Dealing with Cohort Default Rates:*

*The Deathly Hallows*

Dr. Pat Hurley, Glendale Community College
Laws & Regs

- Higher Education Act of 1965
  - Section 435(m) – CDR Calculation
  - and Sanctions
  - Section 428G – Disbursement Rules
  - Amended by Higher Education
    - Opportunity Act

- Department of Education’s Regulations
  - 34 CFR Part 668, Subparts M and N
  - Modified on October 28, 2009
  - NPRM Published on July 28, 2009
    - Cohort Default Rate Guide
# National – Dollars in Default

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<td>$647 Million</td>
<td>$801 Million</td>
<td>$915 Million</td>
<td>$1.183 Billion</td>
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Source: DL/FFEL portfolio
### National – Borrowers in Default

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<td>161,951</td>
<td>204,507</td>
<td>231,659</td>
<td>238,852</td>
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Source: DL/FFEL portfolio
Currently, a school’s cohort default rate is:

The percentage of the number of the school’s FFEL and Direct Loan borrowers who enter repayment in one federal fiscal year *who default in that federal fiscal Year or by the end of the next federal fiscal year.*

Beginning with the 2009 cohort it will be:

Borrowers *who default in that federal fiscal year or by the end of the next two federal fiscal years.*
CDR Formula

- For cohort year:

  Number of borrowers who default
  Number of borrowers who go into repayment status
CDR Release

- **FY09 Draft** Cohort Default Rate
  - Will be released on February 14, 2011

- **FY09 Official** Cohort Default Rate:
  - Will be released on September 12, 2011
The Consequences of Default For the School

- The CDR is a measure of a school’s administrative capability
- High CDRs can
  - Negatively reflect on school quality
  - Result in provisional certification
  - Result in loss of Title IV eligibility
  - Threaten access to private loan funds
The Consequences of Default
For the Borrower

- Credit report damage (7-year minimum)
- Wage garnishment
- Seizure of federal and state tax refunds
- Seizure of portion of any federal payment
- Legal action in federal district court
- Title IV ineligible

- May lose state occupational license
- No mortgage loans
- May have difficulty obtaining car loans
- May be unable to rent an apartment
- May be turned down for jobs
- Collection costs
HEOA Amendments – Recent Changes

• Increases CDR cohort period to 3 years

• Increases the low-participation rate index from 0.0375 to 0.0625

• Requires default prevention plan if CDR is 30%

• Increases disbursement relief threshold from 10% to 15%
- Increases sanction CDR threshold to 30%

Schools with CDR under threshold:
- *May disburse a one-term loan in a single disbursement*
- *Do not have to wait 30 days before making first disbursement for first-time, first-year borrowers.*
The **Numerator** is the number of borrowers from the denominator who default within a cohort period.

The **Denominator** is the number of borrowers who enter repayment within a cohort period.

**FY-09**

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**FY-10**

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**FY-11**

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355
5000 = 0.071 or 7.1%

605
5000 = 0.121 or 12.1%
Transition from 2-yr to 3-yr CDR

- “no school sanctions will be taken based on the 3-year calculated rate until after there have been three consecutive cohort years of such rates calculated”

- Two sets of draft and official CDR rates will be issued annually for Cohort Years 2009, 2010, and 2011

- 2009 – 2011 Cohort: Sanctions based on 2-year CDR

- 2012 Cohort: Begin sanctions based on 3-yr CDR
Transition Period

Two-Year vs. Three-Year Cohort Default Rates
## Institutional CDR Calculations By CDR Year

### Remaining Publications of 2–year CDR

<table>
<thead>
<tr>
<th>CDR</th>
<th>Denominator: Enter Repayment</th>
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<th>Cohorts used for Sanctions</th>
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## Institutional CDR Calculations By CDR Year

### Publications of 3-year CDR

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<th>Numerator # In Default</th>
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<th>Cohorts Used for Sanctions</th>
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<td>FY 2010</td>
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Default Prevention Taskforce

- HEOA raised the single-year threshold for preparing a default management plan from 25% to 30%

- Effective 2012, schools with a CDR equal to or greater than 30% must establish a default prevention task force
Default Prevention Task Force

Schools must create a task force and prepare a default prevention plan that:

- Identifies the factors causing the school’s CDR to exceed the threshold

- Establishes measurable objectives and identifies steps to take to improve the school’s CDR

- Specifies actions the school will take to improve student loan repayment, including loan repayment counseling
Challenges/Adjustments/Appeals

- Challenge to Draft Rate
  - School reviews records of students in cohort and provides documentation to correct default status. Challenge is based on draft CDR data.

