CHAMPION COLLEGE SERVICES, INC.

Nationwide Increases in Cohort Default Rates Cause Concern

By Mary Lyn Hammer, President and CEO, Champion College Solutions

Increases in the most recent publicly released cohort default rates are causing concern among the industry, especially within the lending community. While the cohort default rates are much lower than the all time high of 22.4% released in 1990, many are viewing any increase as a reason for alarm.

On September 11, 2006, the U.S. Department of Education released cohort default rates for fiscal year 2004 (FY 2004). This includes those borrowers who entered repayment on their federal student loans from October 1, 2003 through September 30, 2004. The number of borrowers who default on or before September 30, 2005 are counted against a school in its default rate.

Cohort default rates increased across the board although the for-profit increase was the largest. Cohort default rates at for-profit colleges increased from 7.3% for FY 2003 to 8.6% for FY 2004. Public two-year colleges increased from 7.6% for FY 2003 to 8.1% for FY 2004. Public four-year colleges increased from 3.3% for FY 2003 to 3.5% for FY 2004. Private four-year colleges increased from 2.6% for FY 2003 to 2.8% for FY 2004.

Many of the federal budget cuts to lenders and guarantors included in legislation passed earlier this year 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. *Let's not forget that Cohort Default Rates originated during Budget Reconciliation.*

Top officials at the Department of Education have attributed increases to the changes in the composition of the student-loan portfolio and general economic conditions while the lending community is advising participants that the increases are expected to continue.

Active, early intervention may be the best hope for controlling these increases. Consistent, informative borrower education processes during school and throughout the cohort default rate measuring period has always been the best method of preventing student loan defaults.

For more information on default prevention programs, please, contact Champion College Solutions at (800)761-7376 or visit our website at www.ChampionCollegeSolutions.com.