Cohort Default Rates

What is a cohort default rate?

A cohort default rate is the percentage of a school's student borrowers who enter repayment on certain Federal Family Education Loan (FFEL) Program and/or William D. Ford Federal Direct Loan (Direct Loan) Program loans during a particular fiscal year and default or meet other specified conditions before the end of the next fiscal year. The cohort default rate may be an FFEL Program cohort default rate, a Direct Loan Program cohort rate, or a dual-program cohort rate depending on the type or types of student loans that comprise the rate.

An FFEL Program cohort default rate[1] is the cohort default rate for schools whose students have **only** FFEL Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain FFEL Program loans during a particular fiscal year and default within the fiscal year in which the loans entered repayment or within the next fiscal year.

A Direct Loan Program cohort rate[2] is the cohort rate for schools whose students have **only** Direct Loan Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain Direct Loan Program loans during a particular fiscal year and default or meet ***other specified conditions*** within the fiscal year in which the loans entered repayment or within the next fiscal year.

Other specified conditions: For non-degree granting proprietary schools only, students who have received Direct Loans are included as defaulted loans in the schools' rates if, for 270 days within the cohort period in question, the students are in repayment under an income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.

Q. What is a fiscal year?
A. A federal fiscal year begins on October 1 of a calendar year and ends on September 30 of the following calendar year.

Q. How does a school officially withdraw from participation in the FFEL Program and/or Direct Loan Program?
A. The process for withdrawing from the FFEL Program and/or Direct Loan Program is handled by the IPOS Case Management Team and the Direct Loan School Selection Team, respectively. For further information contact the:

- IPOS Case Management Team at (202) 205-0183 for withdrawing from the **FFEL Program**;

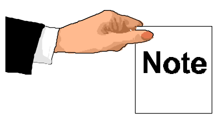
  AND/OR

- Direct Loan School Selection Team at (202) 708-9951 for withdrawing from the **Direct Loan Program**.

[1] 34 CFR § 668.17(d)
[2] 34 CFR § 668.17(e)

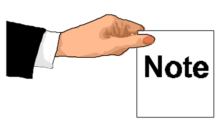
A Dual-Program cohort rate[3] is the cohort rate for schools whose students have **both** FFEL Program and Direct Loan Program loans entering repayment during a particular fiscal year. It is the percentage of a school's borrowers who enter repayment on certain FFEL Program and Direct Loan Program loans during a particular fiscal year and default or meet ***other specified conditions*** within the fiscal year in which the loans entered repayment or within the next fiscal year.

Other specified conditions: For non-degree granting proprietary schools only, students who have received Direct Loans are included as defaulted loans in the schools' rates if, for 270 days within the cohort period in question, the students are in repayment under an income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.



The Department's regulations use the term "weighted average cohort rate" for rates for schools with student borrowers who have both FFEL Program and Direct Loan Program loans entering repayment during a cohort period. This guide uses the term "dual-program cohort rate" to describe the same rate and calculation.

A school does not select whether it has an FFEL Program cohort default rate, a Direct Loan Program cohort rate, or a dual-program cohort rate. The rate is determined on the basis of the types of loans that enter repayment in a given cohort period.



This guide uses the term "cohort default rate" to refer to a school's FFEL Program cohort default rate, Direct Loan Program cohort rate, or dual-program cohort rate.

[3] 34 CFR § 668.17(f)

This table summarizes the types of cohort default rates.

Types of Cohort Default Rates	
Loans included in cohort default rate	**Cohort default rate type**
ONLY FFEL Program loans	FFEL Program cohort default rate
ONLY Direct Loan Program loans	Direct Loan Program cohort rate
BOTH FFEL Program and Direct Loan Program loans	Dual Program cohort rate

Why are draft cohort default rates important?

After the release of the draft cohort default rates the Department provides schools an opportunity to review and, if necessary, correct the data that will be used to calculate the official cohort default rates. It is very important that a school review its draft cohort default rate data and, if necessary, submit a draft data challenge. **If a school fails to submit a draft data challenge, it will be unable to correct certain data errors after the release of the official cohort default rates.**[4]

What are the consequences of draft cohort default rates?

It is important to note that there are no consequences associated with **draft** cohort default rates. However, there are consequences associated with **official** cohort default rates. Therefore, since the draft cohort default rates form the basis of the official cohort default rates, and a school may not be able to appeal its official rate if it fails to challenge its draft rate, it is critical that a school review its draft cohort default rate data to ensure its accuracy.

