Session #28

Understanding Cohort Default Rates and How to Develop and Implement Effective Default Prevention Plans

Marcus DeCosta and Larry B. Eadie
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What’s Included

In This Session:

- Understanding the CDR Process
- Challenges & Adjustments
- Appeal Process
- Risk and Strategies
- Creating An Effective Default Management Plan
- Targeted School Engagement

Cohort Default Period

The phrase “cohort default period” refers to the **three-year period** that begins on Oct. 1 of the fiscal year when the borrower enters repayment and ends on Sept. 30 **of the second fiscal year following the fiscal year in which the borrower entered repayment**. This is the period during which a borrower’s default affects the school’s cohort default rate.

Institutional CDR Calculations By CDR Year

Cohort Fiscal Year	Year Published	Borrowers in the Numerator Borrowers in the Denominator	3-Yr Time Period (Numerator) 1-Yr Time Period (Denominator)
2014	2017	Borrowers who entered repayment in 2014 and defaulted in 2014, 2015 or 2016 Borrowers who entered repayment in 2014	10/01/2013 to 9/30/2016 10/01/2013 to 9/30/2014
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What is a 3-Year Cohort Default Rate?

For schools having 30 or more borrowers entering repayment in a fiscal year, the school's cohort default rate (the **"non-average rate"**) is the percentage of a school's borrowers who enter repayment on certain Federal Family Education Loans (FFELs) and/or William D. Ford Federal Direct Loans (DL) during that fiscal year and default (or meet the other specified condition) within the cohort default period.

For schools with 29 or fewer borrowers entering repayment during a fiscal year, the cohort default rate is an "average rate" based on borrowers entering repayment over a three-year period.

Please note: **Unofficial rates do not meet the statutory definition for cohort default rates and cannot be used to determine sanctions and benefits.**

Non-Average Rate Formula

Number of borrowers in the denominator* who defaulted or met the other specified condition during the cohort default period

÷

Number of borrowers who entered repayment in the cohort fiscal year

=

Cohort Default Rate

Average Rate Formula

Number of borrowers in the denominator who defaulted or met the other specified condition during the cohort default period applicable to their loans

÷

Number of borrowers who entered repayment in the cohort fiscal year and the two preceding fiscal years

=

Cohort Default Rate

3-Year Cohort Default Rate SANCTIONS

*A school's three most recent official cohort default rates are 30.0 percent or greater for the three-year calculation	*A school's current official cohort default rate is greater than 40.0 percent, for the three-year CDR calculation
• *A school will lose Direct Loan & Federal Pell Grant eligibility*	• *A school will lose Direct Loan program eligibility*

**Except in the event of a successful adjustment or appeal, a school will lose eligibility as indicated above for the remainder of the fiscal year in which the school is notified of its sanction and for the following two fiscal years*

Challenges, Adjustments, and Appeals

Challenges (Draft)

