

Average Rates Appeal

Chapter
4.9

What is an average rates appeal?	<i>4.9-1</i>
How is an average cohort default rate calculated?	<i>4.9-1</i>
What if a school disagrees with an initial determination by Default Management?	<i>4.9-2</i>

Average Rates Appeal

34 CFR 668.196

What is an average rates appeal?

A school facing sanctions because of three consecutive official cohort default rates that are 25.0 percent or greater is not subject to sanction if at least two of its three most recent official cohort default rates are average cohort default rates and would have been less than 25.0 percent if only the data for the cohort fiscal year had been used to calculate the rate. In addition, a school facing sanctions because of an official cohort default rate that is greater than 40.0 percent is not subject to sanction if the official cohort default rate was calculated as an average rate.

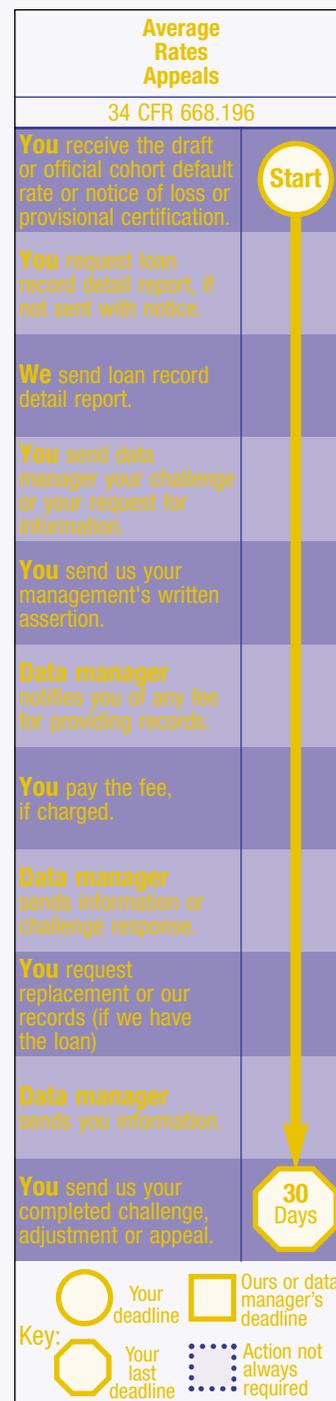
The U.S. Department of Education's (the Department's) Default Management will automatically determine if a school meets the criteria associated with an average rates appeal. This initial determination will take place prior to the release of the official cohort default rates. Default Management will notify the school if it qualifies for an average rates appeal at the same time Default Management notifies the school of its official cohort default rate.

In addition, if a school's official cohort default rate changes because of an adjustment or appeal the school submitted, Default Management will automatically determine if the change results in the school meeting the criteria for an average rates appeal. Figure 4.9.1 shows the time frame for an average rates appeal.

How is an average cohort default rate calculated?

The formula Default Management uses for calculating a school's official cohort default rate depends on the number of student borrowers from that school entering repayment in a particular fiscal year and the number of cohort default rates previously calculated for the school. The average rate formula is used for a school with 29 or fewer borrowers entering repayment during a cohort fiscal year if data are available for the two previous cohort fiscal years.

The denominator for the average cohort default rate is the number of borrowers who entered repayment in the cohort fiscal year and the two preceding cohort fiscal years. The numerator for the average cohort default rate is the number of borrowers who entered repayment in the cohort fiscal year and the two preceding cohort fiscal years and who defaulted or met other specified conditions in the cohort default period and the two preceding cohort default periods.

Figure 4.9.1
Time Frame for Submitting an Average Rates Appeal


As an example, School B, a degree-granting school, certified loans for the following students: 7 borrowers who entered repayment in the cohort fiscal year (of whom 1 defaulted in that cohort default period), 26 borrowers who entered repayment in the fiscal year immediately preceding the cohort fiscal year (of whom 5 defaulted in that cohort default period), and 28 borrowers who entered repayment in the fiscal year two years prior to the cohort fiscal year (of whom 10 defaulted in that cohort default period). The 61 borrowers ($7 + 26 + 28 = 61$) who entered repayment in these three fiscal years constitute the denominator. The numerator consists of the 16 borrowers ($1 + 5 + 10 = 16$) who defaulted in the relevant cohort default periods. School B's cohort default rate is calculated by dividing 16 by 61 ($16 / 61 = 0.262$) and expressing the result (0.262) as a percentage to produce an average cohort default rate of 26.2 percent ($0.262 \times 100 = 26.2$).

See Chapter 2.1, "Calculating Cohort Default Rates," for additional information on average cohort default rates.

What if a school disagrees with an initial determination by Default Management?

If a school disagrees with an initial determination by Default Management that the school is not eligible for an average rates appeal, the school may send a formal appeal to Default Management. The appeal should include supporting documentation showing that each official cohort default rate in question was calculated as an average rate and, for a school that is subject to loss of eligibility based on three cohort default rates of 25 percent or greater, that the cohort default rate would be less than 25 percent if calculated for the cohort fiscal year alone. The school must include a certification from the school's chief executive officer that all information is true and correct. The school must send the appeal within 30 calendar days of receiving the Department's notice of a loss of eligibility.