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## RGM Memo

Date: February 28, 2014
To: School Owners and Financial Aid Personnel
RE: Impact of Cohort Default Rates on Title IV Institutions

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Please read the following Dear Colleague Letter we copied for you on this RGM Memo on the Impact of Cohort Default Rates on your Institution.
There are two attachments at the end of the DCL you can copy and paste to your browser.
Here is the link to the complete DCL with the attachments.
http://ifap.ed.gov/dpcletters/GEN1403.html

Thank you,
Rafael

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Publication Date: February 27, 2014

DCL ID: GEN-14-03

Subject: Impact of Cohort Default Rates on Institutional Title IV Program Eligibility

Summary: This letter summarizes information on the calculation of an institution's cohort default rates and the regulatory provisions that are available to eliminate or lessen the impact of high cohort default rates.

Dear Colleague:

This letter provides important information to institutions about the consequences of high cohort default rates calculated for the William D. Ford Direct Loan (Direct Loan) and Federal Family Education Loan (FFEL) programs and the regulatory provisions available, under certain circumstances, to institutions to mitigate those consequences. We also provide information on the importance of institutions providing continued student access to the Title IV student loan programs.

We present this information in the following sections:

- Continued Access to Federal Student Loans
- Cohort Default Rate Calculations
- Consequences of High Cohort Default Rates
- Challenges, Adjustments, and Appeals of Cohort Default Rates and Sanctions

Continued Access to Federal Student Loans

We remind institutions of the importance of providing their students with access to low-cost Federal student loans. Many students could not afford to attend even low-cost colleges if it were not for the support provided by the Direct Loan Program. Access to federal student financial aid, including low-cost Federal student loans, increases the likelihood that students will have the financial resources to successfully complete the postsecondary education needed to build a better future for themselves, their families, and their communities.

We encourage institutions to provide access to the full range of student financial aid options available that enable millions of students to enroll and succeed in college. This includes helping students understand the advantages of the Federal student loan programs, as compared to private student loan programs.

In addition, as discussed later in this letter, we remind institutions that a decision to stop participating in the Direct Loan Program does not eliminate the possibility that the institution will lose eligibility to participate in the Pell Grant Program because of sanctions triggered by high cohort default rates. To assist institutions we have provided later in this letter a special discussion of the Participation Rate Index Challenge and the Participation Rate Index Appeal available to institutions. We have found that they can provide sanction relief to institutions with low percentages of their students borrowing Federal student loans.

Cohort Default Rate Calculations

In general, the Department calculates an institution's cohort default rate by first identifying students who received Direct Loans and/or FFEL loans for attendance at the institution and who entered repayment on those loans during a particular Federal fiscal year (October 1 through September 30). The default rate is the percentage of those borrowers who defaulted on one or more of those loans before the end of the second following FFY. Cohort default rates include only borrowers who received FFEL and Direct Loans for attendance at the institution. The calculation does not include PLUS Loans and loans made under the Federal Perkins Loan Program, which has its own cohort default rate calculations and consequences.

Specifically, a cohort default rate for a particular Federal fiscal year (FFY) is a fraction that has as its denominator the total number of borrowers who received a Direct Loan or a FFEL loan for attendance at the institution and who entered repayment on one or more of those loans during that FFY. Generally, a borrower enters repayment six months after he or she is no longer enrolled on at least a half-time basis. Borrowers who are in repayment include those who are required to be making payments as well as those whose loans are in a forbearance or deferment status.

The numerator of the cohort default rate fraction is the number of the borrowers in the denominator who defaulted on one or more of the loans by the end of the second following FFY. This means that there is a three-fiscal year monitoring period for determining an institution's cohort default rate.

For example, the FFY 2011 cohort default rate includes in the denominator borrowers who entered repayment during FFY 2011 (between October 1, 2010 and September 30, 2011). The numerator is the number of those borrowers who defaulted before September 30, 2013, the end of the second FFY following FFY 2011.

Draft cohort default rates are generally released to institutions during February of the year following the end of the three-fiscal year monitoring period with official rates released the following September. For example, FFY 2011 draft cohort default rates were released in February of 2014 and official rates will be released in September of 2014.

Consequences of High Cohort Default Rates

Section 435 of the Higher Education Act (HEA) and the implementing regulations in Subpart N of the *Student Assistance General Provisions* specify the sanctions for an institution with high cohort default rates. In general, these sanctions are:

- Cohort default rate of greater than 40 percent for any one year – Institution loses eligibility to participate in the Direct Loan Program.
- Cohort default rate of 30 percent or more for any one year – Institution must create a default prevention taskforce that will develop and implement a plan to address the institution's high cohort default rate. That plan must be submitted to the Department for review.
- Cohort default rates of 30 percent or more for two consecutive years – Institution must submit to the Department a revised default prevention plan and may be placed on provisional certification [see 34 CFR 668.13 for the impact to an institution of being placed on provisional certification].
- Cohort default rates of 30 percent or more for the three consecutive years – Institution loses eligibility to participate in both the Direct Loan Program and in the Federal Pell Grant Program.