Please refer to the "Official Cohort Default Rate Overview" section on page 85 for a description of sanctions associated with the official cohort default rates.

[4] 34 CFR § 668.17(j)(7)

Which types of loans are included in the cohort default rate calculation?

The cohort default rate is calculated on the basis of FFEL Program and/or Direct Loan Program loans.

The **FFEL Program loans included** in the cohort default rate calculation are:

- Subsidized Federal Stafford Loans (FFEL Stafford Loans);
- Unsubsidized Federal Stafford Loans (FFEL Stafford Loans);

  AND
- Federal Supplemental Loans for Students (Federal SLS Loans).

The **Direct Loan Program loans included** in the cohort default rate calculation are:

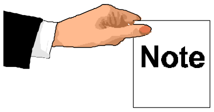
- Subsidized Federal Direct Stafford Program Loans (Direct Loan Stafford Loans);

  AND
- Unsubsidized Federal Direct Stafford Program Loans (Direct Loan Stafford Loans).

The following **loans are NOT included** in the cohort default rate calculation:

- PLUS Loans;
- Federal Direct PLUS Loans;
- Federal Insured Student Loans;

  AND
- Federal Perkins Loans.



Federal Consolidation Loans and Federal Direct Consolidation Loans are not counted directly in the cohort default rate calculation. However, the status of a consolidation loan may affect the treatment of the loan(s) that was paid off by the consolidation loan. Please refer to page 15 of this section for more information on consolidation loans.

How does the Department calculate a school's cohort default rate?

The formula the U.S. Department of Education (Department) uses for calculating a school's cohort default rate depends on the number of student borrowers from that school entering repayment in a particular fiscal year (FY).

The formulas and sample calculations are shown on the next three pages.

Calculation: For a school with **30 or more borrowers** entering repayment during FY 1997, the FY 1997 cohort default rate is calculated as follows:[5]

100 X

the number of **students** who entered repayment in FY 1997 and who defaulted or met ***other specified conditions*** before the end of FY 1998 (Numerator)

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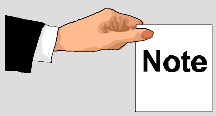
the number of **students** who entered repayment in FY 1997 (Denominator)



Other specified conditions: For non-degree granting proprietary schools only, students who have received Direct Loans are included as defaulted loans in the schools' rates if, for 270 days within the cohort period in question, the students are in repayment under an income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.

Example: School A, a degree granting school, certified 117 loans for **90 students** that entered repayment in FY 1997 (denominator). Of those students, **8 students** defaulted on a total of 16 loans prior to October 1, 1998 (numerator). School A's cohort default rate is calculated by dividing 8 by 90 and multiplying the result by 100 to produce a cohort default rate of 8.9%.

$$100 \times \frac{8}{90} = 8.9\%$$

[5] 34 CFR § 668.17(d), (e), and (f)

Calculation: For a school with **fewer than 30 borrowers** entering repayment during FY 1997, the Department calculates an **average cohort default rate**. The FY 1997 average cohort default rate is calculated as follows:[6]

100 **X**

the number of **students** who entered repayment in FY 1995, FY 1996, and FY 1997 and who defaulted or met ***other specified conditions*** before the end of the fiscal year immediately following the fiscal year in which the loan entered repayment (Numerator)

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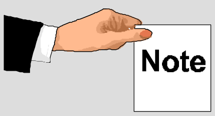
the number of **students** who entered repayment in FY 1995, FY 1996, and FY 1997 (Denominator)



Other specified conditions: For non-degree granting proprietary schools only, students who have received Direct Loans are included as defaulted loans in the schools' rates if, for 270 days within the cohort period in question, the students are in repayment under an income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.

The following page provides an example of an average cohort default rate.

[6] 34 CFR § 668.17(d), (e), and (f)

Example: School B certified loans for the following students: 50 students that entered repayment in FY 1995, 44 students that entered repayment in FY 1996, and 29 students that entered repayment in FY 1997. 50+44+29=123 (denominator). Of those 123 students, 2 students entered repayment in FY 1995 and defaulted before the end of FY 1996; 6 students entered repayment in FY 1996 and defaulted before the end of FY 1997; and 4 students entered repayment in FY 1997 and defaulted before the end of FY 1998. 2+6+4=12 (numerator). School B's average cohort default rate is calculated by dividing 12 by 123 and multiplying the result by 100 to produce an average cohort default rate of 9.8%.

$$\boxed{100} \times \frac{\boxed{2} + \boxed{6} + \boxed{4} = \boxed{12}}{\underset{\text{FY95}}{\boxed{50}} + \underset{\text{FY96}}{\boxed{44}} + \underset{\text{FY97}}{\boxed{29}} = \boxed{123}} = \boxed{9.8\%}$$

Note

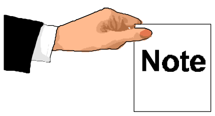
If a school has less than 30 borrowers entering repayment in a given fiscal year and the school has not received a cohort default rate for the two previous years, the school will receive an **unofficial cohort default rate**. Unofficial cohort default rates are not used by the Department to determine sanctions or consequences.

