

# ***Participation Rate Index Challenge***

*Chapter*

***4.2***

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# Participation Rate Index Challenge

34 CFR 668.185(c)

## What is a participation rate index challenge?

A school is not subject to a sanction based on its cohort default rates if its participation rate index is 0.0375 or less (for a sanction based on three consecutive cohort default rates of 25.0 percent or greater) or 0.06015 or less (for a sanction based on one cohort default rate over 40.0 percent). In other words, if a school can demonstrate that the number of students who obtain loans is very low in relation to the number of regular students at the school, the school will be able to avoid sanction.

Figure 4.2.1 shows the time frame for submitting a participation rate index challenge.

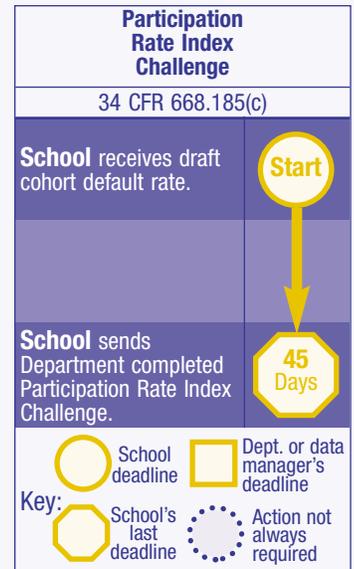
## Which cohort default rate can be used to determine a participation rate index challenge?

A school can submit a participation rate index challenge for either the most recent draft cohort default rate or for either of the two most recent official cohort default rates, depending on the nature of the anticipated sanction to which the school may be subject. For example, take a sequence of years: This Year, Last Year, and Two Years Ago.

A school's draft cohort default rate for This Year indicates that the school will be subject to sanction after release of the official cohort default rates. If the sanction will be due to three consecutive years of an official cohort default rate that is 25.0 percent or greater, the school can submit a participation rate index challenge based on the draft cohort default rate for This Year, the official cohort default rate for Last Year, and/or the official cohort default rate for Two Years Ago. If the sanction will be due to an official cohort default rate for This Year that is greater than 40.0 percent, the school can submit a participation rate index challenge based on the draft cohort default rate for This Year. Figure 4.2.2 summarizes the cohort default rates a school can use to submit a participation rate index challenge.

**Figure 4.2.1**

Time Frame for Submitting a Participation Rate Index Challenge



| Nature of Sanction   | This Year                       | Last Year                          | Two Years Ago                      |
|--|---------------------------------|------------------------------------|------------------------------------|
| Three consecutive years of cohort default rates that are 25.0 percent or greater | Yes – Draft Cohort Default Rate | Yes – Official Cohort Default Rate | Yes – Official Cohort Default Rate |
| Current cohort default rate that is greater than 40.0 percent                    | Yes – Draft Cohort Default Rate | No                                 | No                                 |

**Figure 4.2.2**

Cohort Default Rates a School Can Use to Submit a Participation Rate Index Challenge

**Which schools are eligible to submit a participation rate index challenge?**

Any school, regardless of its draft cohort default rate, can submit a participation rate index challenge. However, only those schools that will be subject to sanction after the release of the official cohort default rates will receive any benefit from submitting a participation rate index challenge.

**What benefit will a school gain from submitting a participation rate index challenge?**

If a school submits a successful participation rate index challenge for an anticipated sanction, the school is not subject to that sanction when its next official cohort default rate is published. If the school's challenge was based on a prior official cohort default rate, the school will not be subject to a subsequent loss of eligibility based on that official cohort default rate.

**Are participation rate index challenges based on a specific period of time?**

The school may base the participation rate index challenge on any 12-month period that ended during the six months immediately preceding the start of the cohort fiscal year for which the school is submitting the participation rate index challenge. Because a school can choose to submit a participation rate index challenge based on its most recent draft cohort default rate or either of its two most recent official cohort default rates, the time period will differ based on the cohort fiscal year used by the school.

