# Cohort Default Rate Effects

Chapter

2.2

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# Cohort Default Rate Effects

34 CFR 668.187
34 CFR 682.603
34 CFR 682.604
34 CFR 685.301
34 CFR 685.303

**Why are cohort default rates important?**

Defaulted federal student loans cost taxpayers money. Cohort default rate sanctions and benefits provide an incentive to schools to work with their borrowers to reduce default. Sanctions also can prevent a school with a high percentage of defaulters from continuing to participate in the Federal Family Education Loan (FFEL), William D. Ford Federal Direct Loan (Direct Loan), and Federal Pell Grant programs. As a result, cohort default rates help save taxpayers money.

**Are there any sanctions or benefits associated with draft cohort default rates?**

*It is critical that all schools review their draft cohort default rate data*

There are no sanctions or benefits associated with draft cohort default rates. Draft cohort default rates are important because the data used to calculate the draft cohort default rate forms the basis of a school's official cohort default rate. Although there are no sanctions or benefits associated with a school's draft cohort default rate, it is important to review the data used to calculate the draft cohort default rate for accuracy. A school that fails to challenge the accuracy of its draft cohort default rate data through an incorrect data challenge may not contest the accuracy of that same data when it receives its official cohort default rate. Therefore, it is critical that all schools review their draft cohort default rate data when the U.S. Department of Education (the Department) releases it. See Chapter 4.1, "Incorrect Data Challenge," for more information about incorrect data challenges.

In addition, in certain circumstances a school may be able to avoid the sanctions associated with its official cohort default rate by submitting a successful participation rate index challenge based on its draft cohort default rate. See Chapter 4.2, "Participation Rate Index Challenge," for more information about participation rate index challenges.

**Will a school's draft cohort default rate and official cohort default rate be the same?**

A school's draft cohort default rate and official cohort default rate will not necessarily be the same. The National Student Loan Data System (NSLDS), which contains the data used to calculate cohort default rates, is updated regularly. As a result, a school's draft cohort default rate data may differ from its official cohort default rate data even if the school does not challenge the draft cohort default rate data.

**Are there any benefits for schools with low official cohort default rates?**

There are two types of benefits that are available to certain schools with low official cohort default rates. Figure 2.2.1 outlines the benefits.

**Figure 2.2.1**

Benefits for Schools with Low Official Cohort Default Rates

| Eligible School | Benefits |
|---|---|
| Any school whose three most recent official cohort default rates are less than 10.0 percent (including an eligible home institution certifying or originating loans to cover the cost of attendance in a study abroad program). | May deliver or disburse loan proceeds in a single installment to a student if that student's loan period is less than or equal to one semester, one trimester, one quarter, or for non-term-based schools or schools with non-standard terms, four months.<br><br>May choose not to delay the delivery or disbursement of the first installment of loan proceeds for first-year first-time borrowers.<br><br>These benefits are currently scheduled to end on September 30, 2002. |
| A school whose most recent official cohort default rate is less than 5.0 percent and is an eligible home institution that is certifying or originating loans to cover the cost of attendance in a study abroad program. | May deliver or disburse loan proceeds in a single installment to a student studying abroad regardless of the length of the student's loan period.<br><br>May choose not to delay the delivery or disbursement of the first installment of loan proceeds for first-year first-time borrowers studying abroad. |

These benefits take effect as soon as the school receives its official cohort default rate notification letter or notification of a successful adjustment and/or appeal from Default Management.

Schools no longer qualify for these benefits starting 30 calendar days after receiving notice from Default Management of an official cohort default rate that exceeds the benefit thresholds.

**Are there any sanctions associated with high official cohort default rates?**

Sanctions apply when a school's official cohort default rate is at or above certain percentages. Figure 2.2.2 outlines those sanctions.

**Figure 2.2.2**

Sanctions for Schools with High Official Cohort Default Rates

| School | Sanction |
|---|---|
| A school's three most recent official cohort default rates are 25.0 percent or greater. | Except in the event of a successful adjustment or appeal, such a school will lose FFEL, Direct Loan, and Federal Pell Grant eligibility for the remainder of the fiscal year in which the school is notified of its sanction and for the following two fiscal years. |
| A school's current official cohort default rate is greater than 40.0 percent. | Except in the event of a successful adjustment or appeal, such a school will lose FFEL and Direct Loan eligibility for the remainder of the fiscal year in which the school is notified of its sanction and for the following two fiscal years. |

A school is not subject to the loss of Federal Pell Grant Program eligibility if, prior to October 7, 1998, the school requested in writing to withdraw from or lost its eligibility to participate in the FFEL and/or Direct Loan programs and has not subsequently participated in those programs. In addition, a school is not subject to the loss of Federal Pell Grant Program eligibility if it did not certify any FFELs and/or originate any Direct Loans on or after July 7, 1998. A school that resumes participation in the FFEL or Direct Loan programs is no longer eligible for either of these Federal Pell Grant Program exemptions.

**Can a school avoid the sanctions associated with high official cohort default rates?**

If a school is notified that it is subject to sanction, the school may submit an adjustment or appeal to attempt to avoid that sanction. Adjustments and appeals are available to schools after the release of the official cohort default rates. Challenges are available to schools after the release of the draft cohort default rates. Figure 2.2.3 summarizes the actions a school may take. (Schools not subject to loss of eligibility and schools subject to provisional certification based on cohort default rates may only take a limited number of these actions. See Chapter 3.1, "School Strategies," for an overview of the actions schools may take.) For more information, including detailed explanations of each action and the time frames for taking an action, see Part IV of this Guide, "Challenges, Adjustments, and Appeals."

