

Cohort Default Rates

learning brief

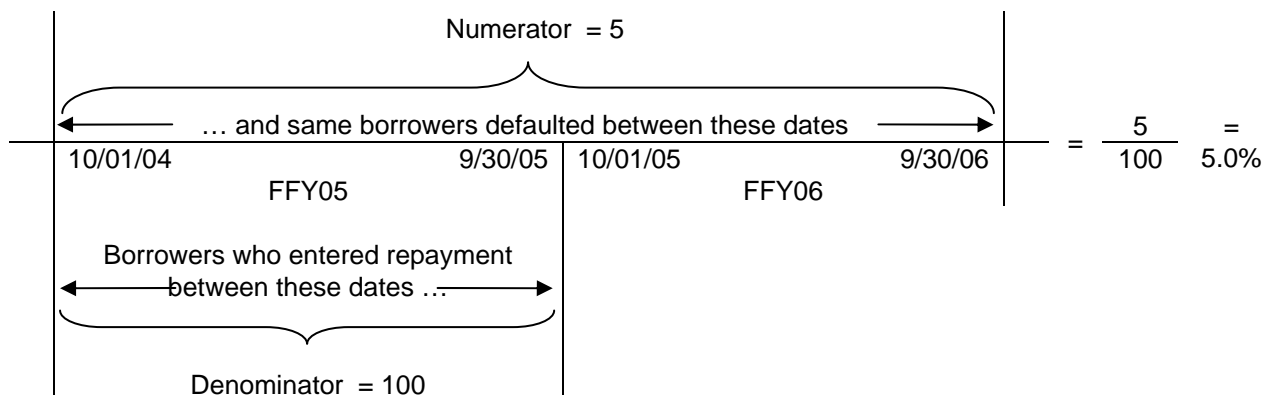
A cohort default rate is a head count of borrowers who enter repayment during a federal fiscal year (FFY) compared to the number in that group who default by the end of the next FFY. The federal fiscal year runs from October 1 to September 30. The U.S. Department of Education publishes cohort default rates annually for all schools, lenders, and guarantors participating in FFEL and Direct Loan programs. Federal Perkins Loans have cohort default rates as well. The rate includes borrowers of subsidized and unsubsidized Stafford Loans and old SLS Loans (Supplemental Loans to Students), and Consolidation loans made to pay off Staffords and SLSs in the same FFY that those loans entered repayment. The cohort default rate does not include PLUS loans.

Stafford loans enter repayment the day after the six-month grace period expires. SLS loans enter repayment at the same time if the borrower also has a Stafford loan. If not, the SLS enters repayment after the last disbursement.

A loan is in default when the borrower has not made payments on the loan for 270 days or has not made payments sufficient to prevent the loan from reaching the 270th day of delinquency. In FFELP, the guarantor must also have purchased the loan as a defaulted loan.

Cohort Fiscal Year	<u>Borrowers in Numerator</u> Borrowers in Denominator
2005	<u>Borrowers who entered repayment between 10/01/04 and 9/30/05 then defaulted prior to 9/30/06</u> Borrowers who entered repayment between 10/01/04 and 9/30/05
2006	<u>Borrowers who entered repayment between 10/01/05 and 9/30/06 then default prior to 9/30/07</u> Borrowers who entered repayment between 10/01/05 and 9/30/06
2007	<u>Borrowers who entered repayment between 10/01/06 and 9/30/07 then defaulted prior to 9/30/08</u> Borrowers who entered repayment between 10/01/06 and 9/30/07

Example: 2005* Cohort Default Rate



*Designated as FFY 2005 CDR because the borrowers in the cohort entered repayment during the 2005 FFY (10/01/04 – 9/30/05)

Before rates are published, draft rates are provided to schools, so that they may review and change the data if it is incorrect. In addition to challenging data (incorrect data challenges), a school may challenge a draft rate based upon its “participation rate index” (PRI), a formula that demonstrates low use of the loan programs. Draft rates are not published. The second distribution of the rates is the official rates, which are published. Official rates may be adjusted and/or appealed.

Consequences or Sanctions for Schools with High Cohort Default Rates

- Unless a school successfully adjusts or appeals its official cohort default rate:
 - a school will lose eligibility to participate in the FFEL and Direct Loan programs 30 days after it receives notice from ED that its most recent cohort default rate is greater than 40 percent.
 - a school will lose eligibility to participate in the FFEL and Direct Loan programs and in the Pell Grant program 30 days after it receives notice from ED that its three most recent cohort default rates are each greater than 25 percent.
- The period of ineligibility lasts through the remainder of the FFY in which the school receives its notice and the next two following FFYs. The school may then re-apply to participate in the loan programs. Schools that have not participated in the FFELP or Direct Loan programs since October 7, 1998, or have not certified loans in these programs since July 7, 1998, will not lose eligibility in the Pell Grant program. Historically black colleges and universities and tribal community colleges are not subject to these sanctions but must develop specific default management programs to combat high cohort default rates. ED may determine that a school with three rates each greater than 25 percent lacks administrative capability and provisionally certify the school. The school may appeal this determination with an “erroneous data” appeal.

Adjustments and Appeals of Official Cohort Default Rates

There are numerous requirements for challenging draft rates and for appealing official rates, and there are deadlines that must be met. It is critical that ED “Default Rate Guides” and regulations be followed in order to properly make appeals and achieve adjustments. Schools that are appealing their rates retain eligibility during the appeal process but are required to reimburse ED for its (estimated) losses on the loans it certifies during the appeal process, if the appeal is not successful.

For its official rate, the school may assure that the data corrected for its draft rate is corrected (uncorrected data adjustments) and may request changes to new data as compared to the draft rate (new data adjustments). The school may appeal loss of eligibility (or obtain a lower cohort default rate) based upon improper loan servicing, serving economically disadvantaged students, its participation rate index, its rate(s) being calculated as an average rate, and its rate being calculated for 30 or fewer borrowers.

For coordination with College Assist to challenge data or to make an appeal, please contact CTI.

Benefits of Low Cohort Default Rates

An institution whose official cohort default rates for each of the three most recent fiscal years for which data are available are less than 10 percent are exempt from the following two requirements as of February 8, 2006:

- Schools that meet this requirement are exempt from the 30-day delay of the first loan disbursements requirement for students enrolled in the first year of an undergraduate program of study who have not previously received a Stafford loan.
- Schools that meet this requirement are exempt from the requirement for multiple disbursements for a single term loan.

Want to know more?

See HEA 428G; 34 CFR §668.181 - §668.198, §682.207, §682.604; 2006-07 Federal Student Aid Handbook, Volume 2; Common Manual, April 2006, Chapter 16; Cohort Default Rate Guide, August 2001.