



## **Report on the Impact of Change in the Cohort Default Rate Definition Published 11/30/2007**

### ***Reference Amendment to H.R. 4137 Offered by Mr. Grijalva of Arizona and Mr. Bishop of New York Cohort Default Rates***

This report is an analysis of the potential impact of the change in Cohort Default Rate (CDR) definition as stated in the Amendment to H.R. 4137, offered by Mr. Grijalva of Arizona and Mr. Bishop of New York, commonly called the "Grijalva/Bishop Amendment."

#### **Two critical areas will be impacted by implementation of this amendment:**

##### **Eligibility:**

Eligibility for Federal funding to institutions of higher education is based upon the three (3) most recent Official Cohort Default Rate (CDR) data.

*The current official CDR rates include the following data:*

- FY 2003 CDR
- FY 2004 CDR
- FY 2005 CDR

*The two (2) criteria for loss of Federal funding, including Pell Grants and Student Loans are:*

- Three (3) consecutive CDR's over 25%
- One (1) CDR over 40%

**IMPORTANT NOTE:** Those schools with one year over 40% would immediately lose Federal funding and could be subject to closure. Most institutions serving high-risk student borrowers depend upon as much as 90% of their revenues from Federal funding. Closure would be imminent.

##### **Disbursement Benefits:**

Benefits to institutions with three (3) consecutive CDR's under 10% include:

- Waiver of 30 day delayed certification of student loans for first-time borrowers.
- Waiver of multiple disbursements for student loans.

These benefits greatly affect the cash flow for qualifying institutions.

## Impact of Estimated Increases to FY 2005 CDR Data

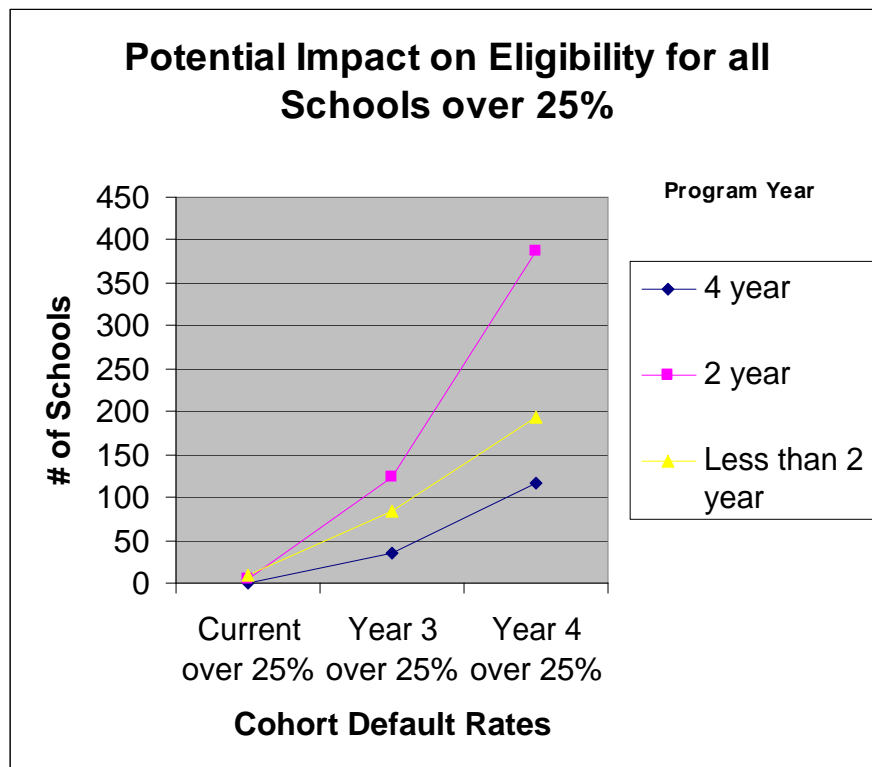
The following information is based on data collected from the National Student Loan Database System (NSLDS) for borrowers included in the sample schools' denominator of the FY 2004 Cohort Default Rate (CDR). Sample methodology and definitions are on pages 7-8 of this report.