IMPORTANT NOTE: An institution's decision to stop participating in the Direct Loan Program does not eliminate the possibility that it will lose eligibility to participate in the Pell Grant Program. This is because the calculation of institutional cohort default rates, and possible consequences of high cohort default rates, continue until there are no more of the institution's former students entering repayment on their Direct Loan or FFEL loans taken for attendance at the institution. This could be for a considerable amount of time if the last cohort of the institution's borrowers continues in an in-school status (either at the same institution or at another institution) for several years. However, as the number of borrowers in a cohort decreases, institutions might qualify to appeal loss of eligibility under the Average Rates Appeal or the Thirty-or-Fewer Borrowers Appeal, both of which are discussed in detail in Attachment A to this letter.

Challenges, Adjustments, and Appeals of Cohort Default Rates and Sanctions

The HEA and the regulations include provisions that allow an institution to submit challenges to the data used in the calculation of its draft cohort default rate or to request an adjustment to its official cohort default rate. There are also a number of appeals to an institution's possible loss of Direct Loan and Pell Grant eligibility from sanctions due to high cohort default rates.

It is important for institutions to understand that under the law and regulations, these challenges, requests for adjustments, and appeals are evaluated solely on objective criteria. Therefore, the success or failure of an institution's challenge, request for adjustment, or appeal depends strictly on objective data and not on a subjective determination by the Department of the merits of the challenge, request, or appeal.

In Attachment A we have provided a summary of each of the cohort default rate challenges, requests for adjustments, and appeals available to institutions. However, it is very important that institutions review the detailed information provided in the Department's *Cohort Default Rate Guide*, available on our Information for Financial Aid Professionals (IFAP) website at www.ifap.ed.gov/DefaultManagement/finalcdrg.html for official descriptions, requirements, and submission deadlines, as the procedural requirements are strictly regulated under subpart N of Part 668 of the *Student Assistance General Provisions regulations*.

Following is a discussion of the Participation Rate Index Challenge and the Participation Rate Index Appeal because we have found that they can provide sanction relief to institutions with low percentages of their students taking out Federal student loans. We believe that the availability of the Participation Rate Index Challenge and Participation Rate Index Appeal could mitigate some institutions' consideration of withdrawing from the Direct Loan Program due to sanctions triggered by high cohort default rates.

An institution may avoid a sanction due to high cohort default rates if it satisfies the requirements for a Participation Rate Index Challenge or a Participation Rate Index Appeal for any of the years supporting the sanction, generally three consecutive years. Except for the timing for submitting the challenge or appeal, a Participation Rate Index Challenge and a Participation Rate Index Appeal are the same process. A Participation Rate Index Challenge can be filed *upon the institution receiving a draft cohort default rate* that, along with its official rates from the two prior years, could result in a loss of eligibility upon issuance of the official rate.

In contrast, a Participation Rate Index Appeal can be filed *upon the institution receiving an official cohort default rate* that, along with its official rates from the two prior years, could result in a loss of eligibility.

To satisfy the requirements for either a Participation Rate Index Challenge or a Participation Rate Index Appeal, the institution must have a *participation rate index* at or below a mandated minimum. *A participation rate index* is the product of multiplying the institution's *cohort default rate* by its *Federal student loan participation percentage*. Generally, an institution's *Federal student loan participation percentage* is the percentage of the institution's students who were enrolled half-time or more who received a Direct or FFEL loan. The regulations provide institutions with flexibility in determining the timeframe to use for the calculation of its *Federal student loan participation percentage*.

The *participation rate index* minimums are 0.0625 for a possible loss of eligibility due to three years of cohort default rates of 30 percent or more and 0.0832 for a possible loss of eligibility due to one year of a cohort default rate of greater than 40 percent. An institution that is successful in its Participation Rate Challenge for a specific year's cohort default rate will not need to submit a Participation Rate Appeal for the same year's rate to address a possible loss of eligibility when official rates are released later in the year.

As a guide, an institution with a cohort default rate of between 30 percent and 35 percent would satisfy the Participation Rate Index Challenge if its *Federal student loan participation percentage* was 17.8 percent or less. An institution with a default rate of between 35 percent and 40 percent would satisfy the Participation Rate Index Challenge if its *Federal student loan participation percentage* was 15.6 percent or less. Attachment B to this letter is a chart providing the maximum *Federal student loan participation percentage* for other cohort default rates.

If after reviewing the information in the *Cohort Default Rate Guide*, you have questions on either the calculation of cohort default rates or on the available challenges, requests for adjustments, or appeals, please contact us by email at: fsa.schools.default.management@ed.gov.

Sincerely,

Jeff Baker
Federal Student Aid
U.S. Department of Education