payments in six-month increments and then increases remaining payments in order for loan to payoff within term
- Cannot be lower than monthly interest accrual

Default and Loan Modification

- Default occurs when a payment is 180 or more days past due and establishes an administrative collection order
- Borrowers may appeal within 30 days of default
- Default prevention and lender due diligence
 - Notification at the time of borrowing of costs of borrowing and need for repayment plan
 - Very, very strong encouragement to students to complete the FAFSA
 - Loan application itself tells students to consider federal loans first and to seek counsel from financial aid office, and includes sample repayment amounts and strong warning language about monthly payment amounts
 - Application process includes Student Loan Game Plan, an online, interactive tool to help borrowers understand what they are committing to and what their monthly payments will look like, especially as related to projected income
 - Application disclosures provide monthly payment estimates and restates counseling about keeping costs low and choosing federal loans that may have more repayment deferment or forgiveness options first (and offers option to cancel loan or reduce amount borrowed)
 - Regular calls and letters to borrowers to offer assistance and advise of consequences of default, starting at 10 days past due
 - Skip-tracing if borrower has not kept ACPE apprised of address and telephone

- Consequences of default
 - Transfer to collection vendor
 - Involuntary payment (PFD and/or wage garnishment, and administrative lien)
 - Default credit reporting
 - Loss of repayment options
- Post-default repayment assistance
 - Temporary repayment modifications based on documented undue financial hardship
 - Defaulted loan modification program
 - Settlement for less than full balance due based on documented and permanent inability to repay full amount
- Alaska Supplemental Loans do not have forgiveness options due to funding structure but may be cancelled in very limited circumstances, due to substantial cost to borrower and to loan program
 - Medical cancellation
 - Write-off for non-performance

ACPE Considerations in Offering Repayment Options

- Executive Director may approve special payment arrangements when consistent with fiduciary responsibility for prudent management of loan program assets
- Considerations include:
 - Costs of collection – by the time a borrower has defaulted, APCE has incurred significant cost in collection, which are borne by the borrowers who do repay timely, in the form of higher interest rates
 - Compliance with applicable laws and bond covenants
 - Borrower populations in the same situation need to be treated the same way
 - Repayment modifications must be in the best interest of both ACPE and of the borrower
- Costs of borrowing – for individual and for all borrowers
 - Not reasonable to allow borrowers to defer repayment and increase their total costs of debt when there is no tax or other subsidy to provide entitlement to forgiveness or debt extinguishment
 - ASLC interest rates based on program costs, so new borrowers indirectly bear the cost of loan defaults and write-offs