### Potential Impact for All Institutions:

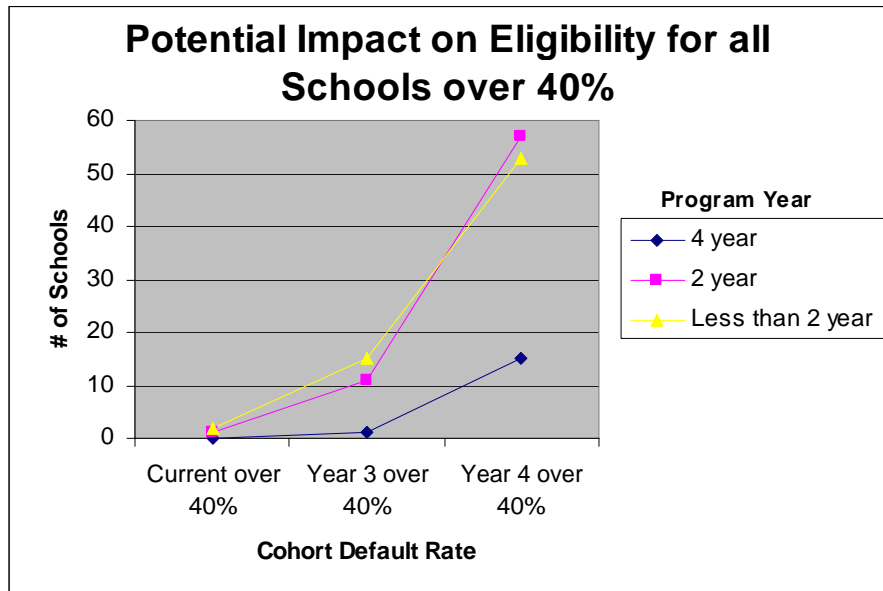
School Type	Program	CDR's Over 25%			CDR's Over 40%			Disbursement Benefits		
		Current over 25%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current over 40%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current under 10%	Intended 3 Year under 10%	Intended 4 Year under 10%
All	4 year	1	34	117	0	1	15	2075	1824	1627
All	2 year	5	124	388	1	11	57	1152	555	383
All	Less than 2 year	10	84	193	2	15	53	719	455	339
<b>Totals</b>	<b>4680</b>	16	242	698	3	27	125	3946	2834	2349

### Eligibility for All Institutions:

The estimated FY 2005 CDR Data for all eligible schools (4680 main locations) with default rates over 25% would change as follows:

