



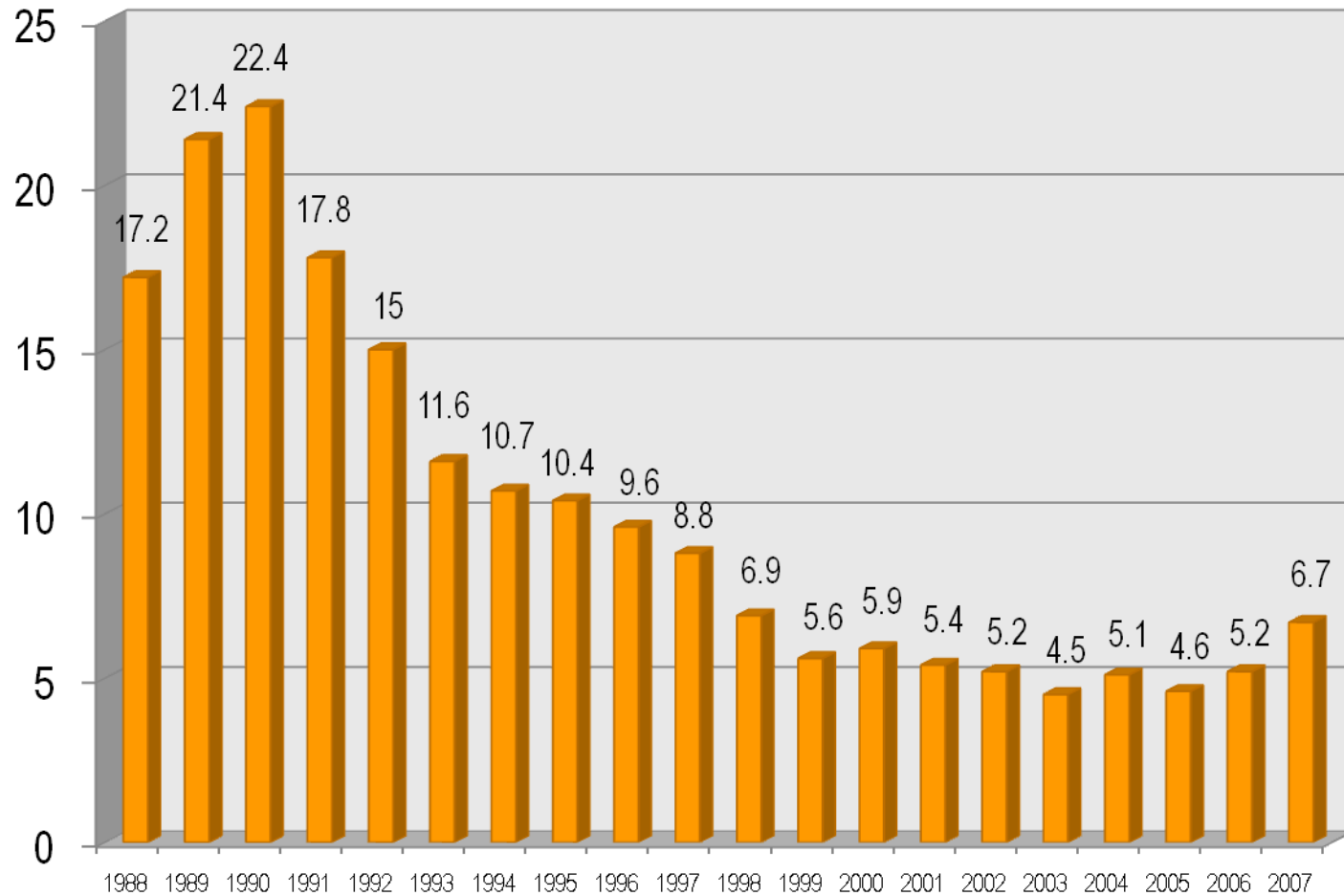
Transitioning to a 3-year Cohort Default Rate

Making a difference
for You!

Topics to be covered

- Cohort Default Rate (CDR) – What is it?
- CDR calculation— 2-year and 3-year rates
- Notification timelines— draft and official rates
- Potential benefits and sanctions
- Challenges and appeals
- Default prevention initiatives

National Student Loan Cohort Default Rates



What is a Cohort Default Rate (CDR)?

- A “cohort” is a group of Stafford loan borrowers who entered repayment within a given federal fiscal year (FY)
- A “CDR” is the percentage of those students in a school’s cohort who defaulted within a specified period of time:
 - 2-year CDR: by the end of the next fiscal year
 - 3-year CDR: within the next two fiscal years

CDR “window” illustration

$$\text{FY09 2-year CDR} = \frac{\text{Stafford borrowers who enter repayment and default between 10/1/08 and 9/30/10}}{\text{Stafford borrowers who enter repayment between 10/1/08 and 9/30/09}}$$

$$\text{FY09 3-year CDR} = \frac{\text{Stafford borrowers who enter repayment and default between 10/1/08 and 9/30/11}}{\text{Stafford borrowers who enter repayment between 10/1/08 and 9/30/09}}$$

CDR: Why does it matter?

