

Your Cohort Default Rate: What Does It Mean?

2017 SASFAA Annual Conference
Biloxi, MS
February 12–15, 2017

© 2010–2017 by National Association of Student Financial Aid Administrators (NASFAA). All rights reserved.

NASFAA has prepared this document for use only by personnel, licensees, and members. The information contained herein is protected by copyright. No part of this document may be reproduced, translated, or transmitted in any form or by any means, electronically or mechanically, without prior written permission from NASFAA.

NASFAA SHALL NOT BE LIABLE FOR TECHNICAL OR EDITORIAL ERRORS OR OMISSIONS CONTAINED HEREIN; NOR FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES RESULTING FROM THE FURNISHING, PERFORMANCE, OR USE OF THIS MATERIAL.

This publication contains material related to the federal student aid programs under Title IV of the Higher Education Act and/or Title VII or Title VIII of the Public Health Service Act. While we believe that the information contained herein is accurate and factual, this publication has not been reviewed or approved by the U.S. Department of Education, the Department of Health and Human Services, or the Department of the Interior.

The Free Application for Federal Student Aid (FAFSA[®]) is a registered trademark of the U.S. Department of Education.

NASFAA reserves the right to revise this document and/or change product features or specifications without advance notice.

February 2017



2017 SASFAA Annual Conference

Your Cohort Default Rate: What Does It Mean?

Table of Contents

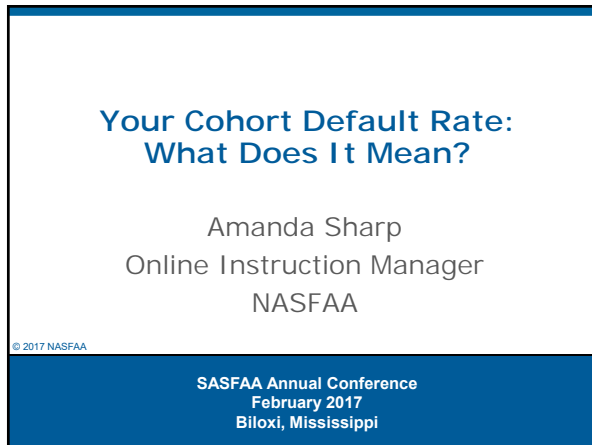
Slides	1
Overview of Cohort Default Rate	23
Cohort Default Rate Timeline: Challenges, Adjustments, and Appeals.....	27
Cohort Default Rate: Challenges, Adjustments, and Appeals	31
References for Cohort Default Rate Issues	33

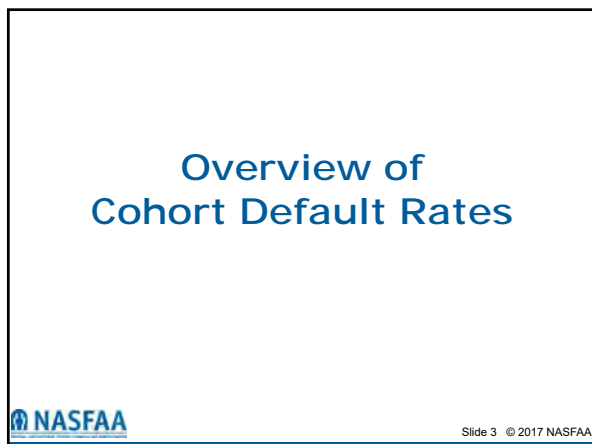
This page intentionally left blank.



Your Cohort Default Rate: What Does It Mean?









Your Cohort Default Rate: What Does It Mean?

Goals

- Overview of cohort default rates
- Impact on institutions
- What do do next



Slide 4 © 2017 NASFAA

What is a Cohort Default Rate (CDR)?

- The CDR is a percentage that represents:
 - Cohort of borrowers who enter repayment
 - Members of that cohort who defaulted



Slide 5 © 2017 NASFAA

What is a Cohort Default Rate (CDR)?