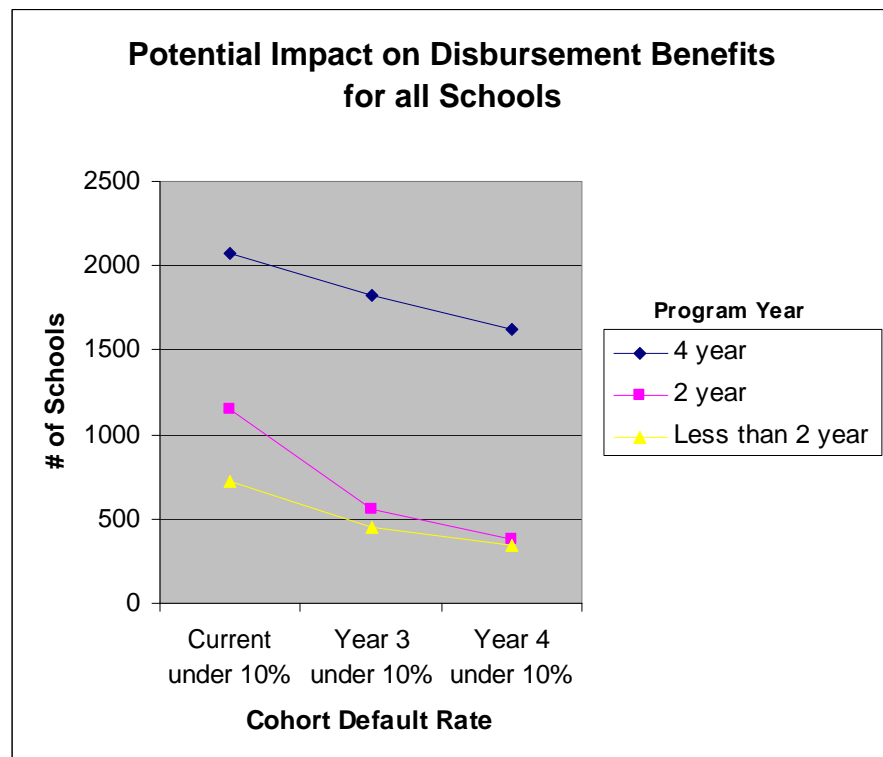


The estimated FY 2005 CDR Data for all eligible schools with default rates over 40% would change as follows:



### Disbursement Benefits for All Institutions:

The estimated FY 2005 CDR Data for all eligible schools (4680 main locations) with default rates under 10% would change as follows:



## Potential Impact for Public Institutions

School Type	Program	CDR's Over 25%			CDR's Over 40%			Disbursement Benefits		
		Current over 25%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current over 40%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current under 10%	Intended 3 Year under 10%	Intended 4 Year under 10%
Public	4 year	0	3	30	0	0	0	554	467	403
Public	2 year	1	48	197	0	3	19	631	246	146
Public	Less than 2 year	0	2	10	0	0	1	125	81	60
<b>Totals</b>	<b>1562</b>	<b>1</b>	<b>53</b>	<b>237</b>	<b>0</b>	<b>3</b>	<b>20</b>	<b>1310</b>	<b>794</b>	<b>609</b>

### Eligibility for Public Institutions:

The estimated FY 2005 CDR Data for public schools with default rates over 25% would change as follows:

- FY 2005 Official 2 Year CDR – Over 25%: 1
- **FY 2005 Intended 3 Year CDR – Over 25%: 53**
- FY 2005 Amended 4 Year CDR – Over 25%: 237

The estimated FY 2005 CDR Data for public schools with default rates over 40% would change as follows:

- FY 2005 Official 2 Year CDR – Over 40%: 0
- **FY 2005 Intended 3 Year CDR – Over 40%: 3**
- FY 2005 Amended 4 Year CDR – Over 40%: 20

### Disbursement Benefits for Public Institutions:

The estimated FY 2005 CDR Data for public schools with default rates under 10% would change as follows:

- FY 2005 Official 2 Year CDR – Under 10%: 1310
- **FY 2005 Intended 3 Year CDR – Under 10%: 794 (516 institutions may lose this benefit)**
- FY 2005 Amended 4 Year CDR – Under 10%: 609 (701 institutions may lose this benefit)

**Potential Impact for Private Schools:**

School Type	Program	CDR's Over 25%			CDR's Over 40%			Disbursement Benefits		
		Current over 25%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current over 40%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current under 10%	Intended 3 Year under 10%	Intended 4 Year under 10%
Private	4 year	1	15	39	0	1	9	1358	1260	1155
Private	2 year	0	6	19	0	0	2	142	110	95
Private	Less than 2 year	0	5	9	0	0	3	28	22	18
<b>Totals</b>	<b>1603</b>	<b>1</b>	<b>26</b>	<b>67</b>	<b>0</b>	<b>1</b>	<b>14</b>	<b>1528</b>	<b>1392</b>	<b>1268</b>

**Eligibility for Private Institutions:**

*The estimated FY 2005 CDR Data for private schools with default rates over 25% would change as follows:*

- FY 2005 Official 2 Year CDR – Over 25%: 1
- **FY 2005 Intended 3 Year CDR – Over 25%: 26**
- FY 2005 Amended 4 Year CDR – Over 25%: 67

