



**From the statement of  
John P. Higgins, Jr.  
Inspector General  
Department of Education  
Before the House Committee on Government Reform  
May 26, 2005**

Although cohort default rates currently provide the information required under the HEA, they do not appear to provide decision-makers with sufficient information on defaults in the student loan programs. Our proposal to increase the validity of the cohort default rates would shorten the number of days of delinquency before a loan is declared in default and eliminate borrowers in deferment or forbearance. These suggestions stem from an audit we conducted last year where we found that, under the current definition of cohort default, borrowers who enter repayment during the last two months of a cohort's fiscal year cannot default on their loans before the end of the following year. We also found that if a student receives a deferment or forbearance on a loan during the cohort's fiscal year or the following fiscal year, the student cannot default on the loan before the end of the following fiscal year, even if he or she never makes a payment on the loan.

**(From page one of the DOE / OIG Work Plan FY 2005)**

**Federal Student Aid Programs  
Increased Use of Deferments and Forbearances**

Borrowers who are eligible for a deferment or forbearance are generally not required to make payments on their student loans. Although borrowers do not make payments on loans that are in deferment or forbearance, they are included in the calculation of cohort default rates as loans that the borrowers are making payments. A loan in deferment or forbearance cannot go into default. Lenders provide deferments and forbearances to eligible borrowers. Eligibility is based on a borrower's student status, employment status, economic hardship, amount of loan payments, and other conditions. Based on GAO and ED OIG reports, the percent of cohort borrowers in deferment or forbearance at the end of the two-year cohort default rate period increased from approximately 5 percent in the 1993 cohort to 22 percent in the 1999 cohort. This represents an increase of 403,000 borrowers, from 96,000 in the 1993 cohort to 499,000 in the 1999 cohort.

Anticipated Objectives:

1. Determine if lenders are providing deferments and forbearances only to eligible students.
2. Determine the extent to which the different eligibilities result in deferments and forbearances, and why the use of deferments and forbearances has increased.