



USA Funds University

Cohort Default Rates

NJASFAA 2009 Fall Conference
Nov. 10, 2009

Special Note

This publication is for the benefit of financial aid administrators. It is intended to provide current information and is not intended to be legal advice. This manual contains material related to Federal Title IV student aid programs. This manual has neither been reviewed nor approved by the U.S. Department of Education. USA Funds® disclaims all responsibility for any claim arising from reliance on the information provided.

© Copyright 2009 United Student Aid Funds, Inc. All Rights Reserved.

Questions regarding the content of this publication should be addressed to USA Funds University (M482), 11100 USA Parkway, Fishers, Indiana 46037 or by calling (317) 595-1411.

Cohort Default Rates

Cohort default rates are a reflection of whether or not borrowers of federal education loans are successfully repaying their loans. Each year, the U.S. Department of Education announces the publication of updated cohort default rates for certain Federal Family Education Loan and Direct Loan programs. Every school, lender and guarantor has access to the results of this annual analysis. ED maintains an online searchable default rate database of all Title IV eligible schools, available to the public at www.ed.gov/FSA/defaultmanagement/cdr.html.

A cohort default rate is more than a statistic about a school, lender or guarantor. Every defaulted borrower is a real person facing financial or other difficulties, and is likely to experience even greater hardship until the default is repaired. Borrowers in default face direct negative consequences, such as additional costs related to debt collection activities, potential litigation and the loss of future Title IV aid eligibility. They also may encounter indirect costs related to the resulting adverse credit, including:

- ◆ Higher interest rates or inability to obtain:
 - Private education loans.
 - Credit cards.
 - Car loans.
 - Mortgages.
- ◆ Higher costs for automobile insurance.
- ◆ Inability to rent an apartment.
- ◆ Difficulty getting a job.

When even one borrower defaults on a federal student loan, the 'ripple effect' extends beyond the individual borrower. Default affects the school and its current and future students, as well as lenders, guarantors and ultimately taxpayers. The success of each and every borrower in the repayment of his or her education loans helps keep costs down and ensures the viability of this funding source for the benefit of future students.

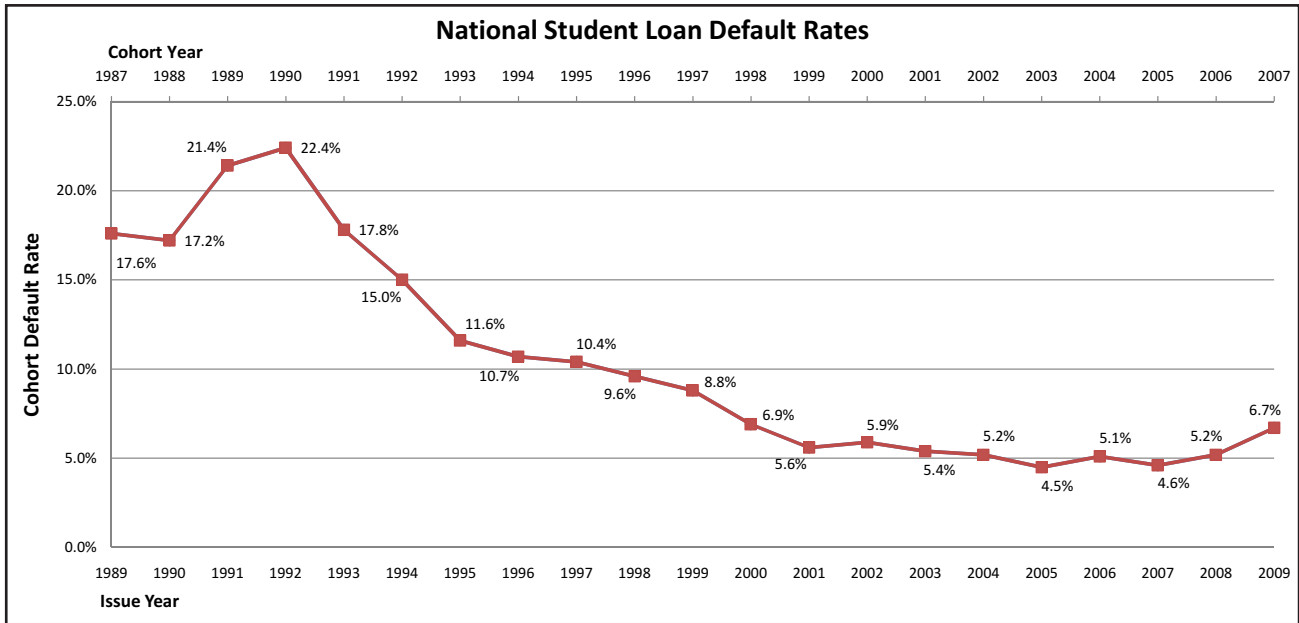
Trainer's Tidbit

Since 2003, ED transmits electronic cohort default rate information through the Student Aid Internet Gateway to the destination point identified by each school. All U.S. schools must enroll in eCDR at www.fsawebenroll.ed.gov.

Publication of Rates

The 1986 Reauthorization of the Higher Education Act of 1965, as amended, introduced the requirement that cohort default rates be calculated and published. ED first issued cohort default rate information in 1989. Since their inception, national federal student loan default rates have dropped significantly.

National Student Loan Default Rates

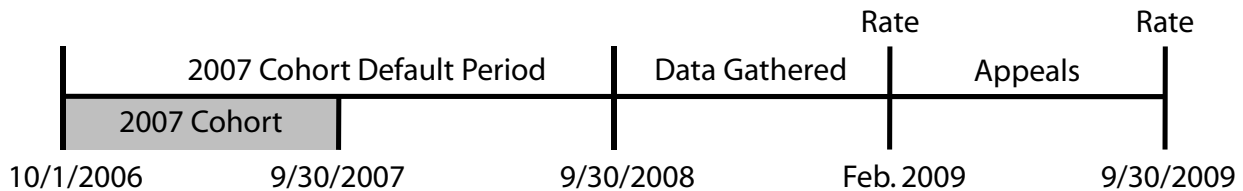


Adapted from "National Student Loan Default Rates" by U.S. Department of Education, Default Prevention and Management, 2009.

Draft cohort default rates are shared with schools each spring, usually in February or March. Official cohort default rates are released approximately six months after the draft rates are published, no later than Sept. 30. This gives schools time to review the data and work with lenders, guarantors and ED to make any necessary corrections.

Draft and official rates are calculated by looking back over the two prior fiscal years. The rate is described according to the cohort of borrowers being evaluated. For example, cohort default rates issued during 2009 are referred to as the "FY 2007 Cohort Default Rates."

Definition



NOTES

For Title IV purposes, the *CDR Quick Reference Guide (2005)* defines cohort default rate as “the percentage of a school’s federal student loan borrowers who enter repayment during the cohort fiscal year and default during the cohort default period” (p. 3). Rather than counting the number and type of loans entering repayment, this rate is based on the number of borrowers who enter repayment during a single fiscal year.