*The estimated FY 2005 CDR Data for private schools with default rates over 40% would change as follows:*

- FY 2005 Official 2 Year CDR – Over 40%: 0
- **FY 2005 Intended 3 Year CDR – Over 40%: 1**
- FY 2005 Amended 4 Year CDR – Over 40%: 14

**Disbursement Benefits for Private Institutions:**

The estimated FY 2005 CDR Data for private schools with default rates under 10% would change as follows:

- FY 2005 Official 2 Year CDR – Under 10%: 1528
- **FY 2005 Intended 3 Year CDR – Under 10%: 1392 (136 institutions may lose this benefit)**
- FY 2005 Amended 4 Year CDR – Under 10%: 1268 (260 institutions may lose this benefit)

## Potential Impact for Proprietary Schools:

School Type	Program	CDR's Over 25%			CDR's Over 40%			Disbursement Benefits		
		Current over 25%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current over 40%	Intended 3 Year over 25%	Amended 4 Year over 25%	Current under 10%	Intended 3 Year under 10%	Intended 4 Year under 10%
Proprietary	4 year	0	16	48	0	0	6	163	97	69
Proprietary	2 year	4	70	172	1	8	36	379	199	142
Proprietary	Less than 2 year	10	77	174	2	15	49	566	352	261
<b>Totals</b>	<b>1515</b>	14	163	394	3	23	91	1108	648	472

### Eligibility for Proprietary Institutions:

The estimated FY 2005 CDR Data for proprietary schools with default rates over 25% would change as follows:

- o FY 2005 Official 2 Year CDR – Over 25%: 14
- o **FY 2005 Intended 3 Year CDR – Over 25%: 163**
- o FY 2005 Amended 4 Year CDR – Over 25%: 394

The estimated FY 2005 CDR Data for proprietary schools with default rates over 40% would change as follows:

- o FY 2005 Official 2 Year CDR – Over 40%: 3
- o **FY 2005 Intended 3 Year CDR – Over 40%: 23**
- o FY 2005 Amended 4 Year CDR – Over 40%: 91

### Disbursement Benefits for Proprietary Institutions:

The estimated FY 2005 CDR Data for proprietary schools with default rates under 10% would change as follows:

- o FY 2005 Official 2 Year CDR – Under 10%: 1108
- o **FY 2005 Intended 3 Year CDR – Under 10%: 648 (460 institutions may lose this benefit)**
- o FY 2005 Amended 4 Year CDR – Under 10%: 472 (626 institutions may lose this benefit)

## Analysis of the FY 2004 Cohort Default Rate Sample Data

The following information is based on data collected from the National Student Loan Database System (NSLDS) for borrowers included in the sample schools' denominator of the FY 2004 Cohort Default Rate (CDR). Trends from our sample are consistent with information released from the U.S. Department of Education on November 30, 2007.

*For the security of those borrowers analyzed, detailed borrower information can not be disclosed.*

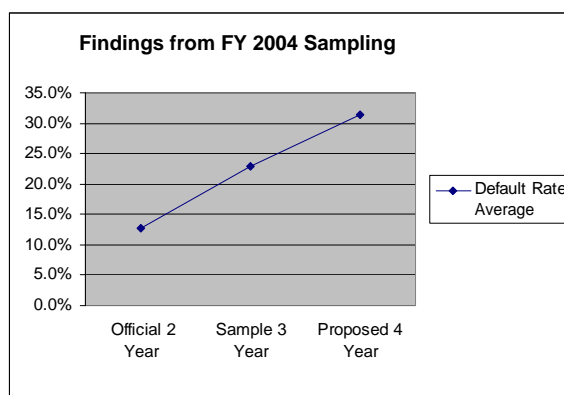
### This analysis was completed as follows:

1. A sampling of schools with a variety of geographic locations and program length were selected. Data from the FY 2004 Official Cohort Default Rates was analyzed by confirming the current status on all borrower accounts as of November 2007. This encompassed what would be the additional criteria for inclusion in the institutions' cohort default rate numerator. The data is reported for the existing 2 year definition, a 3 year definition, and the proposed 4 year definition.