- Schools:
 - May result in provisional certification or loss of Title IV eligibility
 - Negative publicity
 - Additional time and resources to work to manage and reverse high rates
- Borrowers:
 - Damaged credit
 - Loss of Title IV eligibility
 - Wage garnishment, court costs, collection costs, treasury offset, loss of professional license, difficulty accessing other forms of credit

Projected changes at 4-year schools

2-year cohort default rates

Private: 3.5%

Private non-profit: 2.8%

Proprietary: 7.3%

3-year cohort default rates

Private: 5.3%

Private non-profit: 4.5%

Proprietary: 13.7%

"Trial" 3-year CDRs

- December 7 Electronic Announcement on IFAP
- Data available for FY05, 06, and 07
- Informational only: no benefits, sanctions, appeals, or challenges
- Request a Loan Record Detail Report (LRDR) at www.nslidsfap.ed.gov
- Choose the Cohort Default Rate tab, look for the row labeled "3-Year Trial," then use the Request Loan Details box to access the backup information.

When/how is a school notified of its CDR rates?

- Draft rates are released to schools in February of each year (non-public information)
- Information is sent to schools via e-mail along with the Loan Record Detail Report (LRDR)
- LRDR gives detail of each borrower included in the default rate:
 - Date Entered Repayment
 - Date of Default (if applicable)
- Official rates are published in September of each year (public information)

Transition process

- For FY 2008, only a 2-year rate will be published
- There will be two CDRs published each year for FY 2009, 2010, and 2011
 - Draft and official rates will be released for a 2-year calculation, and also for a 3-year calculation
- After FY 2011, 2-year rates will no longer be calculated

Transition from 2-year to 3-year rates

Fiscal year (FY)	Denominator (enter repayment)	Numerator (in default)	Official CDR publication dates	CDR used for school sanctions
2008	10/01/07 - 09/30/08	2-yr: 10/01/07 - 09/30/09	2-yr: Sept 2010	2-yr rate (25%)
2009	10/01/08 - 09/30/09	2-yr: 10/01/08 - 09/30/10 3-yr: 10/01/08 - 09/30/11	2-yr: Sept 2011 3-yr: Sept 2012	2-yr rate (25%)
2010	10/01/09 - 09/30/10	2-yr: 10/01/09 - 09/30/11 3-yr: 10/01/09 - 09/30/12	2-yr: Sept 2012 3-yr: Sept 2013	2-yr rate (25%)
2011	10/01/10 - 09/30/11	2-yr: 10/01/10 - 09/30/12 3-yr: 10/01/10 - 09/30/13	2-yr: Sept 2013 3-yr: Sept 2014	2-yr rate (25%) 3-yr rate (30%)
2012	10/01/11 - 09/30/12	3-yr: 10/01/11 - 09/30/14	3-yr: Sept 2015	3-yr rate (30%)

Transition from 2-year to 3-year rates

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2012	10/01/11 - 09/30/12	3-yr: 10/01/11 - 09/30/14	3-yr: Sept 2015	3-yr rate (30%)

Benefits of low CDRs

Three most recently published 2-year or 3-year CDRs less than 15 percent:

- Effective for FFELP and Direct loans first disbursed on or after 10/1/2011:
 - Loans may be disbursed in one installment in some cases
 - No 30-day delayed disbursement requirement for first-year, first-time borrowers
- Currently this benefit is available for CDRs less than 10 percent

Benefits of low CDRs

Most recent 2-year or 3-year CDR less than 5 percent:

- For students in study-abroad programs:
 - No required 30-day delay of first disbursement for first-time, first-year undergraduate borrowers
 - May deliver loan funds in a single disbursement, regardless of the length of the student's loan period
- No change to current policy

Consequences of high CDRs

3-year CDR equal to or greater than 30 percent:

- 1st year – school must establish default prevention task force and prepare a plan to submit to the Department
- 2nd year (consecutive) – task force must review and revise plan and submit to the Department
- 3rd year – school subject to sanctions (provisional certification or loss of eligibility)
- Effective 2012 with publication of FY09 3-year rate

Consequences of high CDRs

Default prevention task force

- Identify the factors causing the institution's cohort default rate to exceed the threshold;
- Establish measurable objectives and identify steps to take to improve the institution's rate; and
- Specify actions the institution will take to improve student loan repayment, including loan repayment counseling.