- The CDR is a percentage that represents:
 - Cohort of borrowers who enter repayment
 - Members of that cohort who defaulted
- Calculation performed each federal fiscal year



Slide 6 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Cohort Default Rate Calculations

Non-Average Rate

Numerator

Borrowers included in the denominator who have defaulted during cohort period

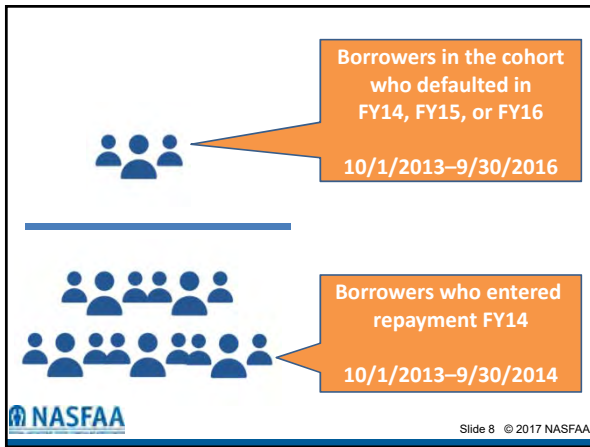
Denominator

Borrowers who entered repayment in cohort fiscal year

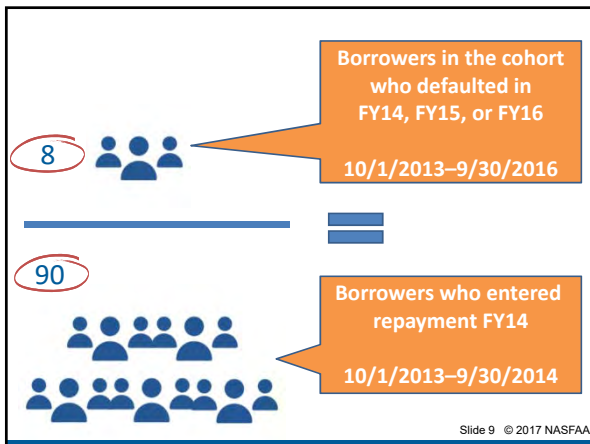
$$\frac{\text{Numerator}}{\text{Denominator}} = \text{Cohort Default Rate} \%$$



Slide 7 © 2017 NASFAA



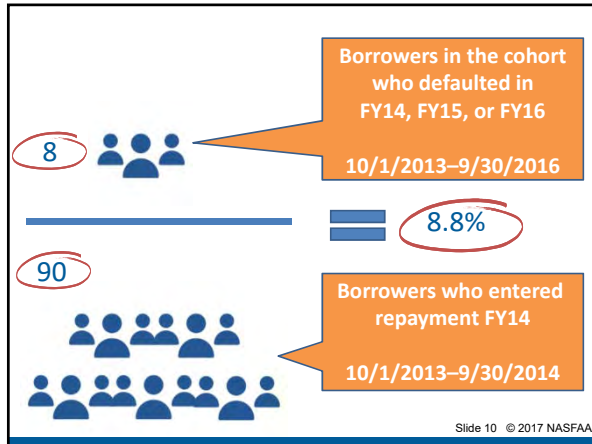
Slide 8 © 2017 NASFAA

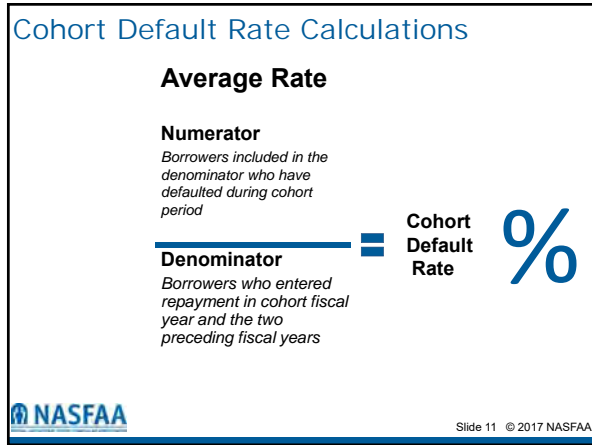


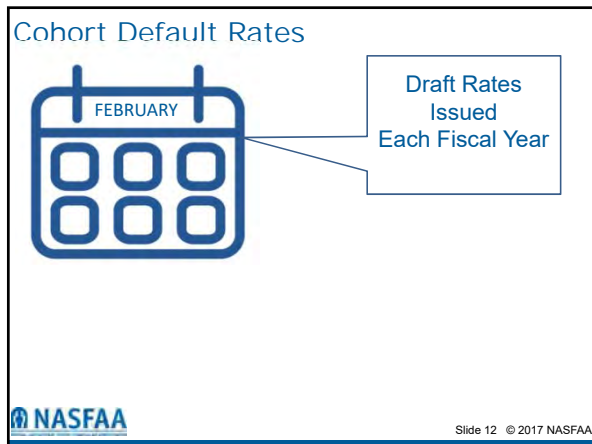
Slide 9 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?









Your Cohort Default Rate: What Does It Mean?