- Adjustment to Rate
  - Rate adjusted for new data (loan rehabilitation, etc.)

- Appeal of Official Rate or Sanctions
  - Schools appeal sanctions levied by ED based on CDR.
Challenges, Adjustments, and Appeals

Challenges
- Incorrect Data Challenge (IDC)
- Participation Rate Index Challenge (PRI)

Adjustments
- Uncorrected Data Adjustment (UDA)
- New Data Adjustment (NDA)

Appeals
- Loan Servicing Appeal (LS)
- Erroneous Data Appeal (ER)
- Economically Disadvantaged Appeal (EDA)
- Participation Rate Index Appeal (PRI)
Adjustments are submitted by schools to ED after release of official rates.

Successful Adjustments will result in the recalculation of the cohort default rate. The electronically corrected rate is publicly released.
Challenges are submitted by a school after the release of draft cohort default rates using the Loan Record Detail Report.

A successful challenge will “fix” data that was used to calculate rates and result in a lower CDR. Must be submitted within 45-day timeframe. Timeframe begins on the 6th business day after official release of cohort default rates.
CDR Challenges (continued)

Incorrect Data Challenges: submitted to Guaranty Agencies (GA) for FFEL loans held by the GA or to the Department’s servicers

1. Borrower did not enter repayment during cohort year – error in enrollment reporting
2. Borrower did not default during monitoring period
3. Other borrowers entered repayment during cohort period
4. New data adjustments – records have been updated since the CDR calculated
Low Participation Rate Challenge

- Appeal available to schools that have a relatively low number of Title IV-eligible students borrowing loans

- If school is subject to loss of eligibility

- Applies to most or all CCC’s

- If school meets PRI, the appeal is automatically approved and no sanctions levied on school
For one-year CDR >40% potential loss of eligibility, PRI must be equal to or less than 0.06015.

For two-year CDR ≥25% potential loss of eligibility and for provisional certification, PRI must be equal to or less than 0.0375.

For three-year CDR ≥ 30% potential loss of eligibility and for provisional certification, PRI must be equal to or less than 0.0625.
Sample calculation

School A:
- Regular students = 15,000
- Borrowers = 500
- School’s CDR = 30%

\[
\frac{500 \times 0.30}{15,000} = 0.0099
\]

* Below all three participation rate index thresholds
School B:
- Regular students = 7,000
- Borrowers = 1,000
- School’s CDR = 30%

\[
\frac{1000 \text{ borrowers}}{7,000 \text{ regular students}} \times 0.30 \text{ CDR} = 0.0428
\]

*Subject to sanctions under 2-year CDR because PRI is above 0.0375. Given the same scenario when the 3-year CDR is effective, the appeal would be approved because the PRI is under 0.0625.
eCDR Appeals

• Beginning with the FY 2009 cohort (draft CDRs released in February 2011), all schools **MUST** use eCDR Appeals to prepare and submit their IDC, UDA and NDA*

  *Inaccurate Date Challenge, Uncorrected Data Adjustment, New Data Adjustment


• Check IFAP for upcoming electronic announcements
The Cohort Default Rate Guide (Guide) is a comprehensive publication that presents information on cohort default rates for schools participating in the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan (Direct Loan) Program. Default Prevention and Management previously provided the Guide twice a year with the draft and the official cohort default rates. The original Guide was published August 2001. The revised Guide was published August 2006 and posted on the Default Prevention and Management's website at http://ifap.ed.gov/DefaultManagement/DefaultManagement.html. It is the permanent version and any change to its content will be accessible from the “Updates” link on the Guide homepage.

Cohort Default Rate Guide

- Cohort Default Rate Guide Master File
- Table of Contents
- Part 1: Introduction
- Part 2: General Information
- Part 3: Strategy
- Part 4: Challenges, Adjustments and Appeals
- Glossary
- Appendices
Welcome

Federal Student Aid is pleased to announce the availability of the electronic Cohort Default Rate Appeals application (eCDR Appeals). The eCDR Appeals application is a web-based application that allows schools to submit Incurred Data Challenges (IDC), Uncorrected Data Adjustment (UDA) appeals, and New Data Adjustment (NDA) appeals during the cohort default rate appeal cycles.

