

Expanded Default Reduction Activities

State Need:

- In 1998, the US Department of Education created a unique pool of money for guarantee agencies (such as MGSLP) to spend on default prevention activities targeted for high-risk borrowers. MGSLP needs to create programs designed to reach these individuals in order to meet federal regulations.

Market Reality:

- Much of Montana is considered high-risk.
- Many of our colleges and universities are located in rural settings which further increases the risk for student loan borrowers
- Montana has a disproportionate number of low-income families who must borrow in order to attend college
- Jobs, especially in rural areas of the state, don't pay well compared with the same job in other states or regions

Current Problem:

- Montana, at 6.6%, has a high cohort default rate
- Montana's per capita income is one of the worst in the country causing many borrowers to struggle when repaying their student loans
- Many borrowers are unaware of the options available to them to avoid default
- Typical collection activity is frequently not successful when dealing with such a large state where many jobs are agricultural or natural resource related (verses a white-collar, 9-5 type job).

Proposed Solution:

- Give MGSLP the Legislative authority to spend \$1,000,000 specifically earmarked for unique default prevention activities that targets high-risk borrowers and sustains early awareness programs that have proven to reduce delinquency.

Required Investment:

- There is no State General Fund money required. These are federal funds specifically for guarantee agencies that can only be spent on unique default prevention activities.

Return on Investment:

- Loan Defaults are the single highest expense to the MGSLP. Preventing a default means that money can be invested in other areas such as need-based aid, on-site school support, or new products and features for schools using our guarantee.
- A borrower in good-standing tends to be a good credit-risk for other types of credit, which can indirectly improve Montana's economy.

Selected Examples of Return:

- Fewer defaults of student loans

- Borrowers in default are not allowed additional Title IV benefits, eliminating a section of the population from attending a post-secondary institution in Montana.
- Early awareness activities have been proven to increase the number of people who will attend college.