Cohort Default Rates: Examining the High-Risk Profile

By Mary Lyn Hammer

Debate over high cohort default rates has centered on institution types versus borrower profiles. Traditional education takes the stand that higher default rates at proprietary institutions who serve high-risk borrowers is a reflection of quality of education. Proprietary schools take the stand that a high-risk borrower is the same regardless of the institution attended. This debate between sector-based thinking and borrower-based thinking has been the basis for legislation and federal regulations.

Based on the FY 2007 CDR data, the schools with potential risk of loss of eligibility are:

- ***40.1 percent proprietary colleges***
- ***45.4 percent community colleges***
- ***64.6 percent HBCUs***

The following is a closer look at the data from the National Student Loan Database System (NSLDS). The FY 2007 cohort default rate (CDR) data confirms that high-risk students have similar impact on cohort default rates in every sector of higher education, including public, private, and proprietary institutions.

For the purpose of this analysis, data for proprietary institutions as a sector has been compared to data for Community Colleges and Historically Black Colleges and Universities (HBCU). The Community Colleges and HBCUs are in both the public and private institution data and are designated under these subcategories by statute.

In December 2008, the U.S. Department of Education released statistics on the impact of the three-year cohort default rate definition on institutions. Their estimate for high-risk servicing institutions (proprietary schools) was that default rates would increase 94 percent. When the impact of the bad economy is added to the calculation, doubling default rates is most likely a very conservative estimate.

The data in this analysis has been broken down into categories based on the following theories:

- Schools with CDRs above 13 percent are most likely be at risk of losing eligibility
- Schools with CDRs from 10–12.9 percent may also be at risk of losing eligibility
- Schools with CDRs from 6–9.9 percent are most likely be at risk of losing disbursement benefits

Breakout of High-Risk by Schools	13%+	10–12.9%	Over 10%	6–9.9%	0–5.9%	Total
Proprietary	425	237	662	266	723	**1651**
	25.7%	*14.4%*	*40.1%*	*16.1%*	*43.8%*	
Community Colleges	188	236	424	206	303	**933**
	20.2%	*25.3%*	*45.4%*	*22.1%*	*32.5%*	
HBCU	35	27	62	14	20	**96**
	36.5%	*28.1%*	*64.6%*	*14.6%*	*20.8%*	
TOTAL HIGH-RISK BY SCHOOLS	**648**	**500**	1148	**486**	**1046**	**2680**
	24.2%	*18.7%*	*42.8%*	*18.1%*	*39.0%*	

Breakout of High-Risk by Borrowers	13%+	10–12.9%	Over 10%	6–9.9%	0–5.9%	Total
Proprietary	260294	160613	420907	259530	177495	**857932**
	30.3%	*18.7%*	*49.1%*	*30.3%*	*20.7%*	
Community Colleges	109110	168559	277669	129988	109358	**517015**
	21.1%	*32.6%*	*53.7%*	*25.1%*	*21.2%*	
HBCU	26927	28105	55032	19938	9231	**84201**
	32.0%	*33.4%*	*65.4%*	*23.7%*	*11.0%*	
TOTAL HIGH-RISK BY BORROWERS	**396331**	**357277**	753608	**409456**	**296084**	**1459148**
	27.2%	*24.5%*	*51.6%*	*28.1%*	*20.3%*	

- Schools with CDRs under 5.9 percent will most likely have little to no impact

The focus of this analysis is on those schools that may lose eligibility. The combination of the new CDR definition and the economy has led the focus to those institutions over 10 percent.

Based on the FY 2007 CDR data, the schools with potential risk of loss of eligibility are:

- 40.1 percent proprietary colleges
- 45.4 percent community colleges
- 64.6 percent HBCUs

Based on the FY 2007 CDR data, the students affected by potential risk of loss of eligibility are:

- 49.1 percent proprietary colleges
- 53.7 percent community colleges
- 65.4 percent HBCUs

As demonstrated, proprietary institutions have the lowest percent of both institutions and borrowers who are at risk of losing eligibility. The data is impressive enough to be considered validation of the theory that these lower percentages better reflect that proprietary institutions have a higher success rate for default prevention and this success better represents the higher quality of education that the proprietary institutions deliver.

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Additional analysis shows data supporting the success of high-risk borrowers enrolled in short-term programs. This rivals traditional opinions that short-term programs are of lesser quality than longer, traditional programs.

Within the proprietary school data, the following patterns have emerged:

- 33.0 percent programs less than 2 years
- 48.9 percent programs 2+ years
- 41.8 percent programs 4+ years

The bottom line of all of this data:

- Cohort default rates are more closely related to the type of borrower enrolled than to the type of institution

Breakout of Proprietary by Schools		13%+	10–12.9%	Over 10%	6–9.9%	0–5.9%	Total
Proprietary 4+years		45	54	99	53	85	237
		19.0%	22.8%	41.8%	22.4%	35.9%	
Proprietary 2+years		225	71	296	99	210	605
		37.2%	11.7%	48.9%	16.4%	34.7%	
Proprietary less than 2 years		155	112	267	114	428	809
		19.2%	13.8%	33.0%	14.1%	52.9%	
TOTAL PROPRIETARY BY SCHOOLS		425	237	662	266	723	1651
		25.7%	14.4%	40.1%	16.1%	43.8%	

- Proprietary, for-profit institutions offer comparable or better quality of education when that measurement is based solely upon cohort default rate data

Lawmakers, in the past, have acknowledged that certain high-risk institutions face higher cohort default rates, but not high-risk student serving institutions as a whole. Historically Black Colleges and Universities (HBCUs), Tribally Controlled Community Colleges (TCCs), and Navajo Community Colleges were eligible for relief from the consequences of cohort default rates on their ability to participate in Title IV *HEA* programs, as defined in the regulations under 34 CFR 668.198, until the exemption expired on June 30, 2004. Beginning with the official FY 2002 cohort default rate, these schools were subject to the same cohort default rate sanctions as any other institutions.

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Our hopes for the future are that the focus will change from a battle between institution types that serve high-risk students to the students themselves. By spending our time and energy on helping high-risk students successfully complete their education or training and become independent, financially-literate members of our workforce, we can restore the sound future of our country.

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