The formula for calculating a cohort default rate incorporates the following terms:

- ◆ Cohort.
- ◆ Repayment.
- ◆ Default.
- ◆ Cohort fiscal year.
- ◆ Cohort default period.

Cohort

A cohort is any group of people with a similar set of characteristics. For the purposes of calculating cohort default rates, borrowers are counted in cohorts based on having borrowed certain types of loans that enter repayment during a specific period of time.

**** If the borrower defaults on a Federal Consolidation loan where the underlying loans include Federal Stafford loans or Federal Supplemental Loans for Students.***

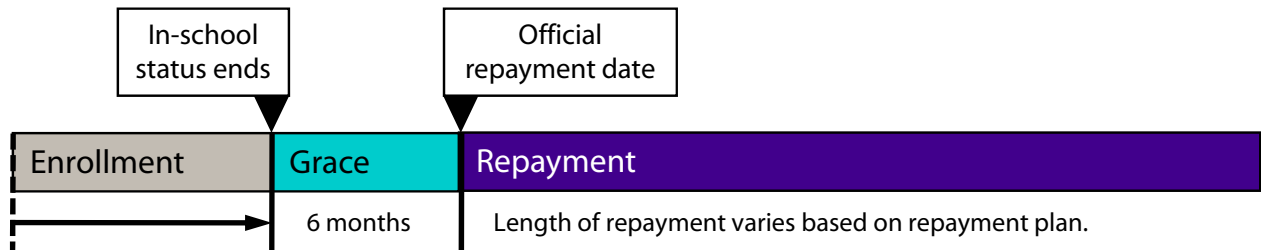
Relevant Loans	
Included:	Not Included:
<ul style="list-style-type: none"> ◆ Federal Stafford loans (subsidized and unsubsidized). ◆ Federal Supplemental Loans for Students. ◆ Federal Consolidation loans.* 	<ul style="list-style-type: none"> ◆ Federal PLUS loans (parents and graduate/professional students). ◆ Federal Perkins loans.** ◆ Federally Insured Student Loans. ◆ Health and Human Services loans. ◆ Private education loans.

***** Separate cohort default rates are calculated for Federal Perkins loans.***

NOTES

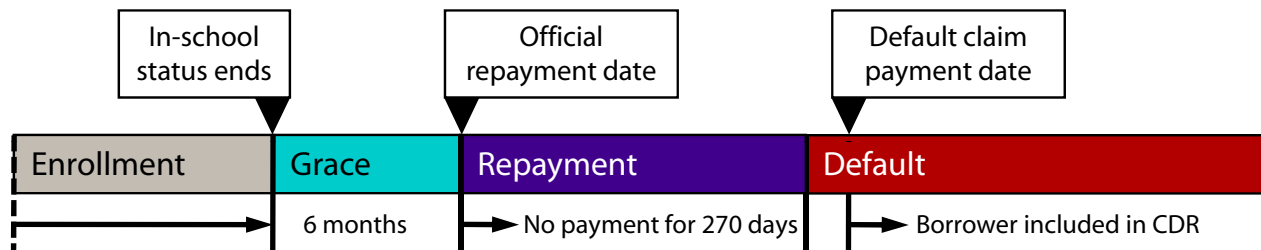
Repayment

For most Federal Stafford loans and Federal Supplemental Loans for Students, after the end of a six-month grace period the borrower is expected to begin making payments to the holder of the loan according to the original terms and conditions specified in the promissory note. The grace period begins once the student is no longer enrolled at least half-time. Repayment begins the day after the six-month grace period ends. This official repayment date determines whether the borrower is counted in the cohort.



Default

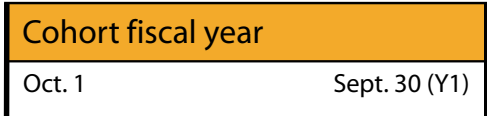
When a borrower does not make payments according to the terms and conditions identified in the promissory note, the loan is considered delinquent. If the borrower of a FFEL loan becomes more than 270 days delinquent on a monthly repayment schedule, the borrower is considered in default and the holder of that loan can file a default claim with the guarantor. The payment date of the default claim and the type of federal education loan determine whether the borrower of the defaulted loan is counted in the calculation of the cohort default rate.



NOTES

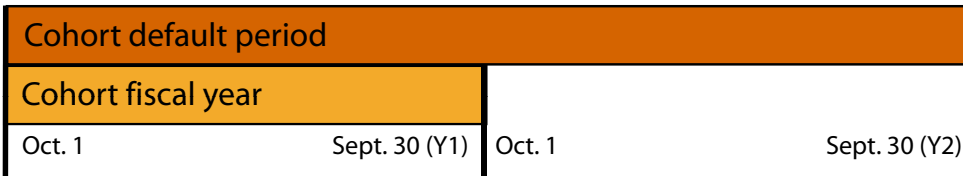
Cohort Fiscal Year

Each cohort includes the number of borrowers entering repayment during a one-year period. The cohort fiscal year is aligned with the federal fiscal year, which begins Oct. 1 and ends the following Sept. 30. The year is described using the calendar year in which the fiscal year ends. For example, the 2007 Cohort Fiscal Year includes borrowers who entered repayment between Oct. 1, 2006 and Sept. 30, 2007.



Cohort Default Period

For the borrowers included in the cohort, ED examines the status of these borrowers' loans during a specified period of time. As with the cohort fiscal year, the cohort default period is aligned with the federal fiscal year. Currently, the cohort default period reflects two years of borrower behavior. For example, the 2007 CDR includes defaults on qualifying loans during the two-year cohort default period from Oct. 1, 2006, through Sept. 30, 2008.



NOTES

Equation

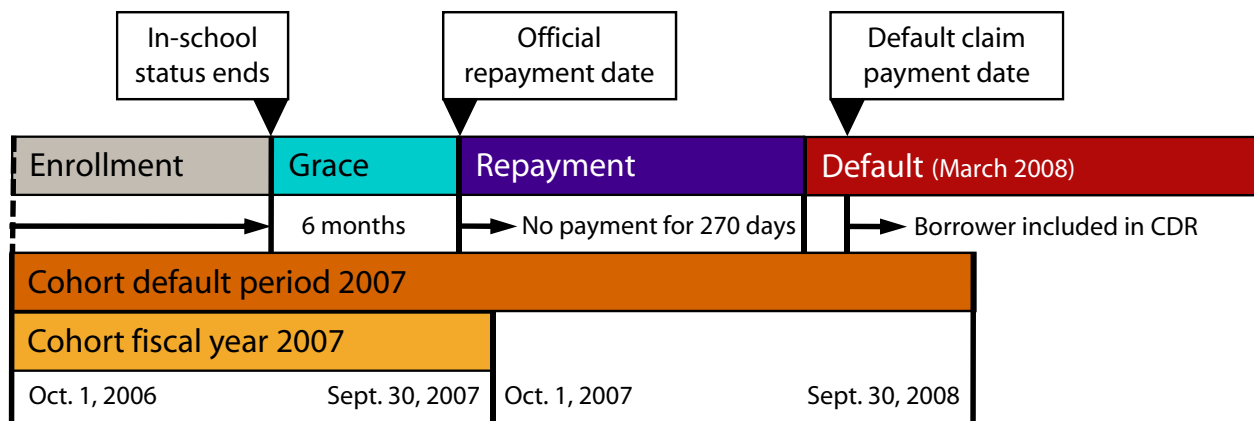
The calculation of a cohort default rate is defined by a specific formula:

