Default Prevention Pricing Guide

Just like there are multiple ways to engage and counsel borrowers, there are multiple pricing models for default prevention services. The most common include the following.

Fee Per Borrower Per Month

A set fee is charged per borrower for each month of outreach and counseling activities directed to the borrower.

Flat Annual Fee

A flat fee is charged for identified services regardless of the number of borrowers receiving the services or the outcome achieved.

Performance-based

Fees are tied to achieving the school's desired outcome. While a small fee may be charged to initiate outreach no other fee is typically billed until the borrower is cured.

The Scenario

A direct comparison can be a bit challenging. To help, here's an example.

1,000 Borrowers in repayment

400 Borrowers at least 60 days delinquent getting outreach until they cure or default

Of the 400:

250 Borrowers Cure (BC)

150 Borrowers Default (BD)

The Math

	Fee Per Borrower Per Month	Flat Annual Fee	Performance-Based Fee
Fee Example	$7 per borrower per month	A flat annual fee of $13,200 based on a CDR of 15% and 1,000 borrowers in repayment	$5.50 placement fee, $35 cure fee
Cost of Service in Relation to Cures			
Calculation	• 250 BC x $7 x # of months of outreach	• $13,200 / 400 delinquent borrowers = $33 per borrower • 250 BC x $33 = $8,250	• 250 BC x $5.50 = $1,375 • 250 BC x $35 = $8,750
2 Months of Outreach	**$3,500**	**$8,250**	**$10,125**
4 Months of Outreach	**$7,000**	**$8,250**	**$10,125**
6 Months of Outreach	**$10,500**	**$8,250**	**$10,125**

	Fee Per Borrower Per Month	Flat Annual Fee	Performance-Based Fee
Cost of Service in Relation to 150 Defaults after 10 Months of Outreach (from day 60-360)			
Calculation	• 150 BD x $7 x 10 months of outreach	• 13,200 /400 delinquent borrowers = $33 per borrower • $33 x 150 BD = $4,950	• 150 BD x $5.50 = $825
Cost for 150 Defaults	**$10,500**	**$4,950**	**$825**
Cost of Service in Relation to Cures			
Total Cost of Services for 400 Borrowers	**$17,500** (Assumes an average of 4 months)	**$13,200**	**$10,950**

Pros and Cons

So math is one way to look at the different pricing approaches, but a simple pros and cons list can also help round out the comparison.

	Pros	Cons
Fee Per Borrower Per Month	• Fees are tied to effort (i.e. the number of delinquent borrowers) • Fees are billed monthly	• Not certain of year-end total • Monthly fees fluctuate based on number of borrowers who go delinquent • Not paying for results • You could actually pay more for outreach that leads to a default vs a cure
Flat Annual Fee	• All-in, fixed, cost is defined up front • You will not pay more if higher number of borrowers go delinquent	• Easy to overpay, fees are locked regardless of effort • You will not pay less if fewer borrowers go delinquent • Fees are set regardless of results, you pay the same for defaults as cures
Performance Based Fee	• Fees are tied to effort (i.e. the number of delinquent borrowers) • Fees are tied to results (i.e. cures) • School goals and vendor goals (performance = payment) in alignment • School confident they are not overpaying as fees tied to effort and results • Fees are billed monthly	• Not certain of year-end total • Monthly fees fluctuate based on number of borrowers who go delinquent and cure

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