

CASE STUDY: IT PAYS TO EDUCATE

Current political and economic conditions are reshaping the student loan industry, and causing student loan organizations to adjust their strategies and tactics in an attempt to minimize the potential downside impact upon their businesses. NorthStar has a unique, innovative approach to the challenges that student loan lenders face in today's marketplace. – Jamie Wolfe, NorthStar CFO



INTRODUCTION

In March 2007, NorthStar introduced a group of its student loan borrowers to the Electronic Loan Counselor (ELC), a component within its RepayReady program. This web-based application helps borrowers who are about to enter repayment

- **organize their student loan debt,**
- **learn about repayment options and**
- **implement a strategy to successfully repay their loans.**

Since their implementation, RepayReady and the ELC have continuously been used by NorthStar borrowers who are transitioning to repayment. Both student borrowers and customer service staff appreciate its simplicity and timely guidance toward managing repayment obligations.

Understanding that this program was much more than a nice-to-have service, NorthStar took advantage of its analytics and evaluated the impact of this repayment application on its portfolio performance.

RepayReady

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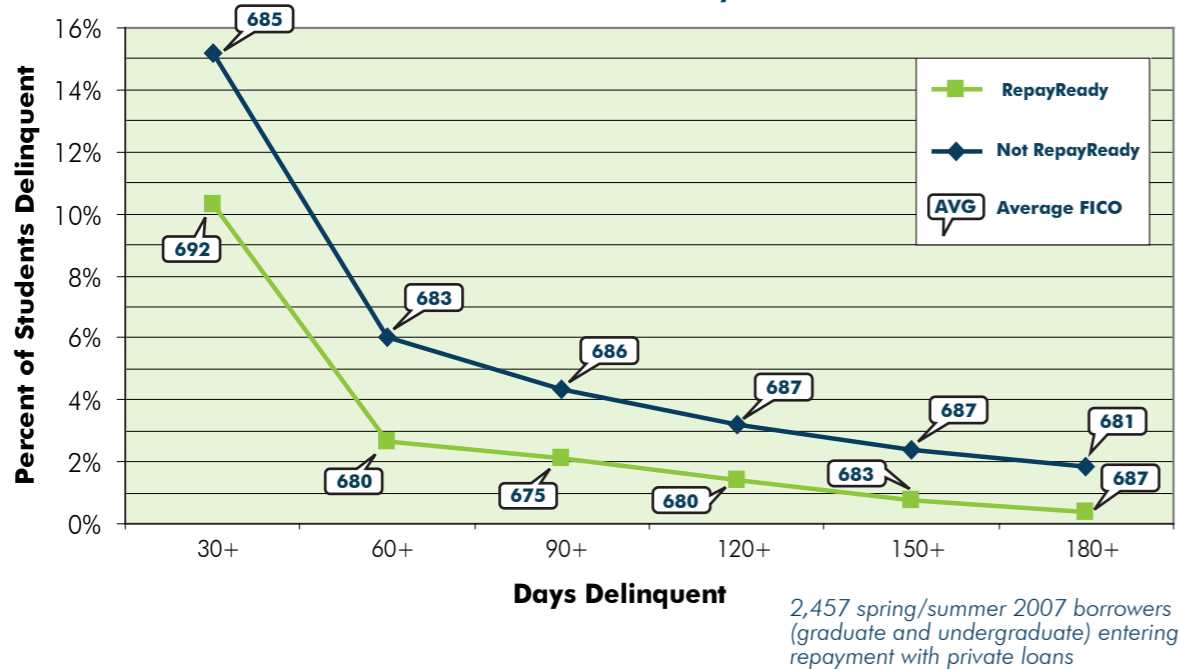
KNOWLEDGE REDUCES DELINQUENCY

THE RESULTS

Use of NorthStar's RepayReady program, and the resulting changes in behavior, put students on the right track.

The company boasted the lowest delinquencies in the industry in 2008 according to Citigroup's Consumer ABS Report, and was commended again in its April 2009 report: "NorthStar continues to demonstrate stellar collateral performance — default rates and net losses remain extremely low and the ratings of all classes appear solid."

Difference in Delinquency As Result of Financial Literacy Education



REPORT ON FIRST COHORT

NorthStar collected delinquency statistics for the 2,457 private loan borrowers who entered repayment in the spring and summer of 2007. Looking at that cohort of undergraduate and graduate students who used private or a combination of federal and private education loans, NorthStar was able to evaluate the success of its repayment education.*

- **RepayReady:** 1,329 students learned about their repayment options and strategies to lower or target payments. Some members of this group implemented a repayment plan to support their strategy options while online; others did not implement a strategy, but might have made changes to their plans through other means.
- **Not RepayReady** 1,128 of these students did not utilize the repayment education that was available. They were offered the tool but chose not to log in and use it.