The federal fiscal year always begins on October 1. As a result, the six months immediately preceding the start of a fiscal year will always begin on April 1 and always end on September 30. Therefore, the 12-month period the school uses must end no earlier than April 1 and no later than September 30. In order for a 12-month period to end between April 1 and September 30, it must begin no earlier than April 2 and no later than October 1 of the preceding year.

| Cohort Fiscal Year | Cohort Fiscal Year Start Date | Acceptable 12-Month Period Begins Between | Acceptable 12-Month Period Ends Between |
|--------------------|-------------------------------|---|---|
| 1998               | 10/01/1997                    | 04/02/1996 - 10/01/1996                   | 04/01/1997 - 09/30/1997                 |
| 1999               | 10/01/1998                    | 04/02/1997 - 10/01/1997                   | 04/01/1998 - 09/30/1998                 |
| 2000               | 10/01/1999                    | 04/02/1998 - 10/01/1998                   | 04/01/1999 - 09/30/1999                 |
| 2001               | 10/01/2000                    | 04/02/1999 - 10/01/1999                   | 04/01/2000 - 09/30/2000                 |
| 2002               | 10/01/2001                    | 04/02/2000 - 10/01/2000                   | 04/01/2001 - 09/30/2001                 |
| 2003               | 10/01/2002                    | 04/02/2001 - 10/01/2001                   | 04/01/2002 - 09/30/2002                 |
| 2004               | 10/01/2003                    | 04/02/2002 - 10/01/2002                   | 04/01/2003 - 09/30/2003                 |
| 2005               | 10/01/2004                    | 04/02/2003 - 10/01/2003                   | 04/01/2004 - 09/30/2004                 |

Figure 4.2.3 is a chart that can be used to determine an acceptable 12-month period. To choose an acceptable 12-month period, a school should first determine which cohort fiscal year the school will use. The school then picks a start date from the range listed in the “Acceptable 12-Month Period Begins Between” column. The end date will be 12 months after the start date, which will fall in the range listed in the “Acceptable 12-Month Period Ends Between” column. Figure 4.2.4 shows an acceptable and some unacceptable 12-month periods for cohort FY 2001.

**Figure 4.2.3**  
Date Ranges for Acceptable 12-Month Periods

| 12-Month Period       | Status       | Reason   |
|-----------------------|--------------|--|
| 04/02/1999-04/01/2000 | Acceptable   | Starts within acceptable range; ends 12 months later within acceptable range |
| 04/02/1999-04/02/2000 | Unacceptable | Starts within acceptable range; ends more than 12 months later               |
| 04/01/1999-03/31/2000 | Unacceptable | Starts and ends outside acceptable range                                     |

**Figure 4.2.4**  
Acceptable and Unacceptable 12-Month Periods for Cohort FY 2001

A school can select the most beneficial 12-month period available. In other words, a school can identify the acceptable 12-month period during which it had the lowest percentage of borrowers and use that period when calculating its participation rate index.

If a school selects an unacceptable 12-month period, the U.S. Department of Education’s (the Department’s) Default Management will not review any portion of the school’s participation rate index challenge and the participation rate index challenge will be denied and returned to the school. A school may contact Default Management at 1-202-708-9396 to discuss whether the school has selected an acceptable 12-month period.

### How does a school calculate its participation rate index?

After selecting the 12-month period, the school determines the total number of regular students enrolled at least half time and for at least one day during any part of the 12-month period. It is not necessary for the student's entire enrollment period to fall within the 12-month period. The total number of students is the denominator. The school then determines the total number of those students who borrowed a Federal Family Education Loan (FFEL) or William D. Ford Federal Direct Loan (Direct Loan) for a loan period that overlaps any part of the 12-month period. The total number of borrowers is the numerator.

$$\frac{\text{Total borrowers in 12-month period}}{\text{Total regular students in 12-month period}}$$

A regular student is a student who enrolled or was accepted for enrollment at a school for the purpose of obtaining a degree, certificate, or other recognized educational credential offered by that school. To be included in the participation rate index calculation, the borrower must be a student who was enrolled at least half-time and enrolled at least one day during the selected 12-month period.

