Getting Ready for a Three Year Cohort Default Rate

LASFAA CONFERENCE

October 28, 2010

What is the CDR Calculation?

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 will be:

borrowers *who default in that Federal Fiscal Year or by the end of the next two Federal Fiscal Years.*

Why Are CDRs Important?

Defaulted federal student loans cost taxpayers money and harm the borrower.

By calculating cohort default rates (CDR), sanctioning schools with higher rates, and providing benefits to schools with lower rates the statute creates an incentive for schools to work to reduce defaults.

CDR Authorities

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
- Amended on October 28, 2009
- NPRM Published on July 28, 2009

Cohort Default Rate Guide

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Reauthorization – HEOA 2008

- **Authorized the standard CDR from a 2 year measurement to a 3 year measurement.**

- Increases sanction threshold default rate from 25 percent to 30 percent.

- Requires a Default Prevention Plan if 3-year CDR is 30% or more.

- Increases disbursement relief threshold from 10% to 15%.

- Created a transition period during which "**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"
    - During transition period, sanctions will be based on calculations made according to pre-HEOA provisions
    - Two sets of draft and official CDR rates will be issued annually for Cohort Years 2009, 2010, and 2011

When is the new rate official?

- FY09 Rate – Published September 30, 2012

- Your first 3-year rate will be comprised of borrowers who:
    - Entered repayment between October 1, 2008 and September 30, 2009, and
    - Defaulted on or before September 30, 2011

Cohort default period		
Cohort fiscal year		
Oct 1 Sept 30 (Y1)	Oct 1 Sept 30 (Y2)	Oct 1 Sept 30 (Y3)

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The Cohort Default Rate Equation

$$\frac{\text{Borrowers who default within the default period}}{\text{Borrowers who enter repayment during the cohort fiscal year}} \times 100 = \textbf{CDR}$$

Difference Between 2-Year CDR and 3-Year CDR

$$\text{FY09 2-year CDR} = \frac{\text{Borrowers who enter repayment and default between Oct 1, 2008 and Sept. 30, 2010}}{\text{Borrowers who enter repayment between Oct. 1, 2008 and Sept. 30, 2009}}$$

$$\text{FY09 3-year CDR} = \frac{\text{Borrowers who enter repayment and default between Oct 1, 2008 and } \textbf{Sept. 30, 2011}}{\text{Borrowers who enter repayment between Oct. 1, 2008 and Sept. 30, 2009}}$$

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Numerator

- All cohort loans with a default date in the three-year cohort period – counted by borrower at your school
  - default for FFELP is determined by default claim payment date

- Doesn't matter what happens on a loan at any other school.

- Borrower gets one status at YOUR school based on BORROWER, NOT dollar. If borrower defaults on one loan from your school, he/she is a defaulter.

  Default Timeline:
  - 60 days to establish the first payment
  - 270 delinquency days
  - 90 days for the lender to file a default claim
  - 60+ days thereafter for the guarantor to review and pay the default claim

  (Up to 480 days, or about 1 year and 4 months. Deferments and Forbearance, including bankruptcy) will extend this.

Denominator

- All loans entering repay in cohort year– counted by borrower
  - can include borrowers with loans deferred, forborne, rehabbed, death, disability and bankruptcy

- Denominator includes defaulters from the numerator.

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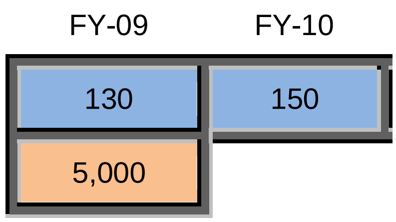
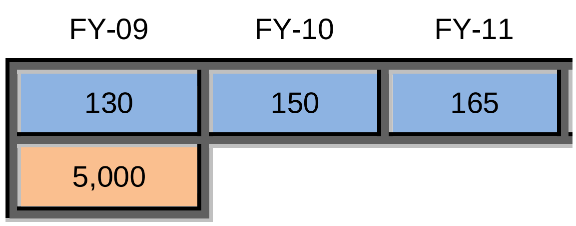
2 Year Versus 3-Year Calculation

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.



$$\frac{280}{5{,}000} = .056 = 5.6\%$$



$$\frac{445}{5{,}000} = .089 = 8.9\%$$

What Next?

Expect Your 3-Year Cohort Default Rate to be Higher.

- **Example, using FY2004 CDR:**

Institution Type	FY2004 Two-Year Cohort Default Rate	Projected Three-Year Cohort Default Rate
Public	4.7	7.2
• Less than two-year	5.7	9.7
• Two- to three-year	8.1	12.9
• Four-year or more	3.5	5.3
Private	3.0	4.7
• Less than two-year	9.0	18.7
• Two- to three-year	7.4	12.2
• Four-year or more	2.8	4.5
Proprietary	8.6	16.7
• Less than two-year	8.9	18.5
• Two- to three-year	9.9	19.5
• Four-year or more	7.3	13.7
Foreign	1.5	2.5
Unclassified	5.5	10.0
Total	5.1	8.6

- **Be proactive:**
  - ensure accurate NSLDS data
  - review your cohort data for accuracy
  - utilize services :
    - Financial Literacy
    - Default Aversion Assistance
    - Cohort Reports

We're All in This Together

Take advantage of tools that guarantors and servicers have to offer

- Reach out to partners
- Get access/sign-up
- Learn how to utilize these tools
- Incorporate into your default prevention plan

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Resources and Acknowledgements

USDE – Federal Student Aid

Data Center – Default Rates
http://federalstudentaid.ed.gov/datacenter/cohort.html

Appeal Procedures
https://ecdrappeals.ed.gov/ecdra/docs/eCDR_Appeals_IDC_User_Guide.pdf

National Student Loan Program – Lincoln, Nebraska
http://www.nslp.org