Consequences of high CDRs

Sanction: provisional certification

- 2-year rates—a single CDR of 25 percent or greater
 - Before and during transition period
- 3-year rates: two CDRs of 30 percent or greater in last three years
 - Effective when the third 3-year rate is published in September 2014

Consequences of high CDRs

Sanction: loss of eligibility

- 2-year rates:
 - Three consecutive years of 25 percent or greater
 - One year over 40 percent
- 3-year rates:
 - Three consecutive years of 30 percent or greater
 - One year over 40 percent
 - Effective when the third 3-year rate is published in September, 2014
- Currently: Loss of eligibility with one CDR over 40 percent or three consecutive years of 25 percent or greater

Loss of eligibility

Beginning in September 2014, without a successful adjustment or appeal:

- If school's most recent CDR is greater than 40 percent, the school will lose eligibility to participate in:
 - FFEL and
 - Direct Loan programs

Loss of eligibility

Beginning in September 2014, without a successful adjustment or appeal:

- If school's three most recent CDRs equal or exceed 30 percent, the school will lose eligibility to participate in:
 - FFEL,
 - Direct Loan, and
 - Pell Grant programs

Transition from 2-year to 3-year rates

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Can a school challenge its draft CDR?

- Challenges—draft CDR:
 - Incorrect data challenge
 - Participation rate index challenge
- Challenges must be submitted within 45 days of the date the school receives its draft CDR in mid-February

Incorrect data challenges

Of the borrowers who defaulted, 91% did not receive their full 6-month grace period due to late or inaccurate enrollment notification by the school

Source: ED's August 2008 Analysis
of Federal Direct Loan Portfolio

Can a school adjust its official CDR?

- Adjustments—official CDR:
 - Uncorrected data adjustment
 - New data adjustment
- Adjustments must be submitted to the Department or data manager within 30 days of the date the school receives its official CDR in mid-September

Can a school appeal its official CDR?

- Appeals—official CDR:
 - Erroneous data appeal
 - Loan servicing appeal
 - Economically disadvantaged appeal
 - Participation rate index appeal
 - Average rates appeal
 - Thirty or fewer borrowers appeal
- Appeals are submitted to the Department for review

Challenges and appeals

School may submit...	...if subject to...			
<i>Draft Cohort Default Rate</i>	No sanction?	Loss of eligibility?	Provisional certification?	
Incorrect Data Challenge	Yes	<i>No sanctions based on draft rates</i>		
Participation Rate Index Challenge	Yes			
<i>Official Cohort Default Rate</i>			2-year	3-year
Uncorrected Data Adjustment	Yes	Yes	Yes	Yes
New Data Adjustment	Yes	Yes	Yes	Yes
Erroneous Data Appeal	No	Yes	Yes	Yes
Loan Servicing Appeal	Yes	Yes	Yes	Yes
Economically Disadvantaged Appeal	No	Yes	No	Yes
Participation Rate Index Appeal	No	Yes	No	Yes
Average Rates Appeal	No	Yes	No	Exempt
Thirty or Fewer Borrowers Appeal	No	Yes	No	Exempt

Default prevention initiatives

- School CDR management initiatives
- “Put” loan considerations
- Guarantor default prevention initiatives

Default prevention initiatives

Within DL, of the borrowers who defaulted, 70% withdrew without completing their academic program.

Source: ED's August 2008 Analysis
of Federal Direct Loan Portfolio

School CDR management initiatives

- Enhance counseling sessions
- Provide money management workshops
- Increase contact with delinquent borrowers
- Hire private default prevention servicers to work cohort borrowers
- Partner with guarantors to use online cohort management systems
- Renew focus on retention efforts

PUT loans - Impact on CDR

- Some borrowers in the FY 2009 and subsequent cohorts will have loans “PUT” (sold) to the Department
 - Loans can be PUT up to 240 days delinquent.
- Guarantors will not have loan detail information for PUT loans
- A school will now receive delinquency information on PUT loans from servicers.
 - Delinquency info not on NSLDS

PUT loans - Impact on CDR

- Loan servicers can be located on NSLDS
- NSLDS Newsletter 25 describes new "Status of Loans Purchased by ED Report"
 - Parameters include ED servicer codes, previous guarantor codes, transfer start and end dates

Guarantor default prevention initiatives

- Advanced skip-tracing programs
- Strategic call campaigns
- Drop-out vs. graduate strategies
- Unemployment deferment focus
- Live vs. pre-recorded calls
- Reports for schools

Guarantor default prevention initiatives

- Early withdrawal counseling
- At-risk borrower program
- Calls during grace period
- Early-stage delinquency program
- Late-stage delinquency team
- Financial literacy training

Key points

- CDR changes are underway—the borrowers included in the first 3-year rate (FY 2009) have already entered repayment
- Monitor and correct CDR borrower data frequently
- Develop initiatives to help your borrowers better manage their repayment responsibilities
- Begin taking action NOW to make a difference!

Key points

- Contact your guarantor to take advantage of tools to help your borrowers better manage their repayment responsibilities
- Borrowers in successful repayment positively impact a school's CDR
- IBR and other extended repayment plans can help!

CDR resources

- ED's Default Prevention and Management page: <http://ifap.ed.gov/DefaultManagement/DefaultManagement.html>
- TG's Default Prevention Resources page: <http://www.tgslc.org/default/resources.cfm>
- TG's Managing Your Cohort Default Rate webinar at <http://www.tgslc.org/training/webinars/>

Questions?

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