Cohort Default Rates

Draft Rates Issued February Each Fiscal Year

Official Rates Issued by September 30 Each Fiscal Year

Slide 13 © 2017 NASFAA

Importance of Cohort Default Rates

- Defaulted loans are costly
- Impact of defaults on the borrower
- Impact of defaults on the school

Slide 14 © 2017 NASFAA

Importance of Cohort Default Rates

- Defaulted loans are costly
- Impact of defaults on the borrower
- **Impact of defaults on the school**

Slide 15 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Benefits of a Low Cohort Default Rate



<15% each of three most recent fiscal years



Slide 16 © 2017 NASFAA

Benefits of a Low Cohort Default Rate



<15% each of three most recent fiscal years

- Single-term loans may be disbursed in one disbursement
- Exempt from 30-day delay for first-time, first-year undergraduate borrowers



Slide 17 © 2017 NASFAA

Benefits of a Low Cohort Default Rate



<5% single most recent fiscal year



Slide 18 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Benefits of a Low Cohort Default Rate



<5% single most recent fiscal year

- Single disbursement for study abroad students
- Exempt from 30-day delay for first-time, first-year undergraduate borrowers enrolled in study abroad programs



Slide 19 © 2017 NASFAA

Sanctions for a High Cohort Default Rate



- CDR \geq 30% can include:
 - Institutional default prevention requirements
 - Change in school certification
 - Restriction or loss in Title IV participation



Slide 20 © 2017 NASFAA

Sanctions for a High Cohort Default Rate



- CDR \geq 30% can include:
 - Institutional default prevention requirements
 - Change in school certification
 - Restriction or loss in Title IV participation
- CDR \geq 40%
 - Loss of eligibility to participate in the Federal Direct Student Loan (Direct Loan) Program



Slide 21 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

What Can You Do?



Slide 22 © 2017 NASFAA

Loan Record Detail Report (LRDR)

BODY SECTION – LINE 1 BORROWER

Borrower's Social Security Number		Last Name	First Name Middle Initial	Date of Birth	QPED of the school that certified/originated the loan	Borrower's Academic Level When Loan Was Originated (see code list)
123456789012345	123456789012345	SMITH	JOHN	01/15/1985	12345	01
123456789012345	123456789012345	SMITH	JANE	02/20/1988	12345	02
123456789012345	123456789012345	SMITH	JOHN	03/10/1990	12345	03
123456789012345	123456789012345	SMITH	JANE	04/05/1992	12345	04



Slide 23 © 2017 NASFAA

Q&A

- School had a student borrower who died.
- Was in repayment at the time of his death
- Not in default at the time of his death
- Student is included in the institution's CDR
- Based on information in NSLDS, student died 11 months before loan defaulted
- Should he be included in the institution's CDR?



Slide 24 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Answer

- Student should *not* be included as a default in the cohort default rate (CDR) for that year.
- If the borrower entered repayment prior to his death
 - loan would be included in the number of students who entered repayment
 - would not be included as a borrower who defaulted
- The borrower is not included in the CDR as a defaulted borrower if the borrower dies after entering repayment but prior to entering default.
- This would be a valid reason to challenge the CDR data.



Slide 25 © 2017 NASFAA

Q&A

- Can a school repay a loan in order to avoid default during a cohort default period?



Slide 26 © 2017 NASFAA

Answer

- Yes, but that does not exclude the loan from the school's cohort default rate (CDR) calculation.
- Refer to Chapter 2.1 of the *Cohort Default Rate Guide*, September 2016
 - if a "school, its owner, its agent, contractor, employee, or another entity or individual associated with the school makes a payment on the borrower's loan in order to avoid default during the cohort default period", the "borrower is included in the cohort fiscal year (denominator) when the borrower entered repayment," and the borrower is included (in the numerator) because the loan meets the other specified condition during the cohort default period."
- See chart of special circumstances included in handout



Slide 27 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

What Can You Do?

Challenge

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

Adjustment

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

Appeal

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

Slide 28 © 2017 NASFAA

What Can You Do?

Challenge

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

Adjustment

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

Appeal

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

Slide 29 © 2017 NASFAA

What Can You Do?

Challenge

- Incorrect Data Challenge (IDC)
- Participation Rate Index Challenge (PRI)
- **After release of draft CDR**

Adjustment

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

Appeal

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

Slide 30 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Incorrect Data Challenge



Data incorrectly reported in draft CDR



Slide 31 © 2017 NASFAA

Incorrect Data Challenge



Data incorrectly reported in draft CDR



Borrower included but should have been excluded

Slide 32 © 2017 NASFAA

Incorrect Data Challenge



Data incorrectly reported in draft CDR

Borrower excluded but should have been included



Borrower included but should have been excluded



Slide 33 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

What to Look For On the LRDR

Some of the suggestions schools have shared with NASFAA:

- Ensure your enrollment reporting is accurate so borrowers aren't entering payment prematurely.
- Make sure loans didn't enter repayment before the end of 6-month grace period
- Look for multiple loans for same borrower when some are in default and others are not— indication of possible error
- Look for inconsistencies on the report itself
 - Example: loan showing as not in default yet being included in the numerator.