$$\frac{\text{Borrowers in the cohort who default within cohort default period (Numerator)}}{\text{Cohort of federal student loan borrowers who enter repayment during cohort fiscal year (Denominator)}} \times 100 = \text{Cohort Default Rate}$$

Example

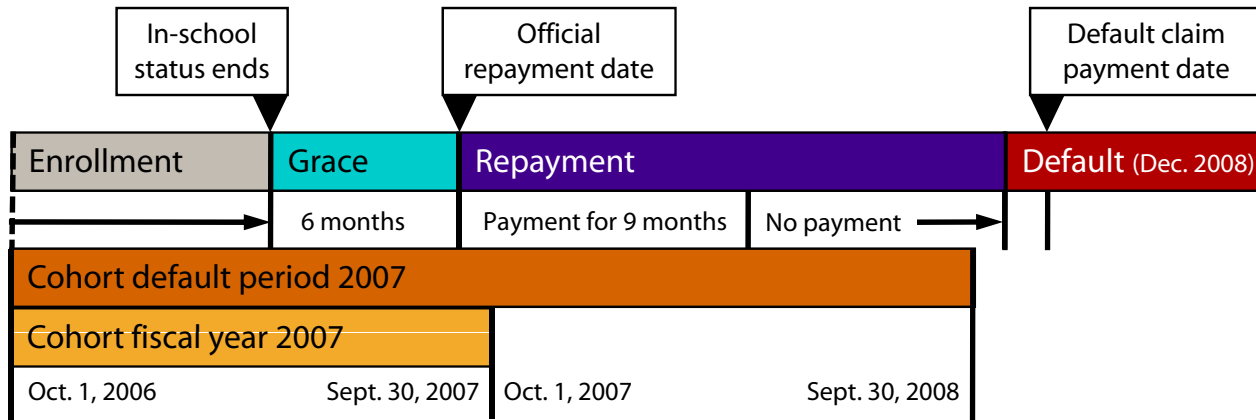
David and Anna completed their degree programs at the same school in December 2006, at which point their loans entered a six-month grace period during which time no payments were expected. The official repayment date was July 1, 2007, the day after the grace period ended. This placed both borrowers in the 2007 cohort.

David made no payments on his loans for 270 days. In March 2008, his lender filed a default claim with the guarantor, which was subsequently paid. David is included in the school's cohort default rate as a defaulted borrower because the default claim was paid within the two-year cohort default period.



NOTES

Anna made payments on her loans for nine months, after which time she stopped making payments. In December 2008, she reached 270 days of delinquency. At that time, her lender filed a default claim with the guarantor, which was subsequently paid. Since the default occurred after the two-year cohort default period ended, Anna is not included in the number of defaulted borrowers in the numerator.



Trainer's Tidbit

For a school with fewer than 30 borrowers in its cohort, a different formula is used. The Average Rate Formula expands the cohort to include borrowers entering repayment during the current fiscal year and the two preceding years. Draft cohort default rates are not accurate estimates of official cohort default rates for these schools because draft rates are calculated using only the non-average rate calculation.

Additional Considerations

Transfer Students

A borrower may be counted in more than one cohort default rate calculation within the same cohort fiscal year. A student who transferred from one school to another and borrowed federal student loans at both schools is likely to enter repayment on those loans at the same time. The student would be counted in the denominator of the rate calculation for both schools. As long as the loans remained in good standing, the student would not appear in the numerator at either school.

NOTES

Federal Consolidation Loans

The effect of a Federal Consolidation loan on cohort default rates depends on the official repayment date and status of the underlying loans. If a defaulted loan is included in a Consolidation loan, but the default did not occur during the relevant cohort default period, the borrower will not appear in the numerator.

Rehabilitation

If a borrower defaults on a loan, and is able to rehabilitate the loan before the cohort default period expires, then the borrower will not be counted in the numerator.

Pre-Payment or Discharge

Pre-payment of a federal student loan may change the cohort in which the borrower is counted, if the loan is paid in full before the end of the grace period. The student will be included in the appropriate cohort based on the paid-in-full date. This student would not appear in the numerator since the borrower did not default on the loan. The same would be true for loans discharged due to bankruptcy, disability or death, as long as the discharge is effective before the guarantor pays a default claim. Loans are not considered in the cohort default rate calculation if discharged as a result of school closure, false certification or identity theft.

Deferment or Forbearance

Obtaining deferment or forbearance on a federal education loan in repayment does not change the cohort in which a borrower is counted because the official repayment date is not affected. The borrower is unlikely to appear in the numerator because such actions help to keep the loan in good standing.

Effects on Schools

Schools are affected when previously-enrolled students default on their federal education loans. While defaulting on a federal education loan is a direct result of borrower behavior, high cohort default rates can be perceived as a reflection on the school's ability to prepare its students or capably administer its federal financial aid programs.

To emphasize its importance, certain benefits and sanctions are applied based on a school's cohort default rates. When rates are less than 10 percent for each of the three most recent years, schools may choose to:

- ◆ Disburse a single-term loan in a single installment, under certain circumstances, rather than make standard multiple disbursements during a payment period.
- ◆ Make use of an exemption from the 30-day delayed disbursement requirement for first-year, first-time borrowers.

High cohort default rates result in added administrative burden, as well as potential loss of eligibility to participate in Title IV financial aid programs. Guarantors are required to conduct program reviews at least every two years at schools with cohort default rates greater than 20 percent in either of the two most recent years. A significant increase in a school's cohort default rate from one year to the next also could trigger a program review.

According to the *Common Manual* (2009), schools with cohort default rates of 25 percent or more may be subject to "provisional certification of the school's Title IV program participation" (Ch. 16, p. 9). They also may be required by ED to file a default management plan.

There are two ways for a school to lose eligibility to participate in the FFEL or Direct Loan programs, and in most cases, the Federal Pell Grant program, for the current year and the next two federal fiscal years:

- ◆ Cohort default rates of 25 percent or more for each of the three most recent years.
- ◆ Cohort default rate greater than 40 percent in any year.