A school is not subject to sanction based on an unofficial cohort default rate.

**Figure 2.2.3**

Challenges, Adjustments, and Appeals Table

| Draft/ Official | Type of Action | Purpose |
|---|---|---|
| DRAFT | Incorrect Data Challenge | Correct data before the official cohort default rates are released. |
| DRAFT | Participation Rate Index Challenge | Demonstrate a low borrower participation rate to avoid a sanction with the anticipated official cohort default rate. |
| OFFICIAL | Uncorrected Data Adjustment | Contest a data error that was agreed upon in the draft process but is still reflected in the official cohort default rate data. |
| OFFICIAL | New Data Adjustment | Contest official cohort default rate data that was not included in draft cohort default rate data or that is different from the draft cohort default rate data. |
| OFFICIAL | Erroneous Data Appeal | Contest official cohort default rate data that was not included in the draft cohort default rate data (new data) and/or contest the data manager's decision (disputed data). |
| OFFICIAL | Loan Servicing Appeal | Contest servicing of the borrower's loan account. |
| OFFICIAL | Economically Disadvantaged Appeal | Demonstrate a high number of low income students and high placement or completion rates. |
| OFFICIAL | Participation Rate Index Appeal | Demonstrate a low borrower participation rate. |
| OFFICIAL | Average Rates Appeal | Demonstrate a low number of borrowers. |
| OFFICIAL | Thirty-or-Fewer Borrowers Appeal | Demonstrate a low number of borrowers. |

**Do cohort default rate sanctions apply to Historically Black Colleges or Universities, Tribally Controlled Community Colleges, and Navajo Community Colleges?**

A Historically Black College or University, Tribally Controlled Community College, or Navajo Community College, as defined in statute, is not subject to loss of eligibility or provisional certification based on its official cohort default rate if the school

- submits in a timely manner an acceptable default management plan (such as that found in Appendix B to 34 CFR 668 Subpart M);
- engages in a timely manner an independent third party to assist in implementing the default management plan; and
- demonstrates, on a yearly basis, that the default management plan has been successfully implemented, that the school has made substantial improvement in its cohort default rate during that year, and that it continues to engage an independent third party.

It is important to note that this exemption is scheduled to end on June 30, 2004.

**Are there any consequences if a school submits adjustments and/or appeals but fails to avoid sanctions?**

In addition to losing eligibility, a school that submits adjustments and/or appeals but fails to avoid sanctions is liable for certain costs associated with the FFELs it certified and delivered and/or the Direct Loans it originated and disbursed during the adjustment and appeal process. Liabilities are not calculated for loans that were delivered or disbursed more than 45 calendar days after the school submitted its completed adjustment or appeal to the Department. Schools may avoid this liability if they choose not to certify or originate loans during the adjustment and appeal process.

**If a school is subject to sanction, when does the sanction take effect?**

Figure 2.2.4 summarizes the effective date of sanctions.

A school that loses eligibility may continue to honor unpaid loan commitments and make certain second disbursements after notification of the loss of eligibility if the school meets certain criteria listed in the CFR. The criteria can be found at 34 CFR 668.26(d).

**Figure 2.2.4**
Effective Date of Sanctions

| | School is Not Currently Under Sanction | School is Currently Under Sanction |
|---|---|---|
| School Does Not Timely Submit Adjustment or Appeal | The school's participation ends 30 calendar days after the date the school first receives notice that it is subject to the loss of eligibility. | The school's previous loss of eligibility remains in effect and the school will receive an additional sanction. |
| School Does Timely Submit Adjustment or Appeal, but Adjustment or Appeal is Unsuccessful | The school's participation ends on the date that the school receives the Department's final decision indicating that the adjustment and/or appeal was unsuccessful. A school may choose not to participate during this period to avoid incurring a liability. | The school's previous loss of eligibility remains in effect and the new loss of eligibility is effective when the school receives the Department's final decision indicating that the school's adjustment or appeal was unsuccessful. The new loss of eligibility does not replace the previous loss; however, it may overlap the previous loss and extend the length of time that a school is unable to participate in the FFEL, Direct Loan, or Federal Pell Grant programs. |
| School Does Timely Submit Adjustment or Appeal, and Adjustment or Appeal is Successful | The Department will withdraw the notification that the school is subject to a loss of eligibility. | The Department will withdraw the notification that the school is subject to an additional loss of eligibility. However, the previous loss of eligibility remains in effect. |

The official cohort default rates must be released no later than September 30th. If, however, cohort default rates are not issued until after that date, a school's loss of eligibility would continue only for the remainder of the fiscal year in which the cohort default rates are issued and for the following fiscal year. For example, if the Department issues cohort default rates for FY 1999 on October 2, 2001, then a loss of eligibility that is based on the FY 1999 cohort default rate would continue only for the remainder of FY 2002 (the fiscal year in which the cohort default rates were issued) and to the end of FY 2003.

**How does a school withdraw from or reapply for participation in the Title IV loan programs?**

A school should contact the Case Management and Oversight Office at 1-202-205-0183 for information on withdrawing from the FFEL Program and Direct Loan Operations at 1-202-708-9951 for information on withdrawing from the Direct Loan Program.

A school that loses FFEL, Direct Loan, or Federal Pell Grant eligibility may reapply for participation when the sanction period ends. A school should apply online at

http://www.eligcert.ed.gov