Slide 34 © 2017 NASFAA

Incorrect Data Challenge

- *Cohort Default Rate Guide, Chapter 4.1*



Slide 35 © 2017 NASFAA

Participation Rate Index Challenge

- Number of students who obtained loans to attend the school is very low in relation to the number of regular students at the school.
- Alleges school should not be subject to a potential loss of loan eligibility or potential placement on provisional certification based solely on its CDR because the school's PRI meets one of the following thresholds:
 - Loss of eligibility
 - 3 consecutive CDRs of 30%, PRI for 1 year .0625 or less
 - Most recent CDR >40%, PRI .0832 or less; or
 - Possible provisional certification
 - 2 out of 3 CDRs – 30% and PRI .0625 or less





Slide 36 © 2017 NASFAA




Your Cohort Default Rate: What Does It Mean?

Participation Rate Index Challenge

 Percentage of students who borrowed under during a specified 12-month period


 School's CDR

Participation Rate Index

 Slide 37 © 2017 NASFAA

Participation Rate Index Challenge

- *Cohort Default Rate Guide, Chapter 4.2*

 Slide 38 © 2017 NASFAA

What Can You Do?

Challenge


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

Adjustment

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

Appeal

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

 Slide 39 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

What Can You Do?

Challenge

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

Adjustment

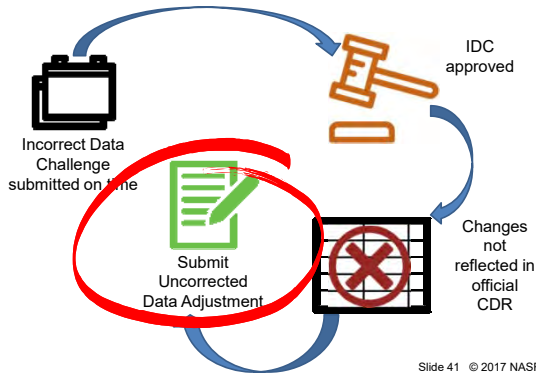
- Uncorrected Data Adjustment (UDA)
- New Data Adjustment (NDA)
- **After release of official CDR**

Appeal

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

Slide 40 © 2017 NASFAA

Uncorrected Data Adjustment



Slide 41 © 2017 NASFAA

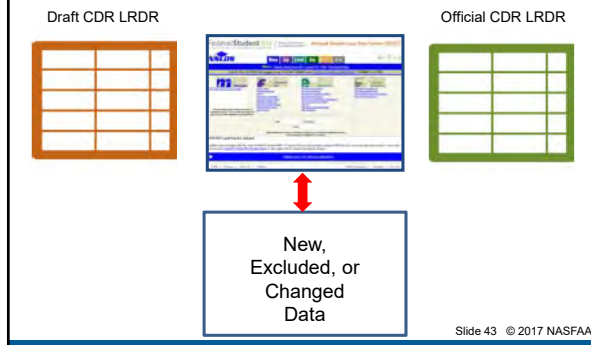
Uncorrected Data Adjustment

- *Cohort Default Rate Guide*, Chapter 4.3




Your Cohort Default Rate: What Does It Mean?

New Data Adjustment



New Data Adjustment

- *Cohort Default Rate Guide*, Chapter 4.4



Slide 44 © 2017 NASFAA

What Can You Do?

Challenge

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

Adjustment

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

Appeal

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

Slide 45 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

What Can You Do?

Challenge

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

Adjustment

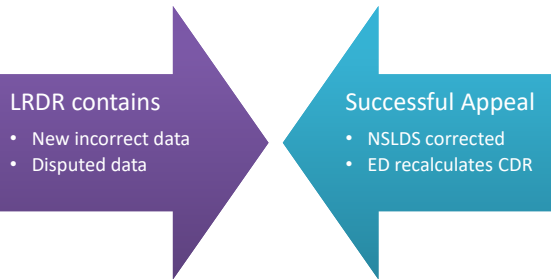
- Uncorrected Data Adjustment (UDA)
- New Data Adjustment (NDA)

Appeal

- Erroneous Data Appeal (ER)
- Loan Servicing Appeal (LSA)
- Economically Disadvantaged Appeal (EDA)
- Participation Rate Index Appeal (PRI)
- **After release of official CDR**