How does the Department determine which loans are placed in the <u>denominator</u> of the calculation?

Loans included in the denominator of the FY 1997 cohort default rate calculation are FFEL Program and Direct Loan Program loans that entered repayment in FY 1997.

Different loan types enter repayment under different rules.

FFEL Program Stafford Loans enter repayment on the day following six months of an uninterrupted grace period after a student drops below at least half-time enrollment.



The repayment date for FFEL Program Stafford Loans may be date-specific (for example, 2/16/96) or month-specific (for example, 2/96) if the loan was converted into repayment before March 1996. After March 1996, the repayment date is date-specific.

Direct Loan Program Stafford Loans enter repayment on the day following six months of an uninterrupted grace period after a student drops below at least half-time enrollment. Unlike FFEL Program loans, the date entered repayment for Direct Loan Program loans was always date specific.

Q. If a student requests a forbearance, will the student's date entered repayment change?

A. No, the only time a student's date entered repayment will change is if the student goes back to school before his/her six month grace period expires.

For any FFEL Program SLS Loan that was not reported in a cohort period prior to FY 1993, the following definition applies:

- If a student has both an FFEL Program SLS Loan and an FFEL Program Stafford Loan that were both obtained in the same period of continuous enrollment, the date entered repayment for the FFEL Program SLS Loan is the same as the date entered repayment for the FFEL Program Stafford Loan.

- In all other instances, the date entered repayment for the FFEL Program SLS Loan is the day following the day a student is no longer enrolled on at least a half-time basis.

Under the above guidelines, which were implemented beginning with the FY 1993 cohort default rates, a loan that was reported as having entered repayment prior to FY 1993 might also meet the criteria to be included in FY 1993 or later. To prevent the possibility of double-counting loans, any FFEL Program SLS Loan that was reported in a cohort period prior to FY 1993 will not be reported again.

How does the Department determine which loans are placed in the numerator of the calculation?

Loans must first be included in the denominator of a cohort default rate calculation in order to be included in the numerator of the cohort default rate calculation.

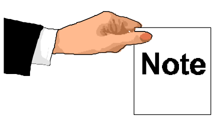
For FFEL Program loans, only defaulted loans are included in the numerator of the calculation. For **cohort default rate purposes** a loan is considered to be in default only if the guaranty agency has paid a default claim on the loan to the lender.[7] The date the guaranty agency reimburses the lender for the defaulted loan (the claim paid date or CPD) is used to determine if the loan will be placed in the numerator of the calculation.

For Direct Loan Program loans, loans are included in the numerator of the cohort default rate calculation when students default. For **cohort default rate purposes** a Direct Loan is considered to be in default on the 271st day of delinquency.[8] Therefore, the 271st day of delinquency is used to determine if the loan will be placed in the numerator of the calculation. In addition, for non-degree granting proprietary schools only, students who have received Direct Loans are included as defaulted loans in the schools' rates if, for 270 days within the cohort period in question, the students are in repayment under an income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.

[7] 34 CFR § 668.17(d)(1)(i)(C)
[8] 34 CFR § 668.17(e)(3) and (f)(3)

This table summarizes when a loan is included in the numerator of the cohort default rate calculation.

In the Numerator **(for Cohort Default Rate Purposes)**		
	FFEL Program Loans	**Direct Loan Program Loans**
Proprietary Non-Degree-Granting Schools	Date the insurance claim is paid	271st day of delinquency OR 271st day of monthly payments on an ICR plan that are less than 15 dollars per month and less than the interest accruing on the loan
Other Schools	Date the insurance claim is paid	271st day of delinquency



For a list of special circumstances affecting the cohort default rate calculation, see page 15.

What are the time frames of a cohort period?

