# COHORT DEFAULT RATES

**What is the Cohort Default Rate (CDR)?**

The cohort default rate is the percentage of a school's borrowers who enter repayment on student loans during a particular federal fiscal year (FY), October 1 to September 30, and default prior to the end of the next fiscal year. The U.S Department of Education releases official cohort default rates once per year. The FY 2004 national cohort default rate is 5.1 percent.

**How is the CDR used?**

The Department uses the cohort default rate primarily to identify and sanction colleges with extremely high default rates (over 40 percent in one year or over 25 percent in each of 3 consecutive years), and to encourage default prevention among colleges, loan companies, and guarantee agencies. Cohort default rates provide an incentive to schools to work with their borrowers to reduce defaults, therefore ensuring proper operation of the student loan programs -- protecting the interests of students and taxpayers.

**What does H.R. 4137 do to change the impact of the CDR?**

H.R. 4137 simply extends the tracking of the CDR by one year. This extension will ensure that students will continue to receive the necessary assistance and information to remain in good standing and avoid default. The change also addresses a 2003 Inspector General recommendation to make the CDR a more useful and accurate measure.

**What types of institutions will be impacted by this change in the CDR and how will students be impacted?**

All institutions will be impacted and as a result additional efforts will be made by all stakeholders to ensure that students receive information to remain in good standing and avoid defaulting on their loans.

A recent analysis conducted by the U.S. Department of Education indicates that certain segments of the higher education industry will see a greater increase in their rates as a result of changing the CDR period. As shown below, extending the CDR measurement an additional year reflects the higher number of students that have defaulted past the current two-year window and who are in need of assistance. Other provisions included in the HEA are aimed at encouraging this necessary support.

## Cohort Default Rates by Type of Institution

| INSTITUTION TYPE | OFFICIAL 2-YR RATES (HR 4137 Change) | MODELED 3-YR DEFAULT RATES (HR 4137 Change) |
|---|---|---|
| **PUBLIC** | **4.7** | **7.2** |
| Public Less Than 2 Years | 5.7 | 9.7 |
| Public 2 To 3 Years | 8.1 | 12.9 |
| Public 4 Years Or More | 3.5 | 5.3 |
| **PRIVATE** | **3** | **4.7** |
| Private Less Than 2 Years | 9 | 18.7 |
| Private 2 To 3 Years | 7.4 | 12.2 |
| Private 4 Years Or More | 2.8 | 4.5 |
| **PROPRIETARY** | **8.6** | **16.7** |
| Proprietary Less Than 2 Years | 8.9 | 18.5 |
| Proprietary 2 To 3 Years | 9.9 | 19.5 |
| Proprietary 4 Years Or More | 7.3 | 13.7 |
| **FOREIGN SCHOOLS** | **1.5** | **2.5** |
| **UNCLASSIFIED** | **5.5** | **10** |
| **TOTAL** | **5.1** | **8.6** |

Source: Department of Education. Rates are for fiscal year 2004.

### Consequences and Benefits for Cohort Default Rates.

Benefits: Institutions that have CDRs of less than 10 percent for each of the 3 most recent fiscal years may deliver or disburse, in a single installment, loans that are made for one semester or other discrete academic period. Institutions with low CDRs may also choose not to delay the first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers.

Consequences: Institutions with a CDR exceeding 40 percent in one year or 25 percent in each of three consecutive years will lose their eligibility. H.R. 4137 makes no changes to the thresholds at which institutions become ineligible to participate in federal student aid programs.

### Are institutions that exceed these thresholds automatically ineligible to participate in federal student aid programs?

Under current law and regulations, the Department of Education affords due process to institutions to ensure that a school does not lose eligibility because of data errors or because loans may have been improperly serviced by a lender.

In addition, a number of provisions exist to accommodate special circumstances that may allow institutions to continue participating in the programs even if their CDR exceeds the 40 percent and 25 percent thresholds. For example, if two-thirds of students attending an institution are low-income, and the institution has a sufficient completion or placement rate, that institution is not subject to sanctions based on CDR.