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

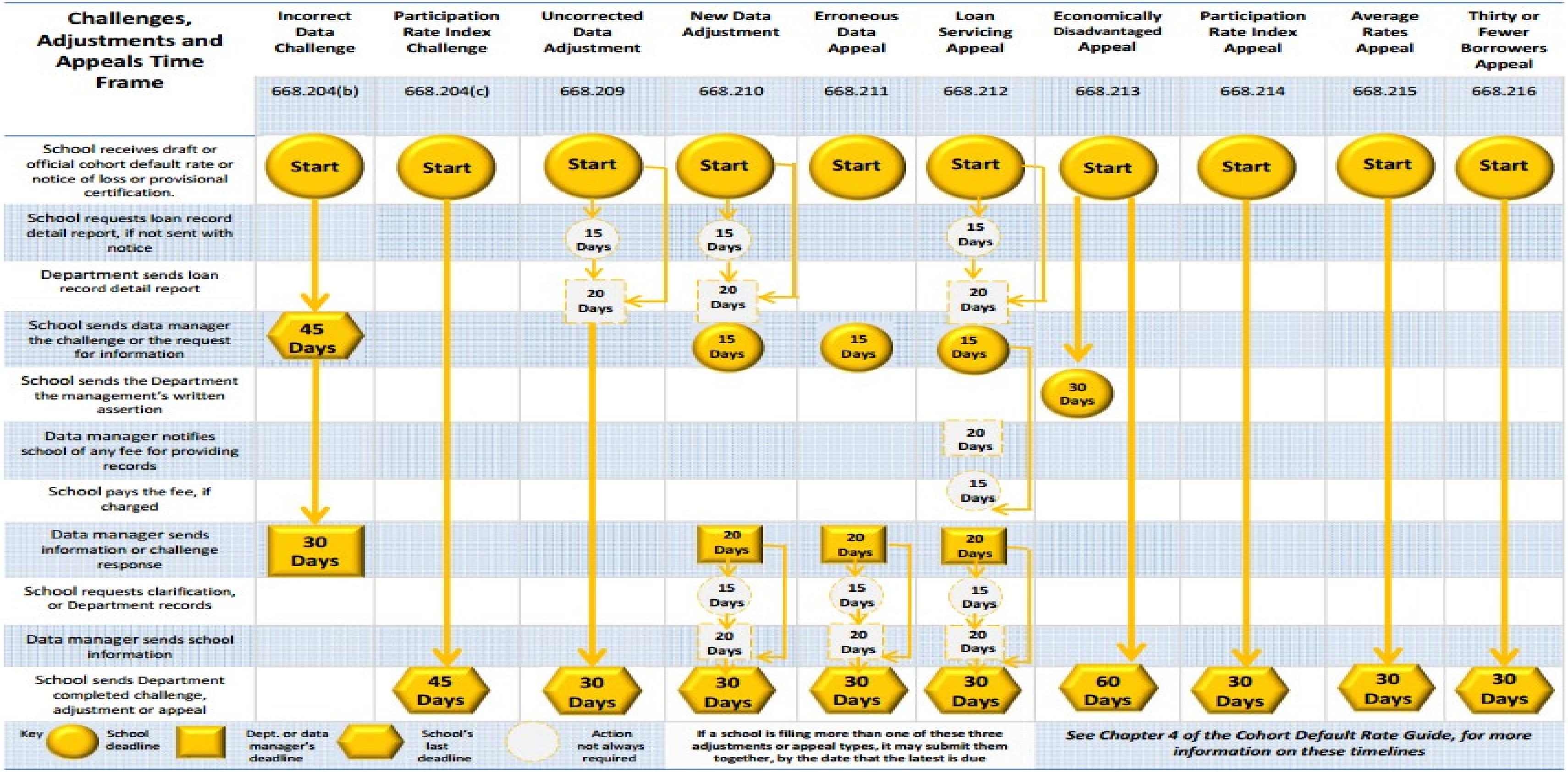
Adjustments (Official)

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

Appeals (Official)

- Loan Servicing Appeal (LS)
- Erroneous Data Appeal (ER)
- Economically Disadvantaged Appeal (EDA)
- Participation Rate Index Appeal (PRI)

Institutional CDR Calculations By CDR Year



Challenge/Appeal Types

- **Incorrect Data Challenge (IDC):** A school has "DATA" to show that borrowers on the LRDR are incorrectly reported.

  When should a school file an IDC? During the **Draft** Period.

  Why File? The correction of incorrect data will impact the official rate. Possible incorrect data may be:

  - Borrower did not enter repayment during cohort year
  - Borrower did not default for CDR purposes during the monitoring period
  - Other borrowers entered repayment during cohort period

- **Participation Rate Index (PRI):** Alleges that a school should not be subject to loss of eligibility or potential placement on provisional certification based solely on its CDR because the school has a PRI that meets a specific criteria.

  When should a school file a PRI? During **Draft** and/or **Official** Periods.

  Why File? The draft CDR suggests that the school will be subject to loss of eligibility or potential provisional certification after the release of the official CDR. The official CDR release confirms that the school is subject to sanction or provisional certification.

Challenge/Appeal Types

- **Uncorrected Data Appeal (UDA):** Reflects changes that were correctly agreed to by a data manager (DM), as a result of an IDC submitted after the release of the draft CDR, but not reflected in the official release.

  When should a school file a UDA? During the **Official** Period.

  Why File? The school's LRDR report indicates that one or more borrower's agreed upon changes from the IDC are not reflected in the official CDR. An adjustment may possibly decrease the current CDR.

- **New Data Appeal (NDA):** A new data adjustment allows a school to challenge the accuracy of "new data" included in the school's most recent official cohort default rate.

  When should a school file an NDA? During the **Official** Period

  Why File? A school's review of the LRDR for the draft and official rates show data newly included, excluded, or otherwise changed during the period between the calculation of the draft and official CDR. If errors are confirmed by the DM, a school's rate will be adjusted.

Challenge/Appeal Types

- **Erroneous Data Appeal (ER):** Alleges that a school's LRDR for the official rate includes disputed data from the IDC, or incorrect new data. Because of the new and/or disputed data, a school's official CDR is inaccurate.

  When should a school file an ER? During the **Official** Period.

  Why File? A school's official CDR includes new and/or disputed data, is subject to sanctions or provisional certification based solely on the official CDR, or the successful ER either by itself or in combination with a UDA or LSA will result in a recalculated CDR below the sanction threshold.

