Response to the OIG Statement (5/26/05) and OIG Work Plan FY 2005
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The Office of Inspector General has made numerous presentations for changes to the cohort default rate definition to authorities in Congress and the Department of Education. These changes are likely to start a domino effect that will adversely impact the higher education community, resulting in negative and unintended consequences for the students, institutions and taxpayers as well.

Regardless of the intent of the OIG to increase the validity of the cohort default rates, eighteen years of experience specializing in default rate reductions tells me that the negative impact of these actions will greatly outweigh any benefits that the OIG is seeking. Specifically, there are two primary areas of concern.

First, in changing the definition of "default" to 180 days past due, as suggested by the OIG in a March 2005 testimonial, the ability to collect loans would be greatly reduced. The current definition of default for Federal Direct Stafford Loans is 360 days past due. This date is automatically used by the servicer and for the NSLDS database because it is a direct loan. The current applications for FFELP Stafford Loans are (1) the default claim can be filed at 270 days past due and (2) the date of default is the date the claim is paid by the guarantor, usually around 330 days past due.

Since January 2004, Champion College Solutions, formerly Hands On College Services, recovered over 35,000 accounts with 30% of those recoveries occurring *after* 180 days past due. The definition of a 180 days past due default will have very negative consequences to all parties to the loans, especially schools, student borrowers, and taxpayers. Using the FY 1999 Cohort Default Rate, this change in definition would increase the national average from 5.7% to 6.6%. Based on our data of primarily private career schools, our sector would increase default rates by 1/3. For example, a default rate of 10% would increase to 15% on average.

The more likely scenario is that the definition change would be applicable only to institutional cohort default rates. There will be many cases where the loan is considered in default for schools, but is still in delinquent repayment status with all other parties to the loan. Limited application of the definition will lead back to the days of inaccurate reporting, inaccurate NSLDS data, and extensive cohort default rate appeals, a costly process for the entire higher education community including the Department of Education.

Second, changing the definition to exclude those borrowers who have been granted deferment and/or forbearance status would also become an administrative nightmare. Borrowers are granted these options because they are eligible at times throughout the life of the loan. Moving the official “repayment date” on these loans every time the borrower exercises their legal rights would also negatively impact data integrity and administrative capability. The change in definition for excluding those borrowers on deferment and/or forbearance would increase the FY 1999 Cohort Default Rate national average from 5.7% to 7.3%.

Effective borrower education by the post-secondary schools and the higher education community has produced borrowers who are more sophisticated and knowledgeable, resulting in an increase in applied deferments and forbearances. This has had favorable repercussions for the higher education community and our economy as well.

The overall affect if both changes were implemented would increase the FY 1999 Cohort Default Rate national average from 5.7% to 8.4%. The majority of this increase is influenced by the private career college sector because of the larger share of at-risk borrowers served. Unfortunately, the greatest negative impact of these changes will be felt by those who serve the students who originally inspired the Higher Education Act of 1965 – our high-risk, low-income students.

We encourage Congressional and Department of Education officials to consider the long-term implications of these changes. This could very well be another example of, “Be careful about what you ask for…”