Once the school has divided the total number of FFEL and Direct Loan borrowers by the total number of regular students, the school multiplies the result by the cohort default rate upon which the school is basing the participation rate index challenge. The result is the participation rate index. A participation rate index is calculated as follows:

$$\left( \frac{\text{Total borrowers in 12-month period}}{\text{Total regular students in 12-month period}} \right) \times \text{School's cohort default rate} = \text{Participation Rate Index}$$

If a school has fewer than 30 borrowers who entered repayment in the cohort fiscal year for which the participation rate index is calculated, the participation rate index for that cohort fiscal year may be calculated using either

- ❖ the cohort default rate that would result from applying the non-average rate formula or
- ❖ the cohort default rate that would result from applying the average rate formula.

See Chapter 2.1, "Calculating Cohort Default Rates," for information on the formulas used to calculate cohort default rates.

To avoid sanction based on three consecutive years of an official cohort default rate that is 25.0 percent or greater, a school must have a participation rate index of 0.0375 or less. To avoid sanction based on an official cohort default rate that is greater than 40.0 percent, a school must have a participation rate index of 0.06015 or less.

For example, School A's draft cohort default rate for the current cohort fiscal year is 25.0 percent. School A's two most recent official cohort default rates were 26.0 percent and 28.0 percent. As a result, if School A's official cohort default rate for this cohort fiscal year is also 25.0 percent, School A will be subject to sanction because it will have three consecutive years of official cohort default rates that are 25.0 percent or greater.

School A decides to base its participation rate index challenge on the draft cohort default rate for the current cohort fiscal year. School A had a total of 200 regular students enrolled on at least a half-time basis during any part of the selected 12-month period relating to the current cohort fiscal year. Of those 200 students, 31 obtained FFELs or Direct Loans for a loan period that overlapped the 12-month period. School A's participation rate index is 0.03875.

$$\left( \frac{31 \text{ borrowers}}{200 \text{ total students}} \right) \times 25.0 \text{ percent draft cohort default rate} = 0.03875 \text{ participation rate index}$$

Because the participation rate index is greater than 0.0375, School A's participation rate index challenge would be unsuccessful.

As another example, School B's draft cohort default rate is 50.0 percent. School B's two most recent official cohort default rates were 20.0 percent and 31.0 percent. As a result, if School B's official cohort default rate is also 50.0 percent, School B will be subject to sanction because it will have an official cohort default rate that is greater than 40.0 percent.

School B should base its participation rate index challenge on the draft cohort default rate for the current cohort fiscal year. School B had a total of 100 regular students enrolled on at least a half-time basis during any part of the 12-month period relating to the current cohort fiscal year. Of these 100 students, 10 obtained FFELs or Direct Loans for a loan period that overlapped the 12-month period. School B's participation rate index is 0.05.

$$\left( \frac{10 \text{ borrowers}}{100 \text{ total students}} \right) \times 50.0 \text{ percent draft cohort default rate} = 0.05 \text{ participation rate index}$$

Because the participation rate index is less than 0.06015, School B's participation rate index challenge would be successful.

However, if School B's two most recent official cohort default rates are 25.0 percent and 31.0 percent, School B is also subject to sanction because it will have three consecutive official cohort default rates that are 25.0 percent or greater. In that event, the participation rate index would have to be 0.0375 or less for the participation rate index challenge to be successful.

**Does a school need to wait until the draft cohort default rate is released to prepare its participation rate index challenge?**

If a school is submitting a participation rate index challenge using a previous cohort fiscal year's official cohort default rate, it can prepare a complete participation rate index challenge before it receives its current year draft cohort default rate.

If a school is submitting a participation rate index challenge using the current cohort fiscal year, it cannot perform the final step in the process (multiplying the participation ratio by the draft cohort default rate) until the school receives its draft cohort default rate. However, a school can perform the initial steps to identify the data to include in the calculation before it receives its draft cohort default rate if it believes its current cohort fiscal year official cohort default rate will incur sanctions. In that way, a school can save time when it receives its draft cohort default rate.