- **Loan Servicing Appeal (LSA):** Alleges a school's official cohort default rate includes defaulted Federal Family Education Loans (FFELs) or William D. Ford Federal Direct Loans (DL) that are considered improperly serviced for CDR purposes.

  When should a school file an IDC? During the **Official** Period.

  Why File? A school believes that the CDR calculation includes one or more defaulted FFEL or DL improperly serviced for CDR purposes.

Challenge/Appeal Types

- **Economic Disadvantaged Appeal (EDA):** Alleges that a school should not be subject to loss of eligibility (or potential placement on provisional certification if based on two successive three-year rates of 30.0% or more), because it has a high number of low-income students and meets the placement or completion thresholds.

  When should a school file an EDA? During the **Official** Period.

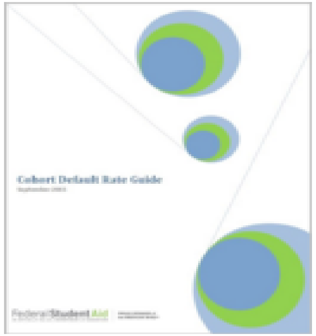
  Why File? If an EDA is successful, it exempts the school from loss of eligibility or placement on provisional certification until the next official cohort default rates are released.

Understanding and Managing CDR

Contact Information and Additional Resources

Additional Resources: CDR Guide:

Cohort Default Rate Guide



The Cohort Default Rate Guide (Guide) is a comprehensive publication that the U.S. Department of Education designed to present information on cohort default rates. This Guide will help schools participating in the William D. Ford Federal Direct Loan (Direct Loan) Program and also assist schools in managing their Federal Family Education Loan (FFEL) loans. As of September 2015 this Guide has been updated and is the permanent version.

The information found in this Guide does not supersede or alter any regulatory or statutory requirements that are in effect. If the information in this Guide conflicts with the regulations or statute, the regulations and/or statute take precedence. The legislation authorizing the FFEL and Direct Loan programs can be found in Title IV of the Higher Education Act (HEA) of 1965, as amended. The regulations for cohort default rates are primarily in Subpart N of Section 668 of the Code of Federal Regulations (CFR).

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

The LRDR Import Tool

The LRDR Import tool may be found on the Default Management website under the CDR Guide/Templates section. Also, schools can download their own LRDRs directly from the NSLDS website.

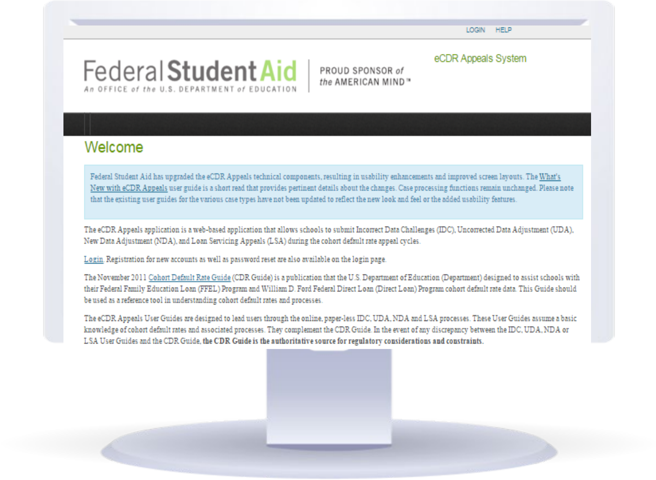
Additional Resources: eCDR User Guides

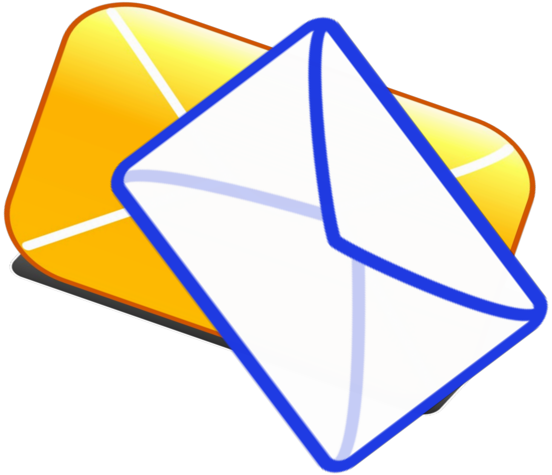
The eCDR Appeals User Guides are designed to lead users through the online, paper-less IDC, UDA, NDA, and LSA processes. These User Guides assume a basic knowledge of cohort default rates and associated processes. They complement the CDR Guide. In the event of any discrepancy between the IDC, UDA, NDA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