Login

Help

The August 2006 Cohort Default Rate Guide (CDR Guide) is a publication that the U.S. Department of Education (Department) designed to assist schools with their Federal Family Education Loan (FFEL) Program and William D. Ford Federal Direct Loan (Direct Loan) Program cohort default rate data. This Guide should be used as a reference tool in understanding cohort default rates and processes.

The eCDR Appeals User Guides are designed to lead users through the online, paper-less IDC, UDA and NDA processes. These User Guides assume a basic knowledge of cohort default rates and associated processes. They complement the CDR Guide. In the event of any discrepancy between the IDC, UDA or NDA User Guides and the CDR Guide, the CDR Guide is the authoritative source for regulatory considerations and constraints.

- eCDR Appeals IDC User Guide
- eCDR Appeals UDA User Guide
- eCDR Appeals NDA User Guide

The eCDR Appeals Registration and User Account Guide focuses on the process of obtaining an account on eCDR Appeals. This guide also outlines the means for Destination Point Administrators (DPAs) to manage user accounts.

Note: From a technical perspective, all User Guides assume basic familiarity with using a computer and web browser to view and interact with websites. These guides are made available as Adobe Acrobat PDF files. To view these files, the user will need to download the free Adobe reader.
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Federal Student Aid also record short online demonstration sessions of the system for schools as a training aid:

- Registration for eCDR Appeals
- Preparing and submitting an IDC
- Preparing and submitting a NDA
- Preparing and submitting a UDA

These videos do not include any transcript as the User Guides offer a comprehensive description of the system. Simply enter your name and hit “View Recording”. A “recording key” is not required. There are two versions of the video available for streaming or downloading, if viewing the Microsoft Office Live Meeting Replay version, it is recommended that you install the Microsoft Office Live Meeting 2007 client available at the same site.

Federal Student Aid has compiled a list of Frequently Asked Questions for eCDR Appeals.

For additional help, please visit the Portfolio Performance Division’s Default Prevention and Management web site

Last updated/reviewed October 04, 2009
NSLDS Reports for Schools

- **Reports for Data Accuracy**
  - Date Entered Repayment Report
  - School Repayment Info Loan Detail
  - School Cohort Default Rate History
  - Enrollment Reporting Summary

- **Reports for Default Prevention**
  - Date Entered Repayment Report
  - Borrower Default Summary
  - Exit Counseling
  - Delinquent Borrower Report *(New!)*
Where to Find Your CDR

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<td>DELQ01 Delinquent Borrower Report</td>
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# Cohort Default Rate History List

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What to DO??!!!

YOUR OPTIONS:

- Worst Option
  - Drop out of loan programs

- Good Option
  - Submit appeal based on low participation

- Best Option
  - Implement Default Prevention Plan
Default Prevention

- Should be implemented even if not required
- Form a Default Prevention Team
- ED Default Management sample plan in Dear Colleague Letter GEN–05–14 issued 9/2005
- The plan should not remain static, revise and adjust the plan as needed to success
What Servicers Do

During the Grace Period a Loan Servicer Performs the Following:

- Establishes a relationship with the borrower
- Ensures the correct repayment status
- Discusses the appropriate repayment plan
- Promotes self-service through the web
- Updates and enhances borrower contact information
- Discusses consolidation options
Elements of School Plan – Information

¬ Entrance & Exit counseling
  ◦ In-person
  ◦ Mail
  ◦ Electronic

¬ Financial Literacy
  ◦ Website
  ◦ Class
FSA’s Entrance/Exit Counseling

Entrance Counseling
www.StudentLoans.gov

Exit Counseling
www.NSLDS.ed.gov
Elements of Plan – Contact

- **Student Contact:**
  - Telephone calls are most successful
  - Tell student how to regain good standing

- **Mail:**
  - Hand-address regular envelopes
  - Use a stamp – not a postage meter
  - Consider colored envelopes or paper
  - Personalize the letter – sign it
  - Postcards can also be effective
  - Should not look like a bill
Default Prevention – Actions

- **Contact delinquent borrowers**
  - Most defaulters were not successfully contacted by phone during the 360-day collection effort leading up to default

- **Report enrollment status on time**
  - Of the borrowers who defaulted, most did not receive their full 6-month grace period due to late or inaccurate enrollment notification by the school
“Non–Traditional” Approach

- Treat the cause:
  - Increase program completion rates
  - Decrease program completion time
  - Helping non-completers find a job
    - Successful students become successful borrowers
    - Leverage efforts to increase retention, graduation, and employment
QUESTIONS?

NOTE:
This presentation was heavily based on the 2010 FSA Conference materials