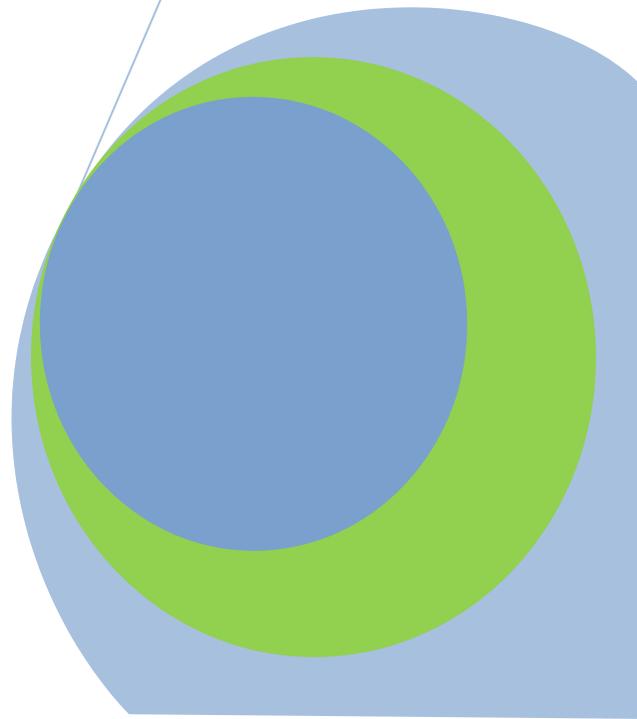


4.2 Participation Rate Index Challenge

Low Borrower Participation in Direct Loan Program



What is a participation rate index challenge?

A participation rate index challenge alleges that a school should not be subject to a potential loss of loan eligibility or potential placement on provisional certification based solely on its cohort default rates because the school has a participation rate index that meets one of the following thresholds (with the most recent draft rate considered for purposes of this challenge only as the most recent cohort default rate):

- For a school that is subject to potential loss of eligibility based on most recent three consecutive cohort default rates of 30.0 percent or greater —participation rate index for at least one of those fiscal years of 0.0625 or less
- For a school that is subject to potential loss of eligibility based on most recent cohort default rate over 40.0 percent—participation rate index of 0.0832 or less
- For a school that is subject to potential provisional certification based on two out of three most recent cohort default rates of 30.0 percent or greater—participation rate index of 0.0625 or less

<i>Participation Rate Index Challenge Timeframe</i>		
Draft Cycle	School receives draft cohort default rate notification package	<i>February</i>
	School sends completed Participation Rate Index Challenge to the U.S. Department of Education (Department)	<i>Within 45 days of timeframe begin date</i>
	Department sends the school written notification of its decision (the decision is final and no further administrative review is provided).	<i>Before the official cohort default rates are published</i>
Official Cycle	Not applicable	

Regulatory citations:
34 CFR 668.204(c)

The “timeframe begin date” is the sixth business day following the transmission date for eCDR notification packages that is posted on the Department’s website, this challenge begin date for each draft cycle is published in pre-release and post-release notices to a school’s SAIG mailbox in addition to IFAP: <https://ifap.ed.gov>

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 rate or rates anticipated to result in a sanction. 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 loss of eligibility or potential provisional certification after release of the official cohort default rates. If the loss of eligibility will be due to three consecutive years of an official cohort default rate that is 30.0 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 loss of eligibility will be due to an official cohort default rate for This Year that, based on the draft rate, is expected to be greater than 40.0 percent, the school can submit a participation rate index challenge based on the draft cohort default rate for This Year. If the school will be subject to potential provisional certification due to two out of three of its most recent cohort default rates being 30.0 percent or greater, the school can submit a participation rate index challenge based on a draft cohort default rate 30.0 percent or greater, or an official cohort default rate 30.0 or greater for Last Year or Two Years Ago (see following chart).