Note: This sampling did not include institutions with FY 2004 CDR's under 10%.

2. The average of CDR increases for the sample described in number 1 above was applied to all reporting institutions with borrowers in the denominator (larger than 0) of the FY 2005 Official Cohort Default Rate data. An analysis of the impact of these estimated increases was made by sector and program length.
3. A conclusion of the impact for these estimated increased Cohort Default Rates was completed.

### Findings from FY 2004 Sampling:



- Official 2 Year Default Rate Average: 12.7%
- Sample 3 Year Default Rate Average: 22.9%
- Increase Rate: 1.81**
- Proposed Amended 4 Year Default Rate Average: 31.5%
- Increase Rate: 2.49**

### Sample School:

	Current Official (FFY2/FFY1)	Sample (FFY3/FFY1)	Proposed (FFY4/FFY1)
<b>CDR Rate</b>	10.0%	18.0%	25.0%
<b>Numerator</b>	10	18	25
<b>Denominator</b>	100	100	100

**Definitions Relative to the Analysis:**

- *Current Official 1 Year Denominator:* Number of borrowers who entered Repayment in the first fiscal year. FY 2004 CDR Denominator (**FFY1**) is from October 1, 2003 through September 30, 2004.
- *Current Official 2 Year Numerator:* Number of borrowers included in the first Federal fiscal year denominator who default due to non-payment before the end of the second Federal fiscal year. FY 2004 CDR Numerator (**FFY2**) is from October 1, 2003 through September 30, 2005.
- *Intended 3 Year Numerator:* Number of borrowers included in the first Federal fiscal year denominator who default due to non-payment before the end of the third Federal fiscal year. FY 2004 CDR Numerator (**FFY3**) is from October 1, 2003 through September 30, 2006.
- *Amended 4 Year Numerator:* Number of borrowers included in the first Federal fiscal year denominator who default due to non-payment before the end of the fourth Federal fiscal year. FY 2004 CDR Numerator (**FFY4**) is from October 1, 2003 through September 30, 2007.
- *Cohort Default Rate Average for Schools with Fewer than 30 Borrowers:* When a school's denominator contains fewer than 30 borrowers, a three (3) year average is used. This is calculated by adding three years' denominators and three years' numerators to calculate a CDR rate. It is not an average of the 3 relative actual CDR rates. A default rate is "Official" when there are 3 years with reported data (new schools in the student loan programs with fewer than 30 borrowers do not have an official CDR rate until they have 3 years of relative data to use in the average.)

There are 1068 reporting institutions with greater than 0 and fewer than 30 borrowers in their FY 2005 CDR.

Example:

	<b>FY 2003 Actual CDR</b>	<b>FY 2004 Actual CDR</b>	<b>FY 2005 Actual CDR</b>	<b>FY 2005 Official CDR</b>
<b>CDR Rate</b>	24.1%	30.4%	18.5%	<b>24.1%</b>
<b>Numerator</b>	7	7	5	<b>19</b>
<b>Denominator</b>	29	23	27	<b>79</b>

**Notes:**

- Those borrowers who default with properly processed death, disability, and bankruptcy dismissal claims are not counted in the numerator.
- The Cohort Default Rates include FFELP Stafford and Direct Stafford Loans. Parent loans and alternative private loans are not included.
- This analysis was completed by professional staff at Champion College Solutions, L.L.C. Estimates are based on data available and are provided to assess potential risks from the change in the Cohort Default Rate definition.

**Special Considerations:**

Please, note that all branch locations associated with the main institution are included in that main location's cohort default rate data. Official Cohort Default Rate data is not available by branch locations. The impact of these statistics is much greater than shown herein when the number of schools by branch locations is considered.

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