

Participation Rate Index Challenge

Chapter

4.2

What is a participation rate index challenge?	<i>4.2-1</i>
Which cohort default rate can be used to determine a participation rate index challenge?	<i>4.2-1</i>
Which schools are eligible to submit a participation rate index challenge?	<i>4.2-2</i>
What benefit will a school gain from submitting a participation rate index challenge?	<i>4.2-2</i>
Are participation rate index challenges based on a specific period of time?	<i>4.2-3</i>
How does a school calculate its participation rate index?	<i>4.2-4</i>
Does a school need to wait until the draft cohort default rate is released to calculate its participation rate index?	<i>4.2-6</i>
What roles do the Department and data managers have in a school's participation rate index challenge?	<i>4.2-6</i>
How does a school submit a participation rate index challenge?	<i>4.2-7</i>
Which Department addresses should a school use for submitting a participation rate index challenge?	<i>4.2-10</i>

Participation Rate Index Challenge

34 CFR 668.185(c)

What is a participation rate index challenge?

A school is not subject to sanctions based on its cohort default rates if its participation rate index is 0.0375 (for a sanction based on three consecutive cohort default rates of 25 percent or greater) or 0.06015 (for a sanction based on one cohort default rate over 40 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 sanctions. A school may submit a participation rate index challenge during the draft cohort default rate process or a participation rate index appeal during the official cohort default rate process. The participation rate index challenge is based on a school's most recent draft cohort default rate or either of its two preceding official cohort default rates. The participation rate index appeal is based on any of a school's three most recent official cohort default rates.

Timing is critical when submitting a participation rate index challenge. A school must submit a participation rate index challenge within 45 days of receiving its hardcopy loan record detail report for the draft period. 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 sanction to which the school is subject. For example, take a sequence of years: Year A, Year B, and Year C. Year A is the current year. Year B is the year immediately preceding Year A. Year C is the year immediately preceding Year B.

A school's draft cohort default rate in Year A 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 percent or greater, the school can submit a participation rate index challenge based on the draft cohort default rate for Year A, the official cohort default rate for Year B, or the official cohort default rate for Year C. If the sanction will be due to an official cohort default rate for Year A that is greater than 40 percent, the school can submit a participation rate index challenge based only

Figure 4.2.1
Time Frame for Submitting a Participation Rate Index Challenge



on the draft cohort default rate for Year A. Figure 4.2.2 summarizes the cohort default rates for which a school can submit a participation rate index challenge.

Figure 4.2.2
Cohort Default Rates Subject to a Participation Rate Index Challenge

Nature of Sanction	Year A (Current Year)	Year B (One Year Ago)	Year C (Two Years Ago)
Three consecutive years of a cohort default rate that is 25 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 percent	Yes – Draft Cohort Default Rate.	No	No

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 based on its draft cohort default rate, the school is not subject to the anticipated sanction with the release of the official cohort default rate.

Before the official cohort default rates are released, the U.S. Department of Education’s (the Department’s) Default Management will automatically identify any school that has submitted a successful participation rate index challenge or participation rate index appeal which would allow it to avoid the consequences of its upcoming official cohort default rate. These schools will not be subject to a loss of eligibility. Default Management will also identify schools that submitted unsuccessful participation rate index challenges that would have been successful if based on the school's official cohort default rate, rather than on its draft 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 a 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 default period 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 end no later than October 1 of the preceding year.

Fiscal Year	Fiscal Year Start Date	Acceptable 12-month Period Begins Between	Acceptable 12-month Period Ends Between
FY98	10/01/97	04/02/96 - 10/01/96	04/01/97 - 09/30/97
FY99	10/01/98	04/02/97 - 10/01/97	04/01/98 - 09/30/98
FY00	10/01/99	04/02/98 - 10/01/98	04/01/99 - 09/30/99
FY01	10/01/00	04/02/99 - 10/01/99	04/01/00 - 09/30/00
FY02	10/01/01	04/02/00 - 10/01/00	04/01/01 - 09/30/01
FY03	10/01/02	04/02/01 - 10/01/01	04/01/02 - 09/30/02
FY04	10/01/03	04/02/02 - 10/01/02	04/01/03 - 09/30/03
FY05	10/01/04	04/02/03 - 10/01/03	04/01/04 - 09/30/04

Figure 4.2.3
Date Ranges for Acceptable 12-Month Periods

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 FY01.