**What roles do the Department and data managers have in a school's participation rate index challenge?**

Schools submit participation rate index challenges directly to Default Management for review and consideration. Default Management is responsible for determining whether schools meet the established participation rate index criteria. Therefore, there is no role for data managers.

If a school submits a participation rate index challenge to the wrong entity or address, the participation rate index challenge might not be reviewed and the school could miss the deadline for submitting the participation rate index challenge to Default Management.

If a data manager receives a participation rate index challenge from a school, it should immediately contact the school to inform it that the participation rate index challenge must be sent to Default Management. The data manager should also indicate that the participation rate index challenge must be sent to Default Management within the initial 45-calendar-day time frame. The data manager should then notify Default Management that the data manager has contacted the school.

**How does a school submit a participation rate index challenge?**

Timing is critical when submitting a participation rate index challenge. A school must send its participation rate index challenge to Default Management within 45 calendar days of receiving its hard-copy loan record detail report for the draft cohort default rates.

The participation rate index challenge must include the following items:

- ❖ A participation rate index challenge spreadsheet.

Figure 4.2.5 is a sample participation rate index challenge spreadsheet. The instructions for creating and completing the spreadsheet are in the “Spreadsheet Tools” section of Chapter 4.11, “Challenge, Adjustment, and Appeal Tools.”

**Figure 4.2.5**  
Sample School Participation Rate Index Challenge Spreadsheet to Default Management

|            |                                    |                         |                         |
|------------|------------------------------------|-------------------------|-------------------------|
| Type:      | Participation Rate Index Challenge | Cohort Default Rate:    | 50.0%                   |
| Cohort FY: | 2001                               | 12-Month Period:        | 09/01/1999 – 08/31/2000 |
| From:      | Graphic Tech                       | Total Borrowers:        | 2                       |
| Code:      | 099999                             | Total Regular Students: | 50                      |
| To:        | Default Management                 | PRI:                    | 0.02                    |
| Code:      | N/A                                |                         |                         |

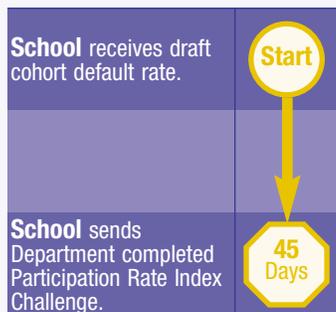
  

|   | A             | B                  | C                          | D                  | E                       |
|---|---------------|--------------------|----------------------------|--------------------|-------------------------|
| 1 | Student's SSN | Student's Name     | Student's Enrollment Dates | Loan Type (if any) | Loan Period             |
| 2 | 111-11-1111   | Ross, Betsy        | 08/15/1999 – 05/26/2000    | FFEL               | 08/15/1999 – 05/26/2000 |
| 3 | 222-22-2222   | Adams, John        | 08/15/1999 – 05/26/2000    | DL                 | 08/15/1999 – 12/30/1999 |
| 4 | 333-33-3333   | Washington, Martha | 08/15/1999 – 12/30/1999    | No                 | N/A                     |

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Using the information on the spreadsheet and the participation rate index formula, a school must calculate its participation rate index. As mentioned, to avoid sanction based on three consecutive years of an official cohort default rate that is 25.0 percent or greater, a school must have a participation rate index of 0.0375 or less. To avoid sanction based on an official cohort default rate that is greater than 40.0 percent, a school must have a participation rate index of 0.06015 or less. If both sanctions apply, the participation rate index must be 0.0375 or less.

If a school does not have any students who received FFELs or Direct Loans with loan periods that overlapped any part of the selected 12-month period, the school does not have to submit a spreadsheet to Default Management. However, the school must send Default Management a letter that identifies the 12-month period and indicates that the school did not have any students who received loans with loan periods that overlapped the 12-month period.



- ❖ A letter on the school's letterhead.