# Student Loan Defaults

## What are the consequences for borrowers who default on their loans?

Default occurs when a borrower has not made a loan payment for 270 days (9 months). The consequences of going into default are severe and can have lifelong repercussions. Borrowers who default:

- Become <u>ineligible for loan deferments, forbearances, forgiveness</u>, and other forms of payment relief.
- Are <u>ineligible for any other forms of Title IV aid</u>, including Pell grants.
- Can be <u>sued</u> by state guaranty agencies and the Department of Education for the entire amount due, and court judgments can be placed to prevent borrowers from purchasing or selling assets. Furthermore, student loans cannot, in general, be discharged in bankruptcy proceedings.
- May be subjected to <u>administrative wage garnishment</u> whereby the borrower's employer will forward a percentage of pay toward repayment of the defaulted loan.
- May have their <u>future federal and state income tax refunds seized</u> every year until the debt is paid in full.
- May be <u>denied employment</u> with a federal, state, county, city or local government, or employment with such agencies may be terminated.
- May be <u>denied professional licenses and security clearances</u> required by certain professions. Some states impose other sanctions on defaulted borrowers; in some cases, a borrower may be become ineligible for a gun license or even a license to drive.

Additionally:

- Defaulted <u>loans may become immediately due and payable in full</u> and the borrower will have to pay additional collection costs.
- Credit bureaus are notified of defaulted loans and the <u>borrower's credit rating will suffer</u>, making it impossible or difficult to obtain an auto loan, mortgage, or even credit cards. The negative default information may remain on a borrower's record for several years even after a loan is eventually repaid.
- The federal government may <u>withhold part of a defaulted borrower's Social Security benefit</u> payments and use the proceeds to repay the loan.

## What options do students have to avoid defaulting on their student loans?

Borrowers are afforded many options to assist them avoid going into default. These include:

- <u>In-school deferments</u>: borrowers who have outstanding loans and return to school can have their outstanding loans placed into deferment, whereby repayments are suspended.
- <u>Economic hardship deferments</u>: borrowers who face economic hardships can also have their loans placed into deferment. The CCRAA expanded eligibility for such deferments. Borrowers whose incomes are less than 150 percent of the poverty level for their family size qualify. These borrowers may defer loan repayments for up to 3 years.
- <u>Flexible repayment plans</u>: a number of repayment plans are available to borrowers than can assist them reduce their monthly payment amounts. In addition, the CCRAA established a

new Income-Based Repayment plan that limits a borrower's monthly payment to 15 percent of their discretionary income. Any amount unpaid after 25 years is forgiven In addition, borrowers may opt to consolidate multiple student loans into one, and can thereby reduce their monthly payments. Consolidating loans into the Income Contingent and Income Sensitive repayment plans, as well as the newly established Income Based repayment plan, can also lower monthly payments.

- Forbearance: borrowers facing temporary difficulties can have loans placed in forbearance, thereby reducing or suspending monthly payments.
- Loan rehabilitation: borrowers who default can take steps to get back onto track. By agreeing to make, and making, 9 consecutive on-time payments in a 10-month period, borrowers can rehabilitate their loans. In so doing, negative information reported to credit bureaus is removed from their records.

**What role do institutions have to assist students in avoiding default?**

Institutions play a critical role in assisting borrowers avoid the damaging consequences of default. The Department provides significant information and guidance to institutions to assist them in developing default prevention and management plans and strategies, including detailed information on the loan status of an institution's current and former borrowers. Education makes available on its website additional default prevention management tools and guidance for institutions, including a model default prevention and management plan.

In addition, institutions can ensure they have up-to-date contact information for its students and are providing essential loan counseling to students. A recent analysis by the Department of Education showed that 71 percent of defaulting students had withdrawn before completing their studies and that 56 percent had "bad" phone numbers recorded in their files.

State guaranty agencies, which receive federal funding to assist in administering federal student loan programs, are another resource for institutions. These agencies have also developed default prevention programs and guidance that schools can adopt to minimize student defaults. Some agencies have even provided grants to schools to develop and identify best practices with respect to default prevention. In addition, some institutions contract with third-party service providers to develop and implement default prevention activities.

**H.R. 4137 includes additional provisions to ensure that students are better informed about their options prior to going into default.** For example, the bill requires:

- State guaranty agencies to develop enhanced financial literacy programs to assist students and their families identify optimal strategies for paying postsecondary costs.
- Institutions to provide enhanced loan counseling to students. For example, institutions will be required to inform students of how much their student loan monthly payments will be based on the amount of their loans
- Institutions to inform students of the typical entry level salaries for those who complete their educational programs. In so doing, students will receive critical information that will allow them to determine whether they can anticipate earning salaries that will be sufficient to make their monthly student loan payments.