Figure 4.2.4
Acceptable and Unacceptable 12-Month Periods for FY01

12-Month Period	Status	Reason
04/02/99-04/01/00	Acceptable	Starts within acceptable range; ends 12-months later within acceptable range
04/02/99-04/02/00	Unacceptable	Starts within acceptable range; ends more than 12-months later
04/01/99-03/31/00	Unacceptable	Starts and ends outside acceptable range

A school can select the most beneficial 12-month period available. In other words, a school can determine which acceptable 12-month period has the least number of borrowers and use that period when calculating its participation rate index.

If a school selects an unacceptable 12-month period, 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 number of regular students attending during that 12-month period who received a Federal Family Education Loan (FFEL) or William D. Ford Federal Direct Loan (Direct Loan) during any loan period that overlaps the 12-month period. As mentioned, 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.

The school divides the number of regular students attending the school during the selected 12-month period who obtained a FFEL or Direct Loan during any loan period that overlaps the 12-month period by 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. This is calculated as follows:

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

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

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

If the cohort default rate for a previous year was calculated as an average rate, the school can calculate the participation rate index for that year using either

- ❖ the average rate or
- ❖ the cohort default rate the school would have had for that year if the cohort default rate had been calculated using only the borrowers who entered repayment during that cohort fiscal year.

To avoid sanctions based on three consecutive years of an official cohort default rate that is greater than or equal to 25 percent, a school must have a participation rate index of 0.0375 or less. To avoid sanctions based on an official cohort default rate that is greater than 40 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 percent. School A’s two most recent official cohort default rates were 26 percent and 28 percent. As a result, if School A’s official cohort default rate for this cohort fiscal year is also 25 percent, School A will be subject to sanction because of three consecutive years of an official cohort default rate that is 25 percent or greater.

School A had a total of 200 regular students enrolled on at least a half-time basis during the selected 12-month period. 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.

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 percent. School B’s two most recent official cohort default rates were 20 percent and 31 percent. As a result, if School B’s official cohort default rate is also 50 percent, School B will be subject to sanction only because of an official cohort default rate that is greater than 40 percent.

$$\begin{array}{r}
 (31 \text{ borrowers} \\
 \div \\
 200 \text{ total students}) \\
 \times \\
 25 \text{ percent} \\
 \text{cohort default rate} \\
 = \\
 0.03875 \\
 \text{participation rate index}
 \end{array}$$

$$\begin{array}{r}
 (10 \text{ borrowers} \\
 \div \\
 100 \text{ total students}) \\
 \times \\
 55 \text{ percent} \\
 \text{cohort default rate} \\
 = \\
 0.05 \\
 \text{participation rate index}
 \end{array}$$

School B had a total of 100 regular students enrolled on at least a half-time basis during the 12-month period. Of these 100 students, 10 obtained FFELs or Direct Loans for a loan period that began or ended in the 12-month period. School B's participation rate index is 0.05.

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 were 25 percent and 31 percent, and School B was also subject to sanction because of three consecutive years of an official cohort default rate that is 25 percent or greater, the participation rate index challenge would not be successful. In that event, the participation rate index would have to be 0.0375 or less for the participation rate index challenge to be successful.

A school with fewer than 30 borrowers in the denominator of its draft cohort default rate may calculate a participation rate index in two ways. The school may

- ❖ calculate a participation rate index using its average rate, which is based on data for the three most recent cohort fiscal years (see Chapter 2.1, "Calculating Cohort Default Rates," for additional information on average rates); or
- ❖ calculate a participation rate index using a cohort default rate based on that cohort fiscal year alone.

Does a school need to wait until the draft cohort default rate is released to calculate a participation rate index?