Loss of eligibility is effective within 30 days of receipt of notification of the official cohort default rate, unless the school successfully appeals. When a school loses its eligibility to participate, all current and potential students must be notified of the loss of eligibility.

Trainer's Tidbit

A school that loses FFEL, Direct Loan or Pell Grant program eligibility due to cohort default rates may reapply for participation when the sanction period ends. Schools may apply online at www.eligcert.ed.gov.

Official Cohort Default Rate		Time Period	Effect	Citations
Benefits	Less than 5%.	Most recent year.	For students studying abroad, school may choose: <ul style="list-style-type: none"> ♦ Single-installment disbursement, regardless of loan period length. ♦ Waive 30-day delayed disbursement for first-year, first-time borrowers. 	2006 CDR Guide, p. 2.4-2.
	Less than 10%.	Each of three most recent years.	School may choose: <ul style="list-style-type: none"> ♦ Single-installment disbursement for single term loans. ♦ Waive 30-day delayed disbursement for first-year, first-time borrowers. 	2006 CDR Guide, p. 2.4-2.
Sanctions	Greater than 20%.	Either of two most recent years.*	Biennial program review by designated guarantor for the state.	<i>Common Manual</i> Feb. 2009, Ch. 1.1, p. 1.
	25% or greater.	Each of three most recent years.	Loss of institutional eligibility to participate in FFEL, Direct Loan and/or Federal Pell Grant programs for current year and next two federal fiscal years.**	2006 CDR Guide, p. 2.4-3.
	Greater than 40%.	Most recent year.	Loss of institutional eligibility to participate in FFEL, Direct Loan and/or Federal Pell Grant programs for current year and next two federal fiscal years.**	2006 CDR Guide, p. 2.4-3.

* Schools also may be selected for program reviews by the guarantor based on significant increases in cohort default rates.

** Loss of eligibility to participate in the Federal Pell Grant program only occurs if the school certified FFEL or Direct Loans on or after July 7, 1998, and still participates in the loan programs.

Trainer's Tidbit

There are no sanctions related to cohort default rates against lenders, loan holders or guarantors.

ED may impose sanctions against guarantors, however, if their trigger rates exceed certain thresholds. The trigger rate is an indicator of how well a guarantor manages its entire loan portfolio and works to resolve delinquent accounts and recover federal funds.

NOTES

The Higher Education Opportunity Act of 2008

Effective Aug. 14, 2008, the Higher Education Opportunity Act of 2008 (P.L. 110-315) redefined future cohort default periods and modified future sanctions based on high cohort default rates.

Three-Year Cohort Default Period

HEA Section 428G and 435(a).

Beginning with the 2009 Cohort, cohort default rates will be calculated on a three-year, rather than a two-year, cohort default period.

Cohort default period					
Cohort fiscal year					
Oct. 1	Sept. 30 (Y1)	Oct. 1	Sept. 30 (Y2)	Oct. 1	Sept. 30 (Y3)

As a result of this change, cohort default rates are expected to rise. This is because, while the cohort itself will not change, the period of time during which borrowers in the cohort might default will be longer. If the number of defaulted borrowers is higher, without an increase in the size of the cohort, the cohort default rate will be higher.

Case Study

Local Community College's FY 2009 CDR includes 2,000 borrowers who entered repayment between Oct. 1, 2008, and Sept. 30, 2009. Between Oct. 1, 2008 and Sept. 30, 2010, 300 borrowers in that cohort defaulted on their loans. The following fiscal year, 200 more borrowers in the same cohort defaulted on their loans. Fill in the blanks below and then calculate the resulting cohort default rates:

Two-year formula:

$$\frac{\boxed{}}{\boxed{}} \times 100 = \boxed{} \%$$

Three-year formula:

$$\frac{\boxed{}}{\boxed{}} \times 100 = \boxed{} \%$$

Historical data shows that the likelihood of default increases over time for multiple reasons. Borrowers may experience life events affecting their ability to make loan payments and do not always remember to contact their lenders or loan holders for assistance.

Using the new three-year period will have a different effect at different schools, depending on the size of each school's cohort and the repayment behavior of its borrowers. It is possible to estimate the effect of this change by reviewing the school's own historical data or by contacting guarantors for help.

NOTES

Modified Benefits

Effective for loans first disbursed on or after Oct. 1, 2011, institutions with cohort default rates of less than 15 percent for each of the previous three fiscal years may:

- ♦ Waive the multiple-disbursement requirement for single term loans.
- ♦ Waive the 30-day delayed disbursement requirement for first-year, first-time borrowers.

The threshold remains at 10 percent for each of the previous three years for all loans disbursed prior to Oct. 1, 2011.

Modified Sanctions

When official three-year rates for the 2009 Cohort are published in September 2012, the threshold for loss of eligibility to participate in FFEL, Direct Loan and/or Federal Pell Grant programs will increase. Effective Sept. 1, 2012, schools with official rates of 30 percent or greater for each of the previous three years will lose eligibility to participate, representing an increase from the 25 percent threshold.

Default Prevention Plans

Effective FY 2012, which begins Oct. 1, 2011, a new requirement introduced by the HEOA will affect any school with a cohort default rate of 30 percent or greater. The school must immediately create a default prevention task force to develop and submit a plan to ED that includes:

- ♦ Identification of the significant factors contributing to the high default rate.
- ♦ Establishment of measurable objectives and steps the school will take to reduce its CDR.
- ♦ Explanation of how the school will promote successful student loan repayment.

If a school's CDR is 30 percent or greater for two consecutive fiscal years, the school will be required to submit a revised default management plan to ED. Once the revised plan is reviewed, the school may be required to take additional measurable steps.

Summary of HEOA Changes

HEOA Modifications	Current	Change	Effective Date
Years included in CDR	Two-year default period	Three-year default period	Fiscal Year 2009
Disbursement waivers and exceptions	Less than 10%	Less than 15%	Loans first disbursed on/after Oct. 1, 2011
Loss of eligibility threshold	25% or greater	30% or greater	Fiscal Year 2012
Default Prevention Plan	As needed	30% or greater	Fiscal Year 2012

DCL GEN-08-12: ED Summary of the HEOA of 2008, p. 122, 131-132 and 219.

NOTES

Implementation Timeline

In December 2008, ED announced that a transitional period will apply. According to GEN-08-12, "...no institutional sanctions will be taken based on the three-year calculated rate until after there have been three consecutive cohort years of such rates calculated. During the transition period, sanctions will be based on calculations made according to pre-HEOA provisions" (p. 131-132). As a result, HEOA changes will be relevant for the first time to the FY 2009 Cohort Default Rates to be published by Sept. 30, 2012.

