FY 2008 Trial 3-year Cohort Default Rates:
Questioning the Validity of the Information

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Higher education institutions compete on a regular basis for certain education opportunities. Recent events have made many wonder, "What is going on here?"

The FY 2008 Trial 3-year Cohort Default Rates (CDR) were released on Friday, February 4, 2011, to the institutions who are named in the data. What some may not know is that the information was given to the press the day before it was given to the schools with the caveat that the information not be publicly released until after 12:00am on Friday. This allowed press releases and news stories to hit the presses and be publicly released without giving schools a chance to prepare any kind of response. Most would view this as an unfair tactic as it aggravated a negative public opinion of certain institutions.

Additionally, there are still points of contention over the public release of data that has not gone through the same appeal processes that schools are entitled to prior to the release of the default rates which are used to determine eligibility. Appealing incorrect data has been a right of the schools ever since they were held accountable for the default rates. With the 3-year trial data, schools are not given the right to appeal. All parties to the loans know that inaccurate data exists and is being released and subject to public scrutiny. The public, however, may not understand the full impact that the disclosures represent when they say the data may not be accurate.

Contrary to a statement made to reporters in a briefing on Thursday, February 3rd, where department officials said loan-servicing issues did not have a significant effect on the rates, the adverse affects of students having multiple loans with multiple servicers and payments are very real.

Challenges that most borrowers are currently experiencing include:

- Higher loan balances because of legislative increases in loan availability that schools have no authority to discourage
- Multiple loan programs, lenders, and servicers
- Multiple payments that are hard to manage
- Multiple forms needed to cure delinquencies

- Decline in the quality of loan servicing
- Bad economy
- Skip borrowers not located through traditional methods of skip tracing
- Transition from FFELP to Direct Loans
- Delinquent PUT loans resulting from loan transfer time with inconsistent or lesser quality of servicing has adversely affected default rates on student loans made on or after October 1, 2007

  (PUT loans are those purchased by the Department of Education from FFELP loan holders.)
- Complications that may arise should Gainful Employment rules become reality.

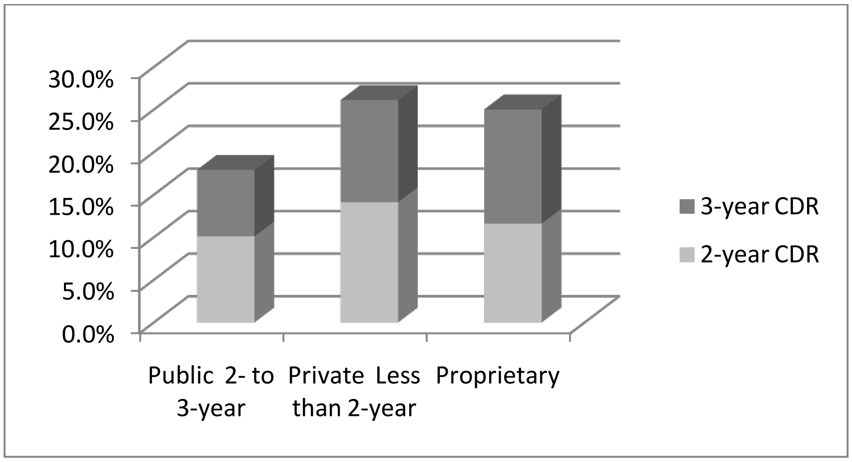
These challenges have already adversely affected CDR's and will continue to fuel increases in the future. Cohort default rates are measured by borrower counts, not loan counts, so if any one (1) of several loans goes into default, it is a default for the student and the school.

Please, note that the PUT loans are those made on or after October 1, 2007 and the loans included in the FY 2008 CDR are those loans that enter repayment between October 1, 2007 and September 30, 2008. These transferred loans, some of which have been transferred numerous times, are a challenge to service and a challenge to manage for the students. Multiple loans requiring multiple payments and forms to stay current are especially challenging to those students who have little to no experience with credit.

Regardless of the denial in Washington that Cohort Default Rates are tied to a high-risk student profile, not an institution type, data shows that there is similarity in like-serving institutions. The following chart shows the ranking of the top five school types for the highest percent of increase in the 3-year CDR Rates. As officials have stated, many community colleges serve a small number of students which can artificially inflate default rates because each defaulted borrower represents several percentage points in the rate. This statement is also true of many for-profit institutions.

