Chapter VI Special Focus on Default Prevention

A. Reviews at Schools With High Cohort Default Rates

Reviews of institutions with high Federal Family Education Loan (FFEL) and William D. Ford Federal Direct Loan (DL) Program cohort default rates (CDR) will also focus on default management. Applicable default reduction and prevention measures must be examined at institutions with high CDRs during reviews. Reviewers should notify their Default Management adjunct of the scheduled review and request all relevant loan information on the school (CDR rate trends, loan program eligibility status, and appeal status.)

Every year, ED notifies each institution of its official fiscal year cohort default rate on loans to students for attendance at that institution through the FFEL and DL programs. (Although the Federal Supplemental Loan for Students (SLS) program has been phased out, some SLS loans still appear in the calculation.) The institutional profile will list the three most recent official cohort default rates and dates of notification.

A new comprehensive Cohort Default Rate Guide, combining the separate Draft and Official Cohort Default Rate Guides is available with the release of the FY 99 Official Cohort Default Rates. The guide should be used as a reference tool for institutions desiring to challenge the draft cohort default rate and/or request an adjustment to and/or appeal the official default rate(s). The review should refer to the *Cohort Default Rate Guide* for detailed information on CDRs and related topics.

B. Review Items

During the review of a high CDR institution, a new institution, or an institution under new ownership, reviewers should examine the following items.

- high withdrawal rates
- adequate consumer disclosure information
- low job placement rates
- adequate entrance and exit counseling
- accurate and timely SSCR reporting
- adequate resources committed to default reduction*
- adequate process to ensure accuracy of CDR* (review of Loan Record Detail Report data at draft and official notification)

- any school payments to avoid delinquent loans going into default
- default management plans for institutions undergoing changes in ownership
- compliance with sanction/benefit requirements
- changes in status

*** although beneficial to reducing CDRs, not mandatory**

For new institutions, reviewers should examine their default management plans.

C. Cohort Default Rate

Schools will receive Cohort Default Rates (CDRs) twice a year: first, as a <u>draft</u> CDR, and then as an <u>official</u> CDR. The draft CDRs are calculated and mailed to schools in January/February. The draft process is an opportunity for schools to review and correct data prior to the calculation of the official CDR. The official CDRs are calculated and mailed to schools in August/September. The Default Management Division makes sanction and benefit status decisions based on the official CDRs and not the draft CDRs. However, a school has limited opportunities to request an adjustment or appeal its CDR, prior to implementation of an official action.

1. Formulas Used to Calculate a School's Official Cohort Default Rate

A CDR is the percentage of a school's borrowers who enter repayment on certain FFEL and/or DL program loans during a 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. Two types of formulas are used to calculate a school's official CDR:

- Non-Average Rate: For a school with 30 or more borrowers entering repayment during a fiscal year.
- Average Rate: For a school with 29 or fewer borrowers entering repayment during a fiscal year that had a CDR calculated for the two previous fiscal years.

A school with 29 or fewer borrowers entering repayment during a fiscal year that did not have a CDR calculated for either or both of the two previous fiscal years will be notified of its unofficial CDR. No sanctions or benefits are associated with unofficial CDR calculations.

D. Sanctions and Benefits for Cohort Default Rates

1. Sanctions Associated with High CDRs (effective 7/1/01)

- Three most recent CDRs of 25.0 percent or greater will result in the loss of FFEL/DL and Federal Pell Grant Program eligibility. (Schools meeting certain conditions may retain Pell Grant Program eligibility.)
- Most recent official CDR that is greater than 40.0 percent will result in the loss of FFEL/DL eligibility.

For both sanctions, the loss of eligibility is for the remainder of the fiscal year in which the school was notified that it was subject to loss of eligibility and for two subsequent fiscal years. Loss of eligibility is effective upon notice from the Default Management Division that the school can no longer participate in these programs. Schools can continue to participate while certain appeals are pending in Default Management, but liabilities will be charged if the appeal is not successful.

In accordance with 34 CFR 668 Subpart M Section 668.198, special institutions (Historically Black Colleges or Universities as defined in Section 322(2) of the HEA; Tribally Controlled Community College as defined in Section 2(a)(4) of the Tribally Controlled Community College Assistance Act of 1978; and Navajo Community Colleges under the Navajo Community College Act) are exempt from these sanctions if they meet the exemption criteria. This exemption is due to expire June 30, 2004. For information on special institutions qualifying for this exemption, please contact the Default Management adjunct.

2. Benefits Associated with Low CDRs

- Three most recent official CDRs of less than 10.0 percent, the institution may choose to deliver/disburse loan proceeds in a single installment for single-term loans and not delay the delivery/disbursement of the first installment for first-year, first-time borrowers. **This benefit is scheduled to expire on September 30, 2002.**

- The most recent CDR that is less than 5 percent, and the institution is an eligible home institution certifying/originating loans for a study abroad program, the institution may choose to deliver/disburse loan proceeds in a single installment and not delay the delivery/disbursement of the first installment for first-year first-time borrowers.

Schools must cease exercising these benefits beginning 30 calendar days after receiving notice from the Default Management Division of a CDR that causes the school to no longer meet the established thresholds.

E. Changes in School Status

If it is discovered that an institution changes its status through consolidation, additional location, becoming free standing, mergers, changes of ownership, or other means, but no change of affiliation or comments exist in PEPS, nor does the school have a “P” or “C” rate in PEPS, reviewers should contact their Default Management adjunct with updated information for the institution. The Default Management Division will review the information provided and notify reviewers if a revision to the CDR is necessary. Further, if it can be determined that an institution may be attempting to avoid sanctions or obtain benefits by manipulating its CDRs, reviewers should immediately notify their Default Management adjunct. The Default Management Division will evaluate the allegation and determine the action(s) to be taken against the school.

References:

Cohort Default Rate Guide

Official Cohort Default Rate for Schools

34 CFR Part 668 Subpart M Sections 668.181 through 668.198; 682.604(b)(5)
Appendices A and B of Subpart M of Part 668

Dear Colleague Letter GEN-01-08 Sample Default Management Plan
http://ifap.ed.gov/dpcletters/gen0108.html

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