Years Used for Participation Rate Index Challenges

Nature of Sanction	This Year	Last Year	Two Years Ago
Three consecutive years of cohort default rates which are 30.0 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
Potential provisional certification due to two of last three years of cohort default rates 30.0 percent or greater.	Yes – Draft Cohort Default Rate if 30.0 percent or greater	Yes – Official Cohort Default Rate if 30.0 percent or greater	Yes – Official Cohort Default Rate if 30.0 percent or greater

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, there is no potential benefit to submitting a participation rate index challenge for a school whose draft rate is below 30 percent as the school would not be potentially subject to sanction or potential provisional certification based solely on its cohort default rates.

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 loss of eligibility or potential provisional certification, 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 or provisional certification 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.

Date Ranges for Acceptable 12-Month Periods

Cohort Fiscal Year	Cohort FY Start Date	Acceptable 12-Month Period Begins Between	Acceptable 12-Month Period Ends Between
2016	10/01/2015	04/02/2014-10/01/2014	04/01/2015-09/30/2015
2017	10/01/2016	04/02/2015-10/01/2015	04/01/2016-09/30/2016
2018	10/01/2017	04/02/2016-10/01/2016	04/01/2017-09/30/2017
2019	10/01/2018	04/02/2017 - 10/1/2017	04/01/2018-09/30/2018
2020	10/01/2019	04/02/2018 -10/01/2018	04/01/2019-09/30/2019
2021	10/01/2020	04/02/2019 -10/01/2019	04/01/2020-09/30/2020
2022	10/01/2021	04/02/2020 -10/01/2020	04/01/2021-09/30/2021
2023	10/01/2022	04/02/2021 -10/01/2021	04/01/2022-09/30/2022

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.

Acceptable & Unacceptable 12-Month Periods for Cohort FY 2018

12-Month Period	Status	Reason
04/02/2018-04/01/2019	Acceptable	Starts within acceptable range; 12 months later within acceptable range
04/02/2018-04/02/2019	Unacceptable	Starts within acceptable range; more than 12 months later
04/01/2018-03/31/2019	Unacceptable	Starts and ends outside acceptable range

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 Department will not review any portion of the school’s participation rate index challenge and the participation rate index challenge will be denied. A school may contact the Department at 202-377-4259 to discuss whether the school has selected an acceptable 12-month period.

See Chapter 2.1
"How the Rates are
Calculated" for
information on the
formulas used to
calculate cohort
default rates.

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 halftime 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 an FFEL or Direct Loan for a loan period that overlaps any part of the 12-month period. The total number of borrowers is the numerator.

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

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 halftime 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:

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

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.

To avoid a potential loss of eligibility or potential placement on provisional certification, the school's participation rate index must not exceed the relevant threshold as indicated on page 4.2-2.

For example, School A's draft cohort default rate for the current cohort fiscal year is 30.0 percent. School A's two most recent official cohort default rates were 31.0 percent and 33.0 percent. As a result, if School A's official cohort default rate for this cohort fiscal year is also 30.0 percent,

School A will be subject to loss of eligibility because it will have three consecutive of official cohort default rates that are 30.0 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 0.0465.

$$\frac{31 \text{ borrowers}}{200 \text{ regular students}} \times 30.0 \text{ cohort default rate} = 0.0465$$

Because the participation rate index is less than 0.0625, School A's participation rate index challenge would be successful.

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 loss of eligibility 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.

$$\frac{10 \text{ borrowers}}{100 \text{ regular students}} \times 50.0 \text{ Cohort Default Rate} = 0.05$$

Because the participation rate index is less than 0.0832, School B's participation rate index challenge would be successful.

However, if School B's two recent official cohort default rates are rates of 30.0 percent and 31.0 percent, School B is also subject to loss of eligibility because it will have three consecutive official cohort default rates that are 30.0 percent or greater. In that event, the participation rate index would have to be 0.0625 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 the Department for review and consideration. The Department 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 the Department.

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 the Department. The data manager should also indicate that the participation rate index challenge must be sent to the Department within the initial 45-calendar-day timeframe. The data manager should then notify the Department that the data manager has contacted the school.

