Insider's Guide to Cohort Default Rate

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Introduction

A cohort default rate (CDR) is a measure used by the U.S. Department of Education (ED) and Federal Student Aid (FSA) to gauge a school's performance in helping to prevent federal Stafford loan borrowers from defaulting. It's important for campus leaders to be well informed about CDRs because a school's continued participation in the federal financial aid programs (Title IV) can be positively or negatively affected by their CDR. Defaults have long-term serious consequences for borrowers, cost taxpayers money, and above-average CDRs can cause potential students and their families to think poorly of a school.

This document gives you an insider's overview to CDRs and connects you to additional resources you may find helpful, like FSA's Cohort Default Rate Guide. It is not meant to provide a complete understanding of CDRs.

Federal Fiscal Year: October 1 to September 30

Cohort Year: Same as federal fiscal year (10/1/2016 to 9/30/17 = 2017 Cohort Year)

Cohort Default Period: 3-year period that begins October 1 of the fiscal year when the borrower enters repayment and ends on September 30 of the following two fiscal years.

What is a CDR?

A CDR is the percentage of a school's U.S. Federal Stafford loan borrowers (Direct/FFELP) who enter repayment during a federal fiscal year and default within the cohort default period.

Numerator

Number of borrowers in the denominator who defaulted during the cohort default period

Denominator

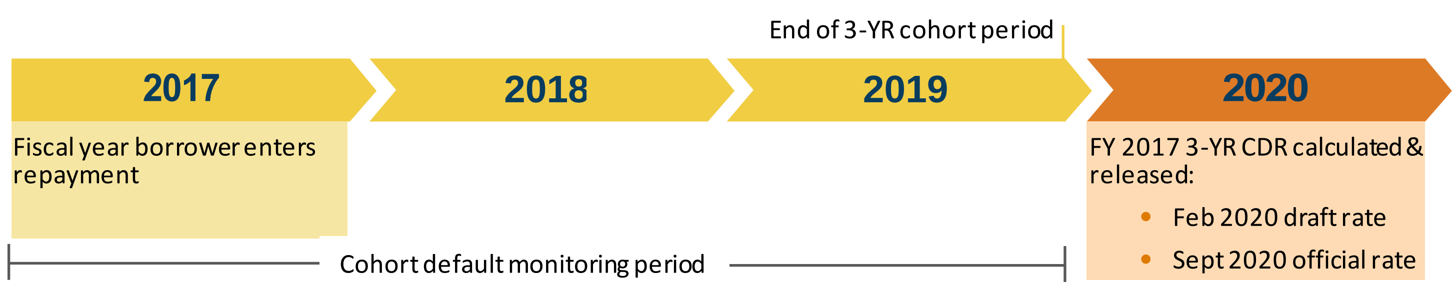
Number of borrowers who entered repayment during a cohort fiscal year

Example

$$\frac{12}{123} = 9.7\%\ \text{CDR}$$

What is the cohort default period?

The 3-year cohort default period begins on October 1 of the fiscal year when the borrower enters repayment and ends on September 30 of the following two fiscal years.

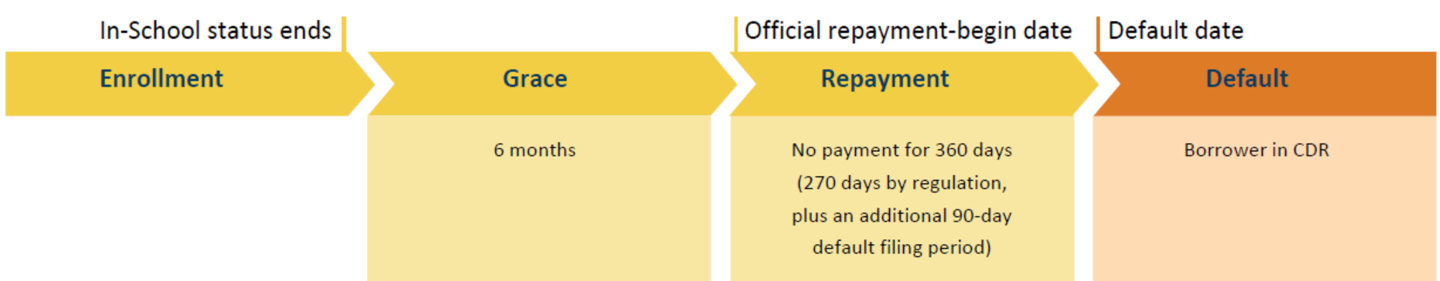


How is a CDR calculated?