- What's New with eCDR Appeals User Guide
- eCDR Appeals IDC User Guide
- eCDR Appeals UDA User Guide
- eCDR Appeals NDA User Guide
- eCDR Appeals LSA User Guide

Submitting Appeals/Adjustments

- Use eCDR Appeals at (ecdrappeals.ed.gov) to submit IDC, UDA, LSA, and NDA
- At this time, all other CDR appeals will continue to be submitted via hard copy





Contact Information

Phone: 202-377-4259

Email: FSA.Schools.Default.Management@ed.gov

Website: ifap.ed.gov/DefaultManagement/
DefaultManagement.html

E-Appeals: https://ecdrappeals.ed.gov/ecdra/
index.html

Creating your Default Management Plan

- Risk and Strategies
- Creating An Effective Default Management Plan
- Targeted School Engagement

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CDRs and the Risk

- CDR default data is calculations based on 3-year rates, so the economic impact on borrower repayment will be seen in future CDR calculations

- Many borrowers are having difficulty repaying

- More schools may face compliance difficulties due to CDRs in coming years

Involuntary

34 CFR 668.14(b)(15)(i)(A)

(A) Schools participating in the Direct Loan programs for the first time

(B) Schools participating in the Direct Loan programs that have undergone a change of ownership that resulted in a change in control

(ii) Required to have a DP plan

- Create your own
- Adopt ED's sample plan

Involuntary

34 CFR 668.217

- Regulation requires that schools which have a cohort default rate equal to or greater than 30% must develop a default prevention plan

- Specific elements are required
  (Details later)

Voluntary

Schools may wish to create a voluntary default prevention plan to promote loan repayment and reduce default risk within the school's loan portfolio.

While there are no specific requirements for the developing a voluntary plan, FSA strongly recommends that schools follow the steps outlined in 34 CFR 668.217, as well as some or all the non-regulatory 'best practice' measures described later in this session and in ED's sample plan.

3-Year CDR Corrective Actions

First year at 30% or more

- Default prevention plan and task force
- Submit plan to FSA for review

Second consecutive year at 30% or more

- Review/revise default prevention plan
- Submit revised plan to FSA

Third consecutive year at 30% or more

- Loss of eligibility: Pell Grants, DL
- School has appeal rights

The Five Things You Must Do:

1. Establish a default prevention team
2. Conduct an analysis to determine the sources of default risk
3. Create measurable interventions/steps
4. Create a default prevention plan
5. Send the plan to FSA for review

Default Prevention & Management Plan

- Which schools should adopt default prevention activities?

ALL SCHOOLS

Default Prevention & Management Plan

- Conduct a risk analysis first:
  - Creates understanding of who is defaulting and why
  - Allows for an increase in effectiveness of default prevention efforts
  - Reduces waste of time/resources
  - Provides the right target populations to engage

Who are your school's defaulters?

- One of the most important things school's can do within a default management program is study the characteristics/similarities of your school's defaulters.

Examples of “Who” (a)

- Never contacted
- Developmental studies
- Late admits
- Early withdrawal
- License exam
- No exit counseling
- Unsatisfactory SAP

Examples of "Who" (b)

- Academic preparedness
- Academic probation
- No job in profession
- Certain majors
- Attendance issues
- Student employment
- Late majors

Default Prevention & Management Plan

- Create a picture of borrowers at-risk
  - Identifying “Who” is not enough
  - Explaining “Why” will require input of academic, student affairs, and other professionals
  - Knowing why is necessary to create targeted, useful and measurable interventions

Benefits of adopting a plan:

- Reduces borrower defaults
- Promotes school success
- Avoid any negative reflection on school quality
- Avoid the school being provisional certified
- Avoid the loss of Title IV eligibility; and
- Increase access to private loan funds

Default Prevention team:

- Senior school officials
- Representatives from various offices
  - Student Affairs
  - Academics
  - Enrollment Management/Admission
  - Other
  - Student representatives

Define the Rules (a)

- Have regularly scheduled meetings
- Distribute agenda/minutes, discuss agreed upon assignments
- Provide training about default and prevention

Define the Rules (b)

- Assign specific responsibilities in conjunction with your plan
- Evaluate progress and adjust the plan
- Celebrate and promote your successes

Default Prevention & Management Plan

- Leverage Points
  - Admissions
  - Entrance and exit counseling
  - Probation/SAP
  - Registration

School-Based Default Prevention

- Form a Default Prevention Team
- Develop or adopt a default prevention plan
- Utilize traditional financial aid office-based default prevention strategies
- Utilize student success-based default prevention strategies
- Best option is for schools to use a combination of these two approaches

Questions and Answers