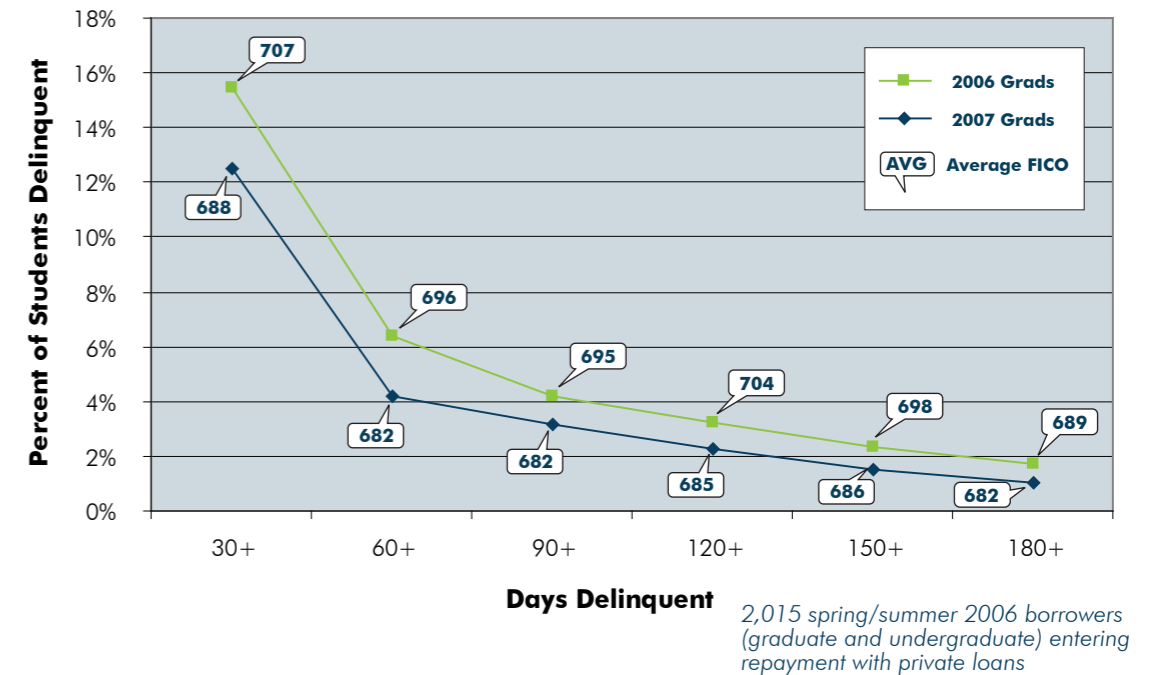
**All students were contacted by NorthStar through e-mail or mail. Student usage was tied to school involvement. Some schools required students to create a plan, while others made it optional or didn't get involved at all.*

THE DIFFERENCE IN PERFORMANCE

The performance difference between private loan borrowers who implemented a strategy and those who did not utilize repayment education is significant. NorthStar was able to lower early stage delinquency by 4.85% (a 32% improvement), with borrowers who implemented a strategy. Even at the late stages of delinquency and into default, NorthStar was able to lower the default rate by 1.49% — a 79.8% improvement over those who did not use RepayReady.

Example: Assuming a lender has a \$200 million portfolio with a typical default rate of 10%, reducing the default rate by 1.49% could result in a **savings of nearly \$3 million!**

Control Comparison Potential Access Versus No Possible Access



FIRST COHORT CONTROL COMPARISON

NorthStar compared the composite delinquency statistics for all borrowers who entered repayment in spring/summer 2007 (both those who used RepayReady and those who did not) against all borrowers who entered repayment in spring/summer 2006. The 2006 cohort had no exposure to RepayReady but came from essentially the same schools, had similar loan types and similar loan balances. The statistics show that the 2007 cohort has performed better at each stage of delinquency than the 2006 cohort, despite having a lower average credit score. With a participation rate of 54%, default rates for the 2007 cohort were 39% less than that of the 2006 cohort.

The findings suggest that student loan delinquency is not the result of financial stress alone. That is, even when students are able to afford their monthly student loan payment, they still have issues handling the responsibilities of repayment.

The statistics further indicate that students who received repayment education were more successful with making their loan payments, even at a time when delinquency and default rates across the student loan industry were rising.