Cohort Fiscal Year	Year Published	Borrowers in the Numerator / Borrowers in the Denominator	3-YR Time Period (Numerator) / 1-YR Time Period (Denominator)
2017	2020	Borrowers who entered repayment in 2017 and defaulted in 2017, 2018 or 2019/ Borrowers who entered repayment in 2017	10/1/2016 to 9/30/2019 / 10/1/2016 to 9/30/2017
2018	2021	Borrowers who entered repayment in 2018 and defaulted in 2018, 2019 or 2020/ Borrowers who entered repayment in 2018	10/1/2017 to 9/30/2020 / 10/1/2017 to 9/30/2018
2019	2022	Borrowers who entered repayment in 2019 and defaulted in 2019, 2020 or 2021/ Borrowers who entered repayment in 2019	10/1/2018 to 9/30/2021 / 10/1/2018 to 9/30/2019
2020	2023	Borrowers who entered repayment in 2020 and defaulted in 2020, 2021 or 2022/ Borrowers who entered repayment in 2020	10/1/2019 to 9/30/2022 / 10/1/2019 to 9/30/2020

(If a school has 29 or fewer borrowers entering repayment during a fiscal year, the cohort default rate is an "average rate" based on borrowers entering repayment over a three-year period. For more details on this and the nuances of how the draft vs official CDRs are calculated please refer to FSA's How The Cohort Default Rates are Calculated.)

When does a student loan default?

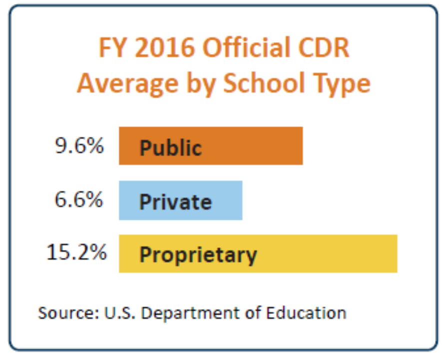


When a borrower hasn't made a payment for 270 days, technical default begins on day 271. Thereafter is an additional 90-day default filing period. The time when a borrower is added to the CDR numerator is:

- At the time of the claim payment by a guarantor on a FFELP loan, or
- On day 361 of delinquency on a Direct loan

How are CDRs delivered to schools?

CDRs are electronically delivered to schools that have signed up to receive them via the Student Aid Internet Gateway (SAIG), a tool for the secure exchange of data. Please visit FSA's SAIG Enrollment Site to enroll, obtain access to various applications, or receive assistance.



When are CDRs published?

The draft CDR is published in February and the official CDR in September.

After CDRs are released, what are some of the review actions schools should take, and when?

Schools receive a Loan Record Detail Report (LRDR) with their draft and official CDR notifications. It specifies information on each loan included in the school's CDR. Schools have the opportunity to respond to the loan information that was used to calculate their CDR.

According to FSA:

- **The purpose of releasing draft CDRs** is to allow schools the opportunity to review their data for accuracy and notify the data manager if there is any erroneous data on the LRDR. Draft rates form the basis of a school's official rate. If a school fails to challenge the accuracy of its draft rate, they may not contest the accuracy of the official CDR data.
- **During the draft cycle**, schools should compare the LRDR with their own student separation (graduates, withdraws, or drops below half-time enrollment) dates and loan details from their school's records, lenders, and data managers. If errors are found, schools can submit an Incorrect Data Challenge (IDC) via the eCDR Appeals electronic application system. (Note: if a school has a relatively low percentage of borrowers, it may be eligible to submit a Participation Rate Index Challenge during the draft cycle.) More information can be found on FSA's eCDR Appeals System website.
- **At the time official CDRs are released**, schools will receive a new LRDR that should be compared to the draft version and the loan information details from their school's records, lenders, and data mangers. Schools should also compare the LRDR with the Data Manager's IDC response to ensure that all agreed-upon changes are reflected in the official cohort default rate data.
- **During the official cycle**, schools can request a New Data Adjustment or an Uncorrected Data Adjustment (UDA) based on their LRDR review. And, they can appeal the rate based on loan servicing errors they're able to identify from lender and data manager records. If a school is subject to sanctions because of its cohort default rate, it may be eligible to file other appeals.

Default Repercussions for Student Loan Borrowers

- ✔ Wages garnished
- ✔ Loss of government payments (like tax returns)
- ✔ Partial liability for collection costs
- ✔ Lowered credit rating
- ✔ Denial of deferment, forbearance, or repayment plan changes
- ✔ Ineligibility for loan forgiveness opportunities
- ✔ Ineligibility for additional federal financial aid
- ✔ Collection phone calls, letters, and emails

Draft default rates released only to schools		Official default rates released to schools and the public	
February	August	September	January

• **No sanctions or benefits**	• **Sanctions and benefits apply**
• School compares draft LRDR to its own records	• School compares official LRDR to its own records and draft LRDR
• School may file challenges	• School may file adjustments and appeals

How can schools submit a challenge, adjustment, or appeal?

Challenges, adjustments, and appeals are actions schools can use if they believe its CDR is calculated incorrectly or specific mitigating circumstances are needed to excuse it from being subject to sanction. ED mandates that all IDCs, UDAs, Loan Servicing Appeals (LSA), and New