Fiscal Year Cohort	Entered Repayment	Default Period End Date	Official Rate Announced
2006	10/1/2005-9/30/2006	9/30/2007	2008
2007	10/1/2006-9/30/2007	9/30/2008	2009
2008	10/1/2007-9/30/2008	9/30/2009	2010
2009*	10/1/2008-9/30/2009	9/30/2010	2011 (2-year)**
		9/30/2011	2012 (3-year)
2010	10/1/2009-9/30/2010	9/30/2011	2012 (2-year)**
		9/30/2012	2013 (3-year)
2011	10/1/2010-9/30/2011	9/30/2012	2013 (2-year)**
		9/30/2013	2014 (3-year)
2012	10/1/2011-9/30/2012	9/30/2014	2015

* **Change to three-year cohort period.**

** **Benefits and sanctions will be based on two-year rates until three consecutive three-year calculations are available.**

NOTES

Challenges, Adjustments and Appeals

Schools have opportunities to respond to the results of CDR calculations or the application of sanctions. Soon after draft rates are released, institutions may challenge the rate based on incorrect data contained in the Loan Record Detail Report or having a very low number of borrowers. Once official cohort default rates are published, institutions may request an adjustment or file an appeal.

Requests for reconsideration involve various agencies and individuals, depending on the nature of the request:

Data Manager	A representative of the loan holder, such as a guarantor or ED.
Default Prevention and Management	Office within ED that works with schools and borrowers on issues related to delinquency and default.
Independent Auditor	Third-party agency that reviews a school's data.

Challenges

Schools may challenge draft cohort default rates within 45 days of publication of the rates. Lenders or holders have 30 days to respond.

- ◆ **Incorrect Data Challenge** is filed by a school, along with supporting documentation.
- ◆ **Participation Rate Index Challenge** can be filed by schools with a very low number of borrowers and may result in exemption from anticipated sanctions once the final rates are published. ED will notify the school of the results of the appeal prior to publishing the official rate.

Adjustments

Once official cohort default rates are published, schools may qualify to request an adjustment that could result in a recalculation of the rate.

- ◆ **Uncorrected Data Adjustment** must be filed within 30 days by a school claiming that an approved Incorrect Data Challenge adjustment was not made.
- ◆ **New Data Adjustment** must be filed within 15 days by a school claiming that new data incorporated in the official calculation is incorrect.

NOTES

Appeals — School-Initiated

Schools may appeal official cohort default rates under certain circumstances.

- ♦ **Loan Servicing Appeal** is filed within 30 days of receipt of servicing records if a school believes the lender or holder did not take appropriate action to attempt to contact or locate the borrower, or failed to request default aversion assistance from the guarantor.
- ♦ **Erroneous Data Appeal** is filed within 15 days of notification of the sanction when official rates include new or previously-challenged data, but only if the recalculated rate is expected to remove the current sanction.
- ♦ **Economically Disadvantaged Appeal** is filed with an independent auditor within 30 days of notification of the sanction by schools with a large population of low-income students.
- ♦ **Participation Rate Index Appeal** is filed within 30 days of notification of the sanction by schools with a very small population of borrowers.

Appeals — ED-Initiated

ED also may notify certain sanctioned schools that they might be eligible to file an appeal, if they:

- ♦ Could qualify for recalculation based on a comparison of non-average to average rates.
- ♦ Have a cumulative total of 30 or fewer borrowers who entered repayment for the past three years.

A successful appeal could result in the lifting of sanctions and/or the recalculation of cohort default rates.

Trainer's Tidbit

During 2008, a new eCDR Appeals System was introduced, making it possible for schools to submit certain challenges and adjustments online. Obtain an eCDR Appeals account at ifap.ed.gov/DefaultManagement/DefaultManagement.html.

NOTES

Responses to Cohort Default Rate Announcements

Action	Deadline	School	Data Manager	ED	Outcome
Challenges					
Incorrect Data	45 days of draft CDR; DM responds within 30 days.	Request to DM.	Respond; update NSLDS.	Review outcome.	Recalculate prior to official CDR.
Participation Rate Index	45 days of draft CDR; DM responds within 30 days.	Request to ED.	N/A	Respond to request.	Exemption from sanctions based on official CDR.
Adjustments					
Uncorrected Data	30 days of official CDR.	Request to ED.	N/A	Respond to request.	Correction of data; recalculation.
New Data	15 days of official CDR.	Request data from DM; include data with request to ED.	Respond to request for data.	Review request and DM data; respond.	Recalculation.
Appeals					
Loan Servicing	30 days of receipt of servicing records.	Request records from DM; include records with request to ED.	Respond to request for records.	Review request and DM records; respond.	Removal of data; recalculation.
Erroneous Data	15 days of notification of sanctions.	Request data from DM; include data with request to ED.	Respond and/or update NSLDS.	Review request and DM data; respond.	Removal of erroneous data; recalculation.
Economically Disadvantaged	Request auditor review within 30 days of notification of sanctions.	Request auditor statement; include with request to ED.	N/A	Review request and auditor statement; respond.	Exemption from sanctions.
Participation Rate Index	15 days of notification of sanctions.	Request to ED.	N/A	Respond to request.	Exemption from sanctions.
Appeals Initiated by ED					
Average Rate	N/A	Request to ED.	N/A	Respond to request.	Recalculation/reconsideration of sanctions.
30 or Fewer Borrowers	N/A	Request to ED.	N/A	Respond to request.	Exemption from sanctions.

Putting It To Work

The topics covered in this training session are conveyed in general terms to encompass learners from all types of postsecondary institutions. You should consider how the concepts covered in the training session apply to your school.

Schools often are given flexibility in administering and applying guidelines to certain federal student aid programs. That's why it is essential that you discuss these items (shown below) with your supervisor.

Your supervisor can give you institution-specific guidelines on how the material we discussed in this training session can be applied to your job.

1. What is our school's cohort default rate?

2. What actions could we take now that might influence our institution's future cohort default rates?

3. What options can we suggest to our borrowers to keep their loans in good standing if they encounter financial trouble?

4. What opportunities currently exist at our institution for discussing successful loan repayment with our borrowers?

5. List some new ways in which you could help students learn about avoiding student loan delinquency and default.

Trainer's Toolkit

The Trainer's Toolkit is a listing of terms, web sites, and reference material directly related to Cohort Default Rates.

Terms, Acronyms and Abbreviations

Administrative Capability

To participate in federal student aid programs, a school must demonstrate that it is administratively capable of providing the education it promises and of properly managing the federal student aid programs. Volume 2, Chapter 10, of the *Federal Student Aid Handbook* provides details of the administrative capability requirements. Requirements include meeting ED's electronic processes requirements, administrative requirements for the financial aid office such as having adequate staffing and a system of checks and balances, maintaining a satisfactory academic progress policy, maintaining financial aid history on students, keeping cohort default rates within standards, monitoring withdrawal rates, and ensuring that financial aid officers are not debarred or suspended from working in the financial aid office.

