

Financial Services

Serving Student Loan Borrowers in the Midst of the Global COVID-19 Pandemic

Introduction

The COVID-19 pandemic is having significant impacts on financial institutions and their customers. Financial institutions are working hard to maintain operations as employees transition to working remotely while balancing the reality that some of their customers will stop making payments on their loans in the coming months. Borrowers with student loans are of particularly high risk due to surging debt levels and job losses, as demonstrated by the record-breaking 6.6 million jobless claims filed in one week.¹

Financial institutions are in a unique position to provide relief to customers with student loans. The Coronavirus Aid, Relief, and Economic Security (CARES) Act mandates suspending all payments due for loans made under the Higher Education Act for six months, during which interest will not accrue. In addition, financial institutions can apply lessons learned from the 2008 Great Recession.

While the CARES Act focuses on federal student loans, this article discusses best practices that lenders and servicers in the private student lending industry could employ as they reexamine existing programs to improve customer experience while complying with existing and new regulatory obligations and investor requirements. What are key considerations to serving borrowers in this environment and beyond?

Global Pandemic Customer Care and Special Treatment Options

Financial institutions, including lenders and servicers in the private student lending industry, will have to navigate the changing needs of their borrowers by creating a response strategy that considers financial instrument characteristics, the customer experience, and applicable regulations. For example, some lenders are considering extending the length of rate locks for new loans.

1. U.S. Department of Labor news release, "Unemployment Insurance Weekly Claims Report," March 26, 2020, <https://www.dol.gov/sites/dolgov/files/OPA/newsreleases/ui-claims/20200551.pdf>.



Servicer Relief Options to Ease Borrower Burden

Servicers can help customers navigate these difficult times through a variety of programs – six of the most effective relief options and related execution recommendations are outlined in the table below:

	Relief Option Considerations	Recommendations
Customer Outreach Initiatives	<p>Proactively reaching out to customers is an effective way for financial institutions to provide a “best-in-class” customer service experience while also assessing the pandemic’s customer impact.</p> <p>This approach may be difficult given the staffing challenges and the constraints on resources during a pandemic. However, it will help maintain the institution’s reputation in the marketplace and preserve long-term customer relationships.</p>	<ul style="list-style-type: none"> Identify customers experiencing hardship for targeted outreach, e.g., active bankruptcy or loss mitigation. Identify customers facing time-sensitive deadlines for targeted outreach, e.g., Income Driven Repayment plan recertification. Conduct proactive email outreach and encourage customers to go to an online portal for enrolling in hardship programs.
Customer Complaint Management	<p>Complaint teams (and other customer-facing personnel) should be properly trained on the organization’s relief strategy to ensure that each account is handled in accordance with the policies.</p> <p>Complaints are likely to be a channel for consumers to notify institutions of the impact of the COVID-19 pandemic. As a result, customer complaint volumes may increase during the pandemic.</p> <p>Complaint management teams help ensure that institutions stay compliant with federal and state regulations by receiving, processing, and resolving customer complaints in a timely manner.</p>	<ul style="list-style-type: none"> Design and administer appropriate training to complaint teams and customer-facing personnel to address the organization’s relief strategy. Assess and, if necessary, restructure staffing models to ensure coverage for teams handling complaints. Consider adjusting compliance resources to track emerging regulatory changes and address potential compliance risk. Institute system codes to allow for the designation of customers requesting relief because of the pandemic for reporting and tracking.
Fee Waiver Programs	<p>Conditions during the COVID-19 pandemic may cause missed payments due to diminished regular income. In such circumstances, institutions may waive late-payment charges (for private student loans), defer enrollment fees, and/or additional miscellaneous charges as a sign of good faith.</p> <p>Default servicers have additional opportunities to assist borrowers by reducing or waiving the collections charges, e.g., for loans enrolled in rehabilitation. While fee waiver programs have an immediate negative impact on bottom line, they can help retain and grow your customer base.</p>	<ul style="list-style-type: none"> Review all policies regarding fees and determine which, if any, can be eliminated or adjusted during the current health crisis. Develop data-driven solution for automatically implementing fee waiving policy. Proactively communicate any changes in fees to borrowers.

	Relief Option Considerations	Recommendations
Deferment and Forbearance Programs	<p>Payment deferment programs can cause more immediate relief for consumers by pausing regularly scheduled payments before resuming to normal payment periods.</p> <p>Forbearance programs can offer a similar benefit or reduce the regularly scheduled payment to a more manageable amount, for a specified period, to aid consumers.</p> <p>Both programs allow institutions to leverage existing procedures and reduce the effort and risk of customized solutions that often cause operational complexity if not properly designed prior to implementation.</p>	<ul style="list-style-type: none"> • Consider outreach to delinquent borrowers asking them to enroll in deferment and forbearance programs. • Educate customer-facing personnel on current deferment and forbearance programs so that they are prepared for customer inquiries. • Proactively communicate the requirements and benefits of these programs to customers. • Grant deferment and forbearance benefits retroactively.
Loan Modification Programs	<p>Longer-term relief in the form of refinancing and loan modifications are another option. Loan modifications help borrowers by adjusting loan terms to reduce the monthly payment amount or to reduce interest rates to manageable levels. Other modification options include loan extensions or adding skipped or deferred payments to a later balloon payment.</p> <p>Refinance and modification options can offer long-term relief for borrowers with reduced income throughout the remaining life cycle of the product.</p>	<ul style="list-style-type: none"> • Assess current loan modification options and determine if adjustments are needed to address the needs of student borrowers in the health crisis. • Educate customer-facing personnel on the current loan modification program so that they are prepared for customer inquiries. • Proactively communicate the requirements and benefits of these programs to customers.
Suspension of Collection Activities	<p>Lenders and servicing entities can suspend activities such as collection and wage garnishment, on a case-by-case basis. The federal government has implemented new guidelines and protection for federally held student loans, and though such relief is not required for all student loans, relief should be considered. Altering procedures or minimum recovery timelines for consumers, especially in highly impacted areas, can grant consumers the needed time and opportunity to cure delinquency and resume normal payments.</p>	<ul style="list-style-type: none"> • Review current collection activities and determine if any can be suspended for the duration of the pandemic. • Consider adjusting compliance resources to track emerging regulatory requirements pertaining to collection activities and address potential compliance risk.

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Conclusion

The COVID-19 pandemic is causing widespread disruption for economies and severely impacting individuals, families, and organizations that rely on financial institutions. As loss of income becomes prevalent and unemployment rapidly increases, financial institutions must develop effective and holistic strategies for customer treatment both during and after the global pandemic.

How Guidehouse Can Help

As financial institutions adjust to stressed operations resulting from increased call volume and managing the transition to working remotely as well as consider the various relief options including deferment, forbearance, and suspension of collection, Guidehouse can assist by performing activities including the following:

- Develop and enhance payment allocation options and hierarchy
- Develop a standard guide, including all payment relief program options, and provide it to customer service representatives
- Provide scenario-based training and detailed job aids to prepare customer service representatives to guide borrowers
- Develop/strengthen controls around recertification notification process, including content and timeline
- Develop controls to monitor key milestones of the default management and collections processes
- Develop a data-driven credit reporting suppression solution and automate the complaint management process



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About Guidehouse

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