# FY 2004 CDR: Cohort Default Rates and Modeled 3-Year Default Periods

| | Total # of Schools | > 10% in Official | % total | > 10% in 3 Yr | % total | >= 25% in Official | % total | >= 25% in 3yr | % total | > 40% in Official | % total | > 40% in 3yr | % total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Public** | **1,647** | **277** | **16.82%** | **721** | **43.78%** | **12** | **0.73%** | **41** | **2.49%** | **7** | **0.43%** | **10** | **0.61%** |
| Less than 2 yrs | 153 | 20 | 13.07% | 54 | 35.29% | 1 | 0.65% | 6 | 3.92% | 1 | 0.65% | 0 | 0.00% |
| 2-3 yrs | 889 | 220 | 24.75% | 563 | 63.33% | 9 | 1.01% | 29 | 3.26% | 6 | 0.67% | 6 | 0.67% |
| 4yrs(+) | 605 | 37 | 6.12% | 104 | 17.19% | 2 | 0.33% | 6 | 0.99% | 0 | 0.00% | 4 | 0.66% |
| **Private** | **1,790** | **91** | **5.08%** | **226** | **12.63%** | **15** | **0.84%** | **51** | **2.85%** | **8** | **0.45%** | **19** | **1.06%** |
| Less than 2 yrs | 55 | 7 | 12.73% | 20 | 36.36% | 1 | 1.82% | 7 | 12.73% | 0 | 0.00% | 2 | 3.64% |
| 2-3 yrs | 233 | 30 | 12.88% | 60 | 25.75% | 10 | 4.29% | 18 | 7.73% | 7 | 3.00% | 10 | 4.29% |
| 4yrs(+) | 1,502 | 54 | 3.60% | 146 | 9.72% | 4 | 0.27% | 26 | 1.73% | 1 | 0.07% | 7 | 0.47% |
| **Proprietary** | **1,963** | **473** | **24.10%** | **1,166** | **59.40%** | **39** | **1.99%** | **253** | **12.89%** | **20** | **1.02%** | **42** | **2.14%** |
| Less than 2 yrs | 1,046 | 205 | 19.60% | 516 | 49.33% | 26 | 2.49% | 115 | 10.99% | 12 | 1.15% | 29 | 2.77% |
| 2-3 yrs | 697 | 215 | 30.85% | 486 | 69.73% | 11 | 1.58% | 113 | 16.21% | 6 | 0.86% | 12 | 1.72% |
| 4 yrs(+) | 220 | 53 | 24.09% | 164 | 74.55% | 2 | 0.91% | 25 | 11.36% | 2 | 0.91% | 1 | 0.45% |
| **Foreign** | **434** | **27** | **6.22%** | **46** | **10.60%** | **18** | **4.15%** | **26** | **5.99%** | **11** | **2.53%** | **14** | **3.23%** |
| **TOTAL** | **5,834** | **868** | **14.88%** | **2,159** | **37.01%** | **84** | **1.44%** | **371** | **6.36%** | **46** | **0.79%** | **85** | **1.46%** |

| | Total # of Schools | > 10% in Official | % total | > 10% in 3 Yr | % total | >= 25% in Official | % total | >= 25% in 3yr | % total | > 40% in Official | % total | > 40% in 3yr | % total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **HBCUs** | **91** | **36** | **39.56%** | **68** | **74.73%** | **0** | **0.00%** | **11** | **12.09%** | **0** | **0.00%** | **0** | **0.00%** |
| **HSIs** | **148** | **28** | **18.92%** | **76** | **51.35%** | **0** | **0.00%** | **2** | **1.35%** | **0** | **0.00%** | **0** | **0.00%** |
| **Tribal colleges** | **4** | **1** | **25.00%** | **3** | **75.00%** | **0** | **0.00%** | **0** | **0.00%** | **0** | **0.00%** | **0** | **0.00%** |

U.S. Department of Education. Source of Total # of Schools: FY 2004 Official CDR data. Source of data for 3-year CDR modeling: NSLDS, run 12/18/07.
The school counts only include schools that had at least one borrower enter repayment during FY 2004. For example, some HBCUs, HSIs and tribal colleges had zero borrowers enter repayment during FY 2004.

**Descriptors are literal:** ">10%" includes the schools with rates greater than 25%, which in turn includes the schools with rates greater than 40%. Thus, ">10%" includes the schools with rates greater than 40%.

**Please Note:**

1. > 25 % and > 40% in official rates may include changes dues to mergers and acquistions and appeals not reflected in the CDR FY 04 published in September 2006.
2. Schools may not be subject to sanction related to the CDR FY 04 published rate due to the following reasons: (however they will appear in this exercise)
   a. At least 2 of the school's 3 most recent CDR average less than 25%
   b. 30 or fewer borrowers entered repayment during the 3 most recent current CDR