The letter must include the school's OPE ID number, a statement indicating that the school is submitting a participation rate index challenge, the relevant cohort default rate on which the challenge is based, and a certification that the information provided is true and correct under penalty of perjury. The school must also note its participation rate index and the 12-month period the school selected. The letter must feature a subject line that reads "Subject: Cohort FY [insert cohort fiscal year being used in the challenge] Participation Rate Index Challenge." The school's President/CEO/Owner must sign the letter, and the signature must be followed by a signature block showing the signer's name and job title. Figure 4.2.6 is a sample participation rate index challenge letter.

Schools are not required to submit an independent auditor's attestation to support the school's participation rate index challenge.

If a school is submitting a participation rate index challenge for multiple cohort default rates, it should submit all the participation rate index challenges in the same mailing to Default Management. However, the school still needs to submit separate documentation for each participation rate index challenge.

#### **Which Department address does a school use for submitting a participation rate index challenge?**

See the "Which address does a school or data manager use for submitting challenge, adjustment, or appeal materials to Default Management?" section in Chapter 4.11, "Challenge, Adjustment, and Appeal Tools," for the address for Default Management. A school should not send participation rate index challenge materials to any other addresses at the Department.

Default Management recommends that a school send all participation rate index challenge correspondence return receipt requested or via commercial overnight mail/courier delivery. This will be useful to a school if it is asked to authenticate the timeliness of its submission. A school should maintain the documentation that verifies the receipt of the participation rate index challenge as well as all electronic and hardcopy documentation submitted as a part of the participation rate index challenge process. If a school does not meet the 45-calendar-day time frame for submitting a participation rate index challenge, the participation rate index challenge will not be reviewed.

**Figure 4.2.6 - Sample School Participation Rate Index  
Challenge Letter to Default Management****GRAPHICTECH**

Graphic Tech  
9765 Arts Lane  
Coral City, Iowa 12345-9765  
1-987-654-3210

February 14, 2003

U.S. Department of Education  
Default Management  
ATTN: Participation Rate Index Challenge  
400 Maryland Avenue, SW  
Washington, DC 20202-5353

OPEID 099999

Subject: Cohort FY 2001 Participation Rate Index Challenge

To Whom It May Concern:

Graphic Tech, OPE ID 099999, is submitting a participation rate index challenge based on our cohort FY 2001 draft cohort default rate. According to our calculations, our participation rate index is 0.02. This index is calculated using a 12-month period that began on September 1, 1999 and ended on August 31, 2000. Please see the enclosed spreadsheet.

I, the undersigned, certify under penalty of perjury, that all information submitted in support of this participation rate index challenge is true and correct.

Thank you for your consideration.

Sincerely,



Alexander Peachum  
President, Graphic Tech

Enclosure

**What happens after the school submits the participation rate index challenge?**

Default Management will review, using the standard of review described in 34 CFR 668.185(c), only the information submitted with the participation rate index challenge and will not review information submitted after the 45-calendar-day deadline. Default Management will send the school written notification of Default Management's decision before the official cohort default rates are published. Default Management's decision is final and no further administrative review is provided.

If a school's participation rate index challenge is successful, the school is not subject to sanction when its next official cohort default rate is published. In addition, if a school's participation rate index challenge is based on a prior official cohort default rate, the school is not subject to any subsequent sanction based on that official cohort default rate. However, a successful participation rate index challenge based on a school's most recent draft cohort default rate does not excuse the school from any subsequent sanction.

**What happens to a school's participation rate index challenge after the release of the official cohort default rates?**

After the release of the official cohort default rates, Default Management will recalculate the school's participation rate index challenge based on the school's official cohort default rate. If the school meets the requirements for a successful participation rate index appeal, the school will not be subject to sanction regardless of the success of its participation rate index challenge. If the school's recalculated participation rate index is 0.0375 or less, the school will not be subject to a subsequent sanction based on that official cohort default rate.

**School to Default Management Participation Rate Index Challenge Checklist**

## Determine

- Will the school be subject to sanction after the release of the official cohort default rates? (See page 4.2-2)
- What is the school's participation rate index? (See page 4.2-4)

## Submit to Default Management

- Spreadsheet (See page 4.2-7)
- Letter (See page 4.2-8)