The time frames for a cohort period are based on federal fiscal years. A federal fiscal year begins on October 1 of a calendar year and ends on September 30 of the following calendar year.[9]

The cohort default rate is based on the number of borrowers that **enter repayment in a single fiscal year** (this is the denominator of the calculation), and of the borrowers that entered into repayment, the number of borrowers that **defaulted or met other specified conditions in a two-year period** (this is the numerator of the calculation).[10]

[9] 34 CFR § 668.17(d)(2)
[10] 34 CFR § 668.17(d), (e), and (f)

The cohort default rate for FY 1997 is based on the number of loans that entered repayment in **FY 1997** and of those loans, the number that defaulted or met other conditions in **FY 1997** or **FY 1998**. Therefore, the loans that entered repayment from October 1, 1996, through September 30, 1997, are included in the denominator of the FY 1997 cohort default rate calculation. Based on the loans that entered repayment from October 1, 1996, through September 30, 1997, those that defaulted or met other conditions from October 1, 1996, through September 30, 1998, are included in the numerator of the FY 1997 cohort default rate calculation.

The following chart outlines the past five cohort periods and the loans included in the cohort default rate calculations.

Cohort Period	Loans Included in the Cohort Default Rate Calculation*	Period of Time
FY 1993	students who entered repayment on their loans in FY 1993 and defaulted in FY 1993 or FY 1994 students who entered repayment on their loans in FY 1993	10-1-92 to 9-30-94 10-1-92 to 9-30-93
FY 1994	students who entered repayment on their loans in FY 1994 and defaulted in FY 1994 or FY 1995 students who entered repayment on their loans in FY 1994	10-1-93 to 9-30-95 10-1-93 to 9-30-94
FY 1995	students who entered repayment on their loans in FY 1995 and defaulted in FY 1995 or FY 1996 students who entered repayment on their loans in FY 1995	10-1-94 to 9-30-96 10-1-94 to 9-30-95
FY 1996	students who entered repayment on their loans in FY 1996 and defaulted in FY 1996 or FY 1997 students who entered repayment on their loans in FY 1996	10-1-95 to 9-30-97 10-1-95 to 9-30-96
FY 1997	students who entered repayment on their loans in FY 1997 and defaulted in FY 1997 or FY 1998 students who entered repayment on their loans in FY 1997	10-1-96 to 9-30-98 10-1-96 to 9-30-97

* For the FY 1995, FY 1996, and FY 1997 cohort periods for non-degree granting proprietary schools only, students who have received Direct Loans are included as defaulted loans in the schools' rates if, for 270 days within the cohort period in question, the students are in repayment under the income contingent repayment (ICR) plan with scheduled payments that are less than 15 dollars per month and less than the interest accruing on the loan.[11]

What if a borrower had more than one loan entering repayment during the fiscal year?

Cohort default rates are calculated based on an unduplicated borrower count. Therefore, if a borrower has more than one loan entering repayment in a cohort default rate calculation, that borrower will only be counted once in the cohort default rate calculation.

Example: Terry enrolled in a two-year program at the local community college and obtained two FFEL Program Stafford loans. Terry graduated in January 1997 and the loans entered repayment in July 1997. Terry failed to make any payments on either of the loans. Because a school's cohort default rate is calculated on the basis of an unduplicated borrower count, Terry is counted ONLY once in the numerator and denominator of the school's FY 1997 cohort default rate.

> **Q.** If a student takes out loans while attending College A and immediately transfers to College B and takes out additional loans, how are these loans included in each school's cohort default rate?
>
> **A.** The loans obtained for attendance at College A are included in College A's cohort default rate calculation and the loans obtained for attendance at College B are included in College B's cohort default rate calculation.

Can the same borrower be counted in two different cohort periods?

Yes, the same borrower can appear in two different cohort periods if the borrower has two separate loans and the repayment dates for each of the loans fall into separate cohort periods. **However, the same loan cannot be used in more than one cohort period.**

How does student loan consolidation affect a school's cohort default rate?

Loans that are repaid by a consolidation loan are included in the cohort default rate based on the date the underlying loans entered repayment. As a result, if a student defaults on a consolidation loan (or, for proprietary non-degree granting schools, makes payments on a Direct Loan consolidation loan under the ICR Plan that are below certain amounts for 270 days) during the cohort period in which any of the underlying loans entered repayment, those underlying loans are counted in default in the cohort default rate for the school where the underlying loans were received.

Example: After graduating from cosmetology school, Chris had several loans enter repayment in FY 1997. Chris obtained a consolidation loan in FY 1998. Chris defaulted on the consolidation loan before the end of FY 1998. Because the consolidation loan defaulted within the same cohort period in which the underlying loans entered repayment, Chris is counted once in the numerator and once in the denominator of the FY 1997 cohort default rate.