CDR

Cohort Default Rate.

The CDR is the percentage of borrowers of certain federal education loans who default before the end of the fiscal year following the fiscal year in which they entered repayment on their loans. ED annually calculates this rate to determine the default experience of students who attended a particular school during a specific time period.

Data Manager

Depending on the loan, a data manager may represent a guarantor, a Direct Loan servicer or ED's Office of Default Prevention and Management.

Default

The failure of a borrower (or endorser or comaker, if any) to make installment payments when due, provided that this failure persists for the most recent period of 270 days (for a loan repayable in monthly installments) or the most recent 330-day period (for a loan repayable in less frequent installments).

Disbursement

Traditionally, FFELP regulations have referred to the lender's "disbursement" of funds to a school, and the school's "delivery" of the loan proceeds to a student. More recently, the Cash Management regulations have used the term "disbursement" to refer to the payment of FSA funds to a student or parent, including the payment of loan funds. We will use "disbursement" in the sense of Cash Management regulations, that is, all payments to a student or borrower.

Methods of disbursement include:

- ◆ Issuing checks.
- ◆ Electronic Funds Transfer to a bank account designated by the student, or parent in the case of a parent PLUS loan.
- ◆ Dispensing cash for which the school obtains a receipt.
- ◆ Crediting a student's school account.

Note: When issuing a check to the student or parent, notification to the borrower can be accomplished by including disbursement dates on award notifications, sending a letter to the borrower, or other reasonable means by which the school notifies the borrower of the availability of the funds.

ED

U.S. Department of Education.

www.ed.gov.

ED was created in 1980 when several federal agencies were combined. Its mission is to ensure equal access to education and to promote educational excellence throughout the nation. ED's purpose is to:

- ◆ Establish policies on federal financial aid for education.
- ◆ Distribute and monitor federal student aid funds.
- ◆ Collect data on schools and disseminate that research.
- ◆ Focus national attention on key educational issues.
- ◆ Prohibit discrimination and ensure equal access to education.

Federal Perkins Loans

Federal Perkins loans are intended to assist students with exceptional need by providing long-term federal loans with a fixed interest rate of 5 percent. Interest does not accrue on Perkins loans while the student is in school and during authorized periods of deferment. Individual award amounts and awarding policies are determined by the school.

Federal Stafford Loans

Federal Stafford loans are available to undergraduate and graduate students enrolled at least half time. Students may borrow up to established annual loan limits, based upon their grade level. Stafford loans may be subsidized (need-based) or unsubsidized (non-need-based). Recipients have a six-month grace period upon ceasing to be enrolled at least half time.

FFELP

Federal Family Education Loan Program.

Loan programs authorized by Title IV, Part B of the Higher Education Act of 1965, as amended, that includes Federal Stafford loans, Federal Unsubsidized Stafford loans, Federal PLUS loans and Federal Consolidation loans. These loan programs are funded by lenders, guaranteed by guarantors and reinsured by the federal government. These programs are defined individually in 34 CFR 682.

FY

Fiscal Year.

The FY is the 12-month period during which financial assistance is awarded through the federal government. The federal fiscal year is Oct. 1 - Sept. 30.

Grace Period

The period that begins the day after a Stafford loan borrower ceases to be enrolled at least half time at an eligible school, ends the day before the repayment period begins, and during which payments of principal are not required.

Graduated Repayment

Borrowers' payments are lower at the beginning of the repayment term and increase as the term continues. An important feature of this plan is that no monthly payment will exceed more than three times any other monthly payment. Borrowers using this plan typically repay a greater amount of interest than they would under the standard repayment plan.

Guarantor

A private, nonprofit organization or state government entity that guarantees to the lender repayment of federal student loans. The guarantor works with borrowers whose student loan payments are seriously past due to help them avoid default. If a borrower defaults, the guarantor partially reimburses the lender, purchases the defaulted loan and continues efforts to recover the amount owed by the borrower.

IBR

Income-Based Repayment.

Effective July 1, 2009, any borrower who is in repayment or enters repayment and has a partial financial hardship is eligible for income-based repayment. Borrowers who participate in IBR may be eligible for forgiveness of any outstanding loan balance that remains after 25 years.

IFAP

Information for Financial Aid Professionals.

www.ifap.ed.gov.

Information for Financial Aid Professionals is a Web site that was developed to provide school and financial partners with electronic access to the many FSA publications that guide the administration of the Title IV Student Financial Assistance programs.

Income-Sensitive Repayment

Monthly payments are based on annual income and total loan amounts. As a borrower's income rises or falls, so does the student-loan-payment amount. Each payment must at least equal the interest accrued on the loan between scheduled payments. Borrowers must apply for this option each year.

Lender

The organization that funds education loans for students and parents under the FFELP.

LRDR

Loan Record Detail Report.

The LRDR contains specific information regarding the borrowers included in the calculation of a school's draft or official cohort default rate. Based on the school's FFEL and/or Direct Loan activity, the report identifies the borrowers who entered repayment during a given cohort fiscal year, the borrowers who defaulted during the relevant cohort period and the status of each borrower's loans.

MPN

Master Promissory Note.

An MPN is a contract students or parents sign when taking out a Stafford or PLUS loan. The MPN allows borrowers to receive loans for either a single academic year or multiple academic years.

NCHELP

National Council of Higher Education Loan Programs.

www.nchelp.org.

NCHELP represents a nationwide network of guaranty agencies, secondary markets, lenders, loan servicers, collection vendors, schools and other organizations involved in the administration of the Federal Family Education Loan Program. NCHELP represents its members on public policy and regulatory issues with the legislative and executive branches of the federal government.

NSL

Nursing Student Loan.

A low interest loan administered by the U.S. Department of Health and Human Services and available to students enrolled in nursing programs.

NSLDS

National Student Loan Data System.

www.nsls.ed.gov.

NSLDS is ED's central database for student aid. It receives data from schools, guarantors, FFEL and Direct Student Loan programs, the Pell Grant program and other ED programs. NSLDS provides a centralized, integrated view of Title IV loans and Pell Grants that are tracked through their entire cycle — from aid approval through closure. Students also can view their information using their PIN.

PLUS

Formerly Parent Loans for Undergraduate Students.

PLUS loans are federal loans available to parents of dependent undergraduate students and to graduate/professional students. Borrowers may obtain up to the full cost of education, less the amount of any other financial aid received or anticipated. Borrowers must not have adverse credit, as defined in regulation, to qualify for a PLUS loan.

Program Review

The process in which the management of one or more federal financial aid programs at an institution is reviewed by ED or a guaranty agency. A program review assesses the institution's compliance with federal laws and regulations and its own school policies. The process also may review the institution's overall management and administrative capabilities.

Satisfactory Repayment Arrangement

A written document signed by the student voluntarily agreeing to consecutive, on-time, payments to repay a Title IV debt within two years of the original date of the school determined last date of attendance as a result of R2T4 processing.