Slide 46 © 2017 NASFAA

Erroneous Data Appeal



Slide 47 © 2017 NASFAA

Erroneous Data Appeal

- LRDR contains one or both:
 - New, incorrect data
 - Newly included, excluded, or changed
 - Disputed data
 - Included in an Incorrect Data Challenge
 - Same error still included in official CDR data




Slide 48 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Erroneous Data Appeal

- *Cohort Default Rate Guide*, Chapter 4.5

 Slide 49 © 2017 NASFAA

Loan Servicing Appeal


LRDR contains

- Improperly serviced loans
- Disputed data

→


Successful Appeal

- Improperly serviced loans removed from CDR
- ED recalculates CDR

 Slide 50 © 2017 NASFAA

Loan Servicing Appeal

- A defaulted Direct Loan is improperly serviced if one or more of the following occurs:
 - Borrower *never* made a loan payment and school can document servicer/lender was required but failed to
 - Send at least one letter (other than final demand letter) prompting borrower to make payments
 - Send a final demand letter to the borrower
 - Attempt at least one telephone call to the borrower
 - Document skip tracing was performed if servicer did not have borrower's current address
 - Submit a request for pre-claims assistance or default aversion assistance to the guaranty agency (for FFEL)

 Slide 51 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Loan Servicing Appeal

- If a borrower makes at least one payment or if the servicer performs all of the above on a timely basis, the loan is properly serviced for CDR purposes.



Slide 52 © 2017 NASFAA

Loan Servicing—Tips from Schools

- Ask for information from all servicers. When in eCDR check all the servicers
- Each servicer provides information in a different format
 - Some reports aren't complete and sometimes have to go through some back/forth with servicer
 - One example, servicer had 31 records missing
- Sample size may vary
- Servicer provides a representative sample
 - Can work in your favor.
 - Example: You identify 3 improperly serviced loans
 - ED applies a formula to come up with a valid statistical prediction and that multiplier may result in a larger number of improperly serviced loans being removed from CDR.



Slide 53 © 2017 NASFAA

Loan Servicing Appeal

- *Cohort Default Rate Guide*, Chapter 4.6

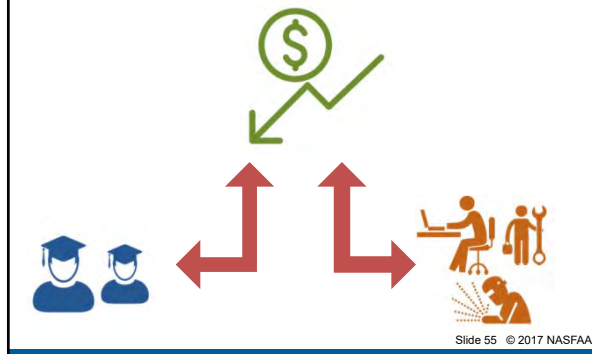


Slide 54 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Economically Disadvantaged Appeal



Economically Disadvantaged Appeal

- Successful appeal:
 - School not subject to sanction for that CDR fiscal year
 - Does NOT change the school's official CDR



Slide 56 © 2017 NASFAA

Economically Disadvantaged Appeal

- *Cohort Default Rate Guide*, Chapter 4.7



Slide 57 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?

Participation Rate Index Appeal

- School believes it should not be subject to sanction based on low participation rate
- Only allowed when school subject to loss of eligibility or potential provisional certification
- School sends completed appeal to ED
- Successful appeal
 - Will not be subject to sanction for that CDR fiscal year



Slide 58 © 2017 NASFAA

Participation Rate Index Appeal

- *Cohort Default Rate Guide, Chapter 4.8*



Slide 59 © 2017 NASFAA


<https://ecdrappeals.ed.gov/ecdra/index.html>

Slide 60 © 2017 NASFAA




Your Cohort Default Rate: What Does It Mean?

**ED-Initiated
Appeals**

 Slide 61 © 2017 NASFAA


ED-Initiated Appeals

- Average Rate Appeal
- Thirty-or Fewer Borrower Appeal
- ED automatically determines if schools meet criteria prior to release of official CDR
- *Cohort Default Rate Guide*, Chapters 4.9 and 4.10

 Slide 62 © 2017 NASFAA

Resources

- NASFAA AskRegs Knowledgebase
<https://www.nasfaa.org/askregs>
- NASFAA Student Aid Index
<https://www.nasfaa.org/StudentAidIndex>
- *Cohort Default Rate Guide*
<https://ifap.ed.gov/DefaultManagement/finalcdrg.html>

 Slide 63 © 2017 NASFAA



Your Cohort Default Rate: What Does It Mean?