Official 2008 Trial 3-year CDR Rates					
Institution Description	*2-year CDR*	*3-year CDR*	*Absolute Change*	*% of Change*	*Increase Ranking*
Proprietary Less than 2-year	12.4%	27.6%	15.2%	122.6%	1
Proprietary 2- to 3-year	12.6%	27.9%	15.3%	121.4%	2
Public Less than 2-year	6.7%	14.7%	8.0%	119.4%	3
Proprietary 4-year or more	10.9%	22.7%	11.8%	108.3%	4
Private 2- to 3-year	8.2%	16.7%	8.5%	103.7%	5
TOTAL ALL INSTITUTIONS	**6.7%**	**13.8%**	**7.1%**	**106.0%**	

The comparison of the highest actual rates also shows similarities between like-servicing institutions. The highest default rates exist for private colleges with programs less than two (2) years in length.



Unfortunately, the validity of the data has not been considered, although it has been disclosed. Public opinion from Americans who do not know the details of the higher education business is negatively impacted by the way in which the information is released and the spin reporters put on the story to sensationalize the information. The truth is that simply looking at trial data does not tell the real story.

Official 2008 Trial 3-year CDR Rates					
	2-year CDR	***3-year CDR***	***Absolute Change***	***% of Change***	***Increase Ranking***
Public	**6.0%**	**10.8%**	**4.8%**	**80.0%**	**3**
Less than 2-year	6.7%	14.7%	8.0%	119.4%	3
2- to 3-year	10.1%	17.9%	7.8%	77.2%	9
4-year or more	4.4%	7.9%	3.5%	79.5%	8
Private	**4.0%**	**7.6%**	**3.6%**	**90.0%**	**2**
Less than 2-year	14.1%	26.1%	12.0%	85.1%	7
2- to 3-year	8.2%	16.7%	8.5%	103.7%	5
4-year or more	3.8%	7.3%	3.5%	92.1%	6
Proprietary	**11.6%**	**25.0%**	**13.4%**	**115.5%**	**1**
Less than 2-year	12.4%	27.6%	15.2%	122.6%	1
2- to 3-year	12.6%	27.9%	15.3%	121.4%	2
4-year or more	10.9%	22.7%	11.8%	108.3%	4
TOTAL	**6.7%**	**13.8%**	**7.1%**	**106.0%**	

The story is centered in America and based on freedom and opportunity. It is a story that began with the Higher Education Act of 1965 where student loan and grant programs were written so that those who are less fortunate in our country could have a chance to get training beyond high school and find opportunity in the work place. Higher education used to be a choice for the student and was a vehicle for making dreams come true.

Through budget cuts and politics, this dream is dissipating. Those who need training the most, those on welfare and food stamps who what to change their lives and become working members of our society, are being cut from the programs through the processes that we as Americans are allowing to happen.

The fact remains that the majority of minority students served are better off after their education experience than before it. The proprietary education arena historically shows, “that which doesn’t kill us makes us stronger.” Have faith that our amazing and dedicated proprietary higher education leaders will develop programs that are stronger and better than those before them. And … we will survive!

Tips for Making a Student Loan Champion…

Make Students Responsible for Their Own Realities!

Successful default prevention and higher repayment rates lies in student accountability. Consider the following factors to reach the accountability level needed for low default rates and high repayment rates:

- Master promissory notes and electronic processes have had unintended consequences by taking the responsibilities out of the borrowers’ hands.
- Get the students involved in the responsibilities:
  - Individual Entrance Interviews
  - Check Disbursement Acknowledgements
  - Individual Exit Interviews
  - Address and enrollment updates
- Use every opportunity you can during and after enrollment to encourage interest payments during deferments and forbearances.
- Encourage payments first. If the borrower can’t make full payments, encourage them to pay the accruing interest at a minimum. You cannot require them to do so, but you can encourage the payments.
- Repeat the basics MANY times.
- Put complicated details in writing.

- Have every borrower with prior loans bring the loans current before starting school.
- If the borrower is in default, have them fully rehabilitate the loan before starting school.
    - 9 on-time payments within10 months
    - Paid-in-Full
    - Rehabilitated through Consolidation
    - *Getting a new loan after 6 on-time payments does not rehabilitate the loans for the student or for the school!*
    - Have every borrower sign an In-school Deferment when starting school and when there is a change in their anticipated graduation date.
- Have students sign Change of Address Forms for the lenders, servicers, and guarantors.

Communications with potential, current, and past students is based on your ability to contact them. You can't help those students who you can't find. Because skip tracing has become a manual process, the following suggestions may help you locate them to ensure necessary communications:

- Collect at least 6 different references
- Verify the references before disbursing funds
- Mail grades and other pertinent information
- Send out graduation announcements to "references" collected before graduation
- Collect the graduation announcement information through your teachers or student services, not through financial aid

There is no one miracle for successful management of cohort default rates. Proactive default management is an investment. Reactive default management is a consequence. A combination of many different techniques and procedures for default prevention produces more effective results. *If there is any question about what to do right now … do more.*

Footnote: *Data used for this article was publicly released and extracted from the National Student Loan Database System (NSLDS).*

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