What materials must a school submit as part of a participation rate index challenge?

The participation rate index challenge must include a letter on the school's letterhead (see sample letter at the end of this chapter).

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 the Department. However, to avoid sanctions, the school's letter to the Department must identify the 12-month period and indicate that the school did not have any students who received loans with loan periods that overlapped the 12-month period.

If the school is required to submit a participation rate index challenge spreadsheet, it should use the format shown in the sample spreadsheet below. Using the information on the spreadsheet and the participation rate index formula, a school must calculate its participation rate index. To avoid a potential loss of eligibility or potential placement on provisional certification, the school's participation rate index must meet the relevant threshold as indicated on page 4.2-2.

Sample Participation Rate Index Challenge Spreadsheet

Type: Participation Rate Index Challenge
 Cohort FY: 2009
 From: Graphic Tech
 Code: 099999
 To: Default Management
 Code NA

Cohort Default Rate: 50.0%
 12-Month Period: 9/01/2007 – 08/31/2008
 Total Borrowers: 2
 Total Regular Students: 50
 PRI: 0.02

	A	B	C	D	E
	Student's SSN	Student's Name	Student's Enrollment Dates	Loan Type (if any)	Loan Period
1					
2	111-11-1111	Ross, Betsy	08/15/2007 - 05/25/2008	FFEL	08/15/2007 - 05/26/2008
3	222-22-2222	Adams, John	05/15/2007 - 05/26/2008	DL	08/15/2007 - 12/30/2008
4	333-333-3333	Washington, Martha	08/15/2007- 12/30/2007	No	N/A

Date 02/14/2011

Page 1 of 1

A blank version of this spreadsheet is posted on the [Default Management website](#).

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 the Department. However, the school still needs to submit separate documentation for each participation rate index challenge.

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 the Department within 45 calendar days of the timeframe begin date. If a school does not meet the 45 calendar day timeframe for submitting a participation rate index challenge, the participation rate index challenge will not be reviewed.

How a school submits a Participation Rate Index challenge to the Department

The Department 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 sending by courier:

U.S. Department of Education
Partner Eligibility and Oversight Services
Union Center Plaza 61G3
830 First Street, N.E.
Washington, DC 20202
ATTN: Cohort Default Rates Group

If sending by U.S. Postal Service:

U.S. Department of Education
Partner Eligibility and Oversight Services
Union Center Plaza, 6th Floor (61G3)
400 Maryland Ave, S.W.
Washington, D.C. 20202
ATTN: Cohort Default Rates Group

Do not send materials to any other address at the Department

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

The Department will review, using the standard of review described in 34 CFR 668.204(c), only the information submitted with the participation rate index challenge and will not review information submitted after the 45 calendar-day deadline. The Department will send the schools a letter notifying the school of the Department's decision before the official cohort default rates are published. The Department'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 loss of eligibility or potential provisional certification 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 loss of eligibility or potential provisional certification 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, the Department 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 any subsequent loss of eligibility or potential provisional certification based on that official cohort default rate.

Sample Participation Rate Index Challenge Letter



Graphic Tech

2341 Toulouse Street
Cape Canaveral, FL 54321-2341

February 14, 20XX

U.S. Department of Education
Operations Performance Division
Union Center Plaza 61G3
400 Maryland Avenue, SW
Washington, DC 20202-5353

OPEID 099999

Subject: Cohort FY XX Participation Rate Index Challenge

To Whom It May Concern:

Graphic Tech, OPE ID 099999, is submitting a participation rate index challenge based on our FY XX 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, 2010 and ended on August 31, 2011. 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

Archibald Bellvoir
President, Graphic Tech

Enclosures

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.

**Participation Rate Index Challenge
Checklist**

School to the Department

Determine

- ❑ Will the school be subject to sanction after the release of the official cohort default rates?
- ❑ What is the school's participation rate index?

Submit to the Department

- ❑ Spreadsheet
- ❑ Letter