The Department frequently receives questions about additional special circumstances that may affect how a particular loan is considered in calculating a cohort default rate. The following table addresses many of these situations.

Special Circumstances Affecting How FY 1997 Cohort Default Rates are Calculated

Special Circumstances	Effect on the Numerator	Effect on the Denominator
Borrower defaulted on a loan in FY 1997 or FY 1998, but the loan was then **discharged due to death, bankruptcy, and/or disability**.[12]	Include in the numerator because the loan defaulted prior to death, bankruptcy, and/or disability.	Include in the denominator in the fiscal year the loan entered repayment.
Prior to default borrower's loan was **discharged due to death, bankruptcy, and/or disability**.	Do not include in the numerator because the loan did not default prior to death, bankruptcy, and/or disability.	Include in the denominator in the fiscal year the loan entered repayment.
A **payment is made on a loan by the school, its owner, agent, or another entity or individual affiliated with the school** to avoid default by the borrower.[13]	Include in the numerator because the loan is treated as in default for cohort default rate purposes.	Include in the denominator in the fiscal year the loan entered repayment.

[12] 34 CFR § 682.402 and 685.212
[13] HEA Section 435(m)(2)(B)

Special Circumstances Affecting How FY 1997 Cohort Default Rates are Calculated		
Special Circumstances	**Effect on the Numerator**	**Effect on the Denominator**
A loan was **fully refunded to the lender** within 120 days of disbursement.	Do not include in the numerator because cancelled loans are not included in the cohort default rate calculation.	Do not include in the denominator because cancelled loans are not included in the cohort default rate calculation.
Borrower defaulted but the loan was **rehabilitated** before the end of FY 1998.[14]	Do not include in the numerator because the loan is not considered in default.	Include in the denominator in the fiscal year the loan entered repayment.
Borrower **paid loan in full after defaulting** on the loan and the borrower did not successfully rehabilitate his/her loan.	Include in the numerator because the loan defaulted prior to the loan being paid in full and it was not rehabilitated during the relevant cohort period.	Include in the denominator in the fiscal year the loan entered repayment.
Borrower requested and was **granted a repayment schedule** that started **before the date** the student was originally **scheduled to enter repayment**.	Do not include in the numerator if the loan did not default.	Include in the denominator in the fiscal year that the early repayment schedule start date falls.
Borrower **paid loan in full prior to the date** the student was originally **scheduled to enter repayment**.	Do not include in the numerator because the loan never defaulted.	Include in the denominator in the fiscal year that the borrower paid the loan in full.

[14] HEA 435(m)(2)(C) An FFEL Program loan is rehabilitated if a borrower has made 12 consecutive on-time monthly payments before the end of the cohort period in which the student entered repayment and the loan is sold to a lender. A Direct Loan Program loan is rehabilitated if a borrower has made 12 consecutive on-time monthly payments before the end of the cohort period in which the borrower entered repayment.

Special Circumstances Affecting How FY 1997 Cohort Default Rates are Calculated

Special Circumstances	Effect on the Numerator	Effect on the Denominator
If the **lender repurchases a loan** because the guaranty agency determined that the lender failed to meet the insurance requirements, the loan becomes **an uninsured loan**.	Do not include in the numerator because uninsured loans are not included in the cohort default rate calculation.	Do not include in the denominator because uninsured loans are not included in the cohort default rate calculation.
If the **lender repurchases a loan** because it incorrectly submitted the loan to the guaranty agency AND the lender **immediately** requested that the loan be returned AND did not subsequently submit another claim.	Do not include in the numerator because the loan is not a defaulted loan.	Include in the denominator in the fiscal year the loan entered repayment.
If the **lender repurchases a loan** because it incorrectly submitted the loan to the guaranty agency and the lender **immediately** requested that the loan be returned AND then the lender **subsequently submits another claim** on the loan and that claim is paid within the cohort period the loan entered repayment.	Include in the numerator.	Include in the denominator in the fiscal year the loan entered repayment.
If the **lender repurchases a loan** because the borrower established **a new payment plan** and is making payments or if the lender/servicer simply requests the repurchase (i.e., a courtesy repurchase) AND the loan does not meet the rehabilitation criteria discussed on page 17.	Include in the numerator because the loan is still considered a defaulted loan for cohort default rate purposes.	Include in the denominator in the fiscal year the loan entered repayment.