The President's Budget, The Higher Education Amendments, and Cohort Default Rates: The Good, The Bad, and The … Sequel

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As with any good story, there is usually good, bad, and, then, there is the sequel. So is the history of the Higher Education Amendments and this time around is no exception.

The good news is that the President's Budget supports many items that help the higher education industry as follows:

- Reintroducing disbursement benefits for institutions with three consecutive cohort default rates under 10%. These benefits include elimination of the thirty-day delayed certification for first-time borrowers and the elimination of multiple disbursements, resulting in positive influences on cash flow.
- Elimination of the "single-holder" rule for consolidation loans, encouraging market competition and eliminating unnecessary restrictions on borrowers.
- Continuation of market-based interest rates with an 8.25% cap.
- Consolidation loans with market-based interest rates with an 8.25% cap.
- Additional options for repayment schedules for all borrowers.
- Consistent program offerings for both FFELP and Direct Student Loans, encouraging healthy competition and consistent offerings to borrowers.
- Repeal of the 50% rule for distance education, expanding education options for working citizens.
- Repeal of the 90/10 rule for school revenue.
- Credit reporting to all national credit bureaus.

The bad news is that many of the federal budget cuts to lenders and guarantors may have a negative, trickle-down effect. It is not unrealistic to anticipate that, as lenders' profits are squeezed, they will find ways to cut their costs internally to remain profitable. Traditional business models suggest that, in order to achieve internal savings, the lenders are likely to eliminate, scale back or outsource certain non-essential borrower services, normally resulting in lower levels of quality and level of service. The unintended consequences will be rising default rates, lender access problems for at-risk students and the institutions who educate them, and the need to resurrect the "Lender of Last Resort" program in certain states.

The Office of Inspector General is also pushing for changes in the calculation of cohort default rates including:

- Calculating a "default" based on the original definition of 180 days past due, instead of 270 days past due for FFELP loans and 360 days past due for Direct loans.
- Removal of all borrowers in a deferment or forbearance status from the denominator of the cohort calculation until the borrower is paying on the loans.

Not only will these calculations increase cohort default rates (estimated by the OIG around 3% overall increase for the national average), but there will also be a burden of administrative oversight to accurately report cohort default rates based on deferments and forbearances. The NSLDS database does not currently contain the necessary information for this calculation and immediate implementation will lead to inaccurate cohort default rates and an increase of incorrect data corrections and appeals, which is not what the Department ultimately wants.

The sequel is the scenario that mimics all other HEA Reauthorizations in the fact that there is a significant budget shortfall. The U.S. House of Representatives and U.S. Senate must come up with ways to close the gap between the monies available and the monies that they need. This leads to the problems that occur when legislation and Federal Regulations are written solely for the purpose of budgeting instead of for the purpose of the best interest of the programs and the students served.

We have yet to see what these negotiations will produce and the affect that they will have upon our schools and students. We can only hope that the results will not be discriminatory toward the private post-secondary schools and the students who we serve. We encourage you to contact your U.S. Congressional Members and voice your concerns so that you can play a part in the "damage control" that will be needed during the Budget Reconciliation. *This is critical because Budget Reconciliation is where Cohort Default Rates originated.*

As an advocate for higher education, Hands On works closely with key Members of Congress and Department of Education officials to represent hundreds of client institutions. To participate or be represented, contact Mary Lyn Hammer at (800) 761-7376 or MaryLynH@ChampionCollegeSolutions.com
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