Although a school cannot perform the final step in the process (multiplying the participation ratio by the cohort default rate) until the draft cohort default rate is released, a school can perform the initial steps of the calculation before release of the draft cohort default rate if it believes its official cohort default rate will incur sanctions. In that way, a school can save time when the draft cohort default rate is released.

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 challenge to the wrong entity or address, the challenge might not be reviewed and the school could miss the deadline for submitting the 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 challenge must be sent to Default Management. The data manager should also indicate that the challenge must be sent to Default Management within the initial 45-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 hardcopy loan record detail report for the draft period. The participation rate index challenge must include the following items:

- ❖ A completed participation rate index challenge spreadsheet.

Figure 4.2.5 is a sample participation rate index challenge spreadsheet. See the blank spreadsheet and the instructions for creating and completing the spreadsheet in the "Participation Rate Index Tools" section of Chapter 4.11, "Challenge, Adjustment, and Appeal Tools." A school may photocopy and use the blank spreadsheet when submitting a participation rate index challenge or create its own spreadsheet using the layout provided.

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

School Name: Graphic Tech		Participation Rate Index Challenge Based on the FY 01 Draft Cohort Default Rate			
OPE ID: 999999					
Cohort Default Rate: 50.0%					
Selected 12-Month Period: 09/01/99 - 08/31/00					
Total Borrowers: 2					
Total Regular Students: 50					
Participation Rate Index: 0.02					
	A	B	C	D	E
1	Student's SSN	Student's Name	Student's Enrollment Dates (MM/DD/CCYY to MM/DD/CCYY)	Loan Type if any (FFEL or DL)	Loan Period (MM/DD/CCYY to MM/DD/CCYY)
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		
4	333-33-3333	Washington, Martha	08/15/1999 – 12/30/1999		
5					
6					
Date 02/14/03		Page 1 of 1			

- ❖ A letter on the school's letterhead.

The letter should 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 sentence that the information provided is true and correct under penalty of perjury. The school should also note its participation rate index and the 12-month period the school selected. The letter should feature a subject line that reads "Subject: FY [insert cohort fiscal year being used in the challenge] Participation Rate Index Challenge." The school's President/CEO/Owner should sign the letter, and the signature should 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.

Using the information on the spreadsheet and the formula listed previously, a school must calculate its participation rate index. As mentioned, to avoid sanctions based on three consecutive years of an official cohort default rate that is 25 percent or greater, a school must have a participation rate index of 0.0375 or less. To avoid sanctions based on an official cohort default rate that is greater than 40 percent, a school must have a participation rate index of 0.06015 or less.

If a school does not have any students who received FFELs or Direct Loans with loan periods that overlapped 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.



**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
Portals Building, Room 6300
400 Maryland Avenue, SW
Washington, DC 20202-5353

OPEID #999999

Subject: FY 2001 Participation Rate Index Challenge

To Whom It May Concern:

Graphic Tech, OPE ID#999999, is submitting a participation rate index challenge on our FY 2001 draft cohort default rate. According to our calculations, our participation rate index is 0.02. This rate is based on 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

Which Department addresses should a school use for submitting a participation rate index challenge?

The school must send the challenge materials to Default Management via commercial courier or the U.S. Postal Service. Default Management will not accept any challenge correspondence by facsimile (fax) or e-mail. If sent by commercial overnight mail/courier delivery, the address is

U.S. Department of Education
Default Management
ATTN: Participation Rate Index Challenge
Portals Building, Room 6300
1250 Maryland Avenue, SW
Washington, DC 20024

If sent by U.S. Postal Service, the address is

U.S. Department of Education
Default Management
ATTN: Participation Rate Index Challenge
Portals Building, Room 6300
400 Maryland Avenue, SW
Washington, DC 20202-5353

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 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 challenge. A school should maintain the documentation that verifies the receipt of the challenge as well as all documentation submitted as a part of the challenge process. If a school does not meet the 45 calendar day time frame for submitting a participation rate index challenge, the challenge will not be reviewed.