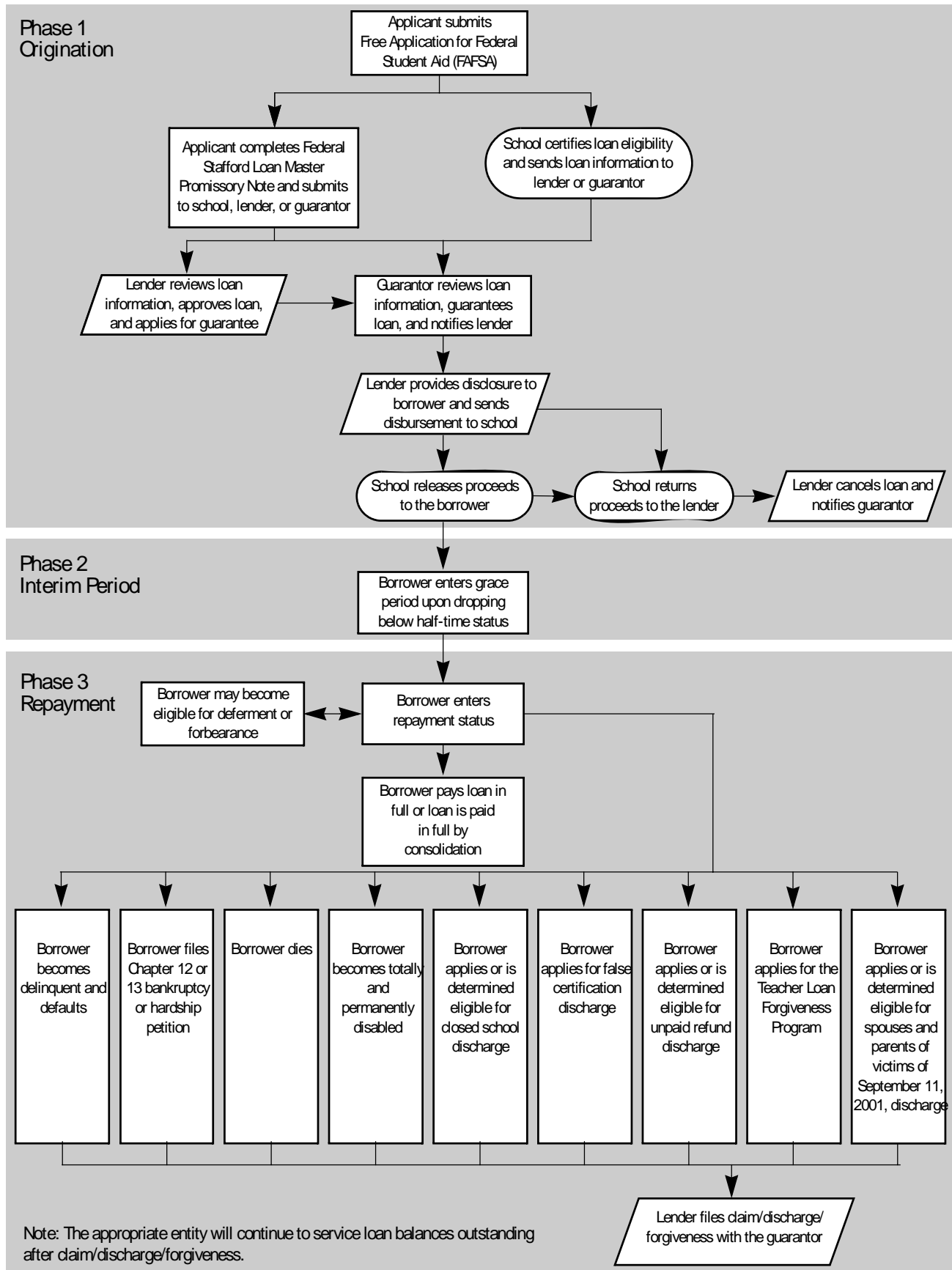
Standard Repayment

Borrowers repaying loans under the standard repayment plan pay a fixed amount of at least \$50 each month for up to 10 years, not including deferment and forbearance periods. The repayment-period length depends on the borrower's total loan amount. For loans disbursed after July 1, 1993, repayment commences after the end of the grace period.

Trigger Rate

Trigger rates, also known as annual default rates or claims rates, are calculated for all guarantors. This rate compares the amount of defaulted loans (not including rehabilitated loans) to the amount of loans in repayment in a guarantor's portfolio for a given fiscal year. Trigger rates determine the rate of federal reinsurance a guarantor receives on default claims the guarantor pays to lenders.

The Life of a Stafford Loan



Special Circumstances Involving Schools

Situation	How It Affects the Denominator	How it Affects the Numerator
<p>A borrower separates from the school that disbursed the loans but enrolls at that school or a different school before the end of the grace period.</p>	<p>The borrower is included in the cohort fiscal year when the borrower actually enters repayment. If the date a borrower enters repayment is delayed by the borrower re-enrolling in school, then the borrower's inclusion in a cohort default rate calculation will also be delayed.</p>	<p>The borrower is included if the borrower defaulted or met the other specified condition during the cohort default period.</p>
<p>A borrower obtained more than one loan to attend a school and the repayment dates for each of the loans fall into different cohort fiscal years.</p>	<p>The borrower is included in the cohort fiscal years when the borrower entered repayment. The borrower will appear in two different cohort default rate calculations for the same school if the borrower has two loans that enter repayment in different cohort fiscal years.</p>	<p>The borrower is included if the borrower defaulted or met the other specified condition during the relevant cohort default periods. The borrower will appear in different cohort default rate calculations for the same school if the borrower has multiple loans, enters repayment in separate cohort fiscal years, and defaults or meets the other specified condition during those cohort default periods.</p>
<p>A borrower takes out loans at more than one school.</p>	<p>The borrower is included in the cohort fiscal years when the borrower entered repayment for each school where the borrower obtained loans.</p>	<p>The borrower is included for the schools at which the loans were obtained if the borrower defaulted or met the other specified condition during those cohort default periods.</p>
<p>A school, its owner, its agent, contractor, employee, or another entity or individual associated with the school makes a payment on the borrower's loan in order to avoid default during the cohort default period.</p>	<p>The borrower is included in the cohort fiscal year when the borrower entered repayment.</p>	<p>The borrower is included because the loan meets the other specified condition during the cohort default period.</p>

Special Circumstances Involving Repayment

Situation	How It Affects the Denominator	How it Affects the Numerator
<p>The borrower enters repayment and subsequently obtains a deferment or forbearance on the loan.</p>	<p>The borrower is included in the cohort fiscal year when the borrower entered repayment. Deferments or forbearances do not alter the date the borrower entered repayment.</p>	<p>The borrower is included if the borrower defaulted or met the other specified condition during the cohort default period.</p>
<p>A borrower consolidates one or more defaulted loans.</p>	<p>The borrower is included in the cohort fiscal years when the borrower entered repayment on the underlying loans (the loans that the borrower consolidated), not based on the date that the consolidation loan entered repayment.</p>	<p>Even though the borrower has regained eligibility for Title IV funds by consolidating, the borrower is still considered to be in default for the purpose of calculating the school's cohort default rate.</p>
<p>A borrower requested and was granted a revised repayment schedule that started before the date the borrower was originally scheduled to enter repayment.</p>	<p>The borrower is included in the cohort fiscal year when the early repayment schedule begins. The early repayment date becomes the repayment date.</p>	<p>The borrower is included if the borrower defaulted or met the other specified condition during the cohort default period.</p>
<p>A borrower paid the loan in full before the date the loan was scheduled to enter repayment.</p>	<p>The borrower is included in the cohort fiscal year that the borrower paid the loan in full. The paid-in-full date becomes the new repayment date.</p>	<p>The borrower is not included because the borrower did not default, unless the loan was paid in full through a consolidation loan and the consolidation loan defaults during the cohort default period.</p>
<p>A borrower paid the loan in full after defaulting or meeting the other specified condition during the cohort default period but without rehabilitating the loan within the cohort default period.</p>	<p>The borrower is included in the cohort fiscal year when the borrower entered repayment.</p>	<p>The borrower is included because the loan was not successfully rehabilitated for cohort default rate purposes within the cohort default period.</p>

Special Circumstances Involving Loans That Were Discharged, Canceled, or Refunded

Situation	How It Affects the Denominator	How it Affects the Numerator
The borrower's loan was discharged due to death, bankruptcy, disability, or other type of loan discharge (not including closed school, false certification, or identity theft) before the borrower entered repayment.	The borrower is included in the cohort fiscal year based on the date the loan was discharged. The date of discharge becomes the date entered repayment.	The borrower is not included because the borrower did not default.
The borrower's loan was discharged due to death, bankruptcy, disability, or other type of loan discharge (not including closed school, false certification, or identity theft) after the borrower enters repayment but before the end of the cohort default period and before the borrower defaults or meets the other specified condition.	The borrower is included in the cohort fiscal year when the borrower entered repayment.	The borrower is not included because the borrower did not default.
The borrower enters repayment and defaults or meets the other specified condition during the cohort period. Subsequently, the loan is discharged due to death, bankruptcy, disability or other type of loan discharge.	The borrower is included in the cohort fiscal year when the borrower entered repayment.	The borrower is included because the borrower defaulted or met the other specified condition during the cohort default period.
The borrower's loan was discharged due to school closure, false certification, and/or identity theft.	The borrower is not included because loans discharged due to school closure, false certification, and/or identity thefts are not included in the cohort default rate calculation.	The borrower is not included because loans discharged due to school closure, false certification, and/or identity thefts are not included in the cohort default rate calculation.
A loan was fully refunded or canceled, within 120 days of loan disbursement.	The borrower is not included because canceled loans are not included in the cohort default rate calculation.	The borrower is not included because canceled loans are not included in the cohort default rate calculation.
The loan was partially refunded within 120 days of loan disbursement.	The borrower is included in the cohort fiscal year when the borrower entered repayment on the portion of the loan that was not refunded.	The borrower is included if the borrower defaulted or met the other specified condition during the cohort default period.

Special Circumstances Involving Loans That Were Repurchased

Situation	How It Affects the Denominator	How it Affects the Numerator
A lender repurchased a defaulted loan because the guaranty agency determined that the lender did not meet the insurance requirements and, as a result, the loan lost insurance and became an uninsured loan.	The borrower is not included because uninsured loans are not included in the cohort default rate calculation.	The borrower is not included because uninsured loans are not included in the cohort default rate calculation.
A lender immediately repurchased a loan because the lender incorrectly submitted the default claim to the guaranty agency and does not submit another default claim within the cohort default period.	The borrower is included in the cohort fiscal year when the borrower entered repayment.	The borrower is not included because the borrower is not in default.
A lender immediately repurchased a loan because the lender incorrectly submitted the default claim to the guaranty agency and later submits another default claim that is paid within the cohort default period.	The borrower is included in the cohort fiscal year when the borrower entered repayment.	The borrower is included because the subsequent default claim was paid within the cohort default period.
A lender made a courtesy repurchase of a defaulted loan because the borrower established a new repayment plan or for other reasons.	The borrower is included in the cohort fiscal year when the borrower entered repayment.	The borrower is included because the original valid default claim was paid during the cohort default period.

Cohort Default Rate Guide (2006), page 2.1-12.

References

U.S. Department of Education

Cohort Default Rate Guide.

August 2006.

ifap.ed.gov/DefaultManagement/CDRGuideMaster.html.

U.S. Department of Education

Cohort Default Rate Guide Quick Reference.

Fall 2005.

ifap.ed.gov/drmaterials/attachments/CDRGQuickRef093005FINAL.pdf.

U.S. Department of Education

Information for Financial Aid Professionals.

Official Cohort Default Rates for Schools, including access to searchable Default Rate Database.

www.ed.gov/offices/OSFAP/defaultmanagement/index.html.

U.S. Department of Education

2008-2009 Federal Student Aid Handbook.

Volume 2, Chapter 10 – Administrative Capability.

ifap.ed.gov/ifap/publications.jsp.

U.S. Department of Education

GEN-08-12/FP-08-10: The Higher Education Opportunity Act.

December 2008.

ifap.ed.gov/dpclletters/GEN0812FP0810.html.

U.S. Department of Education

Federal Student Aid.

Student Aid Internet Gateway.

www.fsawebenroll.ed.gov/PMEnroll/index.jsp.

U.S. Department of Education

Institute of Education Sciences.

National Center for Education Statistics.

College Navigator Web Site.

www.nces.ed.gov/collegenavigator/.

U.S. Department of Education

Information for Financial Aid Professionals.

Portfolio Performance Division (formerly, Default Prevention and Management).

ifap.ed.gov/DefaultManagement/DefaultManagement.html.

National Council of Higher Education Loan Programs

2009 Common Manual.

July 2009.

www.nchelp.org.

Appendix A

Local Community College's FY 2009 CDR includes 2,000 borrowers who entered repayment between Oct. 1, 2008, and Sept. 30, 2009. Between Oct. 1, 2008 and Sept. 30, 2010, 300 borrowers in that cohort defaulted on their loans. The following fiscal year, 200 more borrowers in the same cohort defaulted on their loans. Fill in the blanks below and then calculate the resulting cohort default rates:

Two-year formula:

$$\frac{300}{2,000} \times 100 = 15\%$$

Three-year formula:

$$\frac{500}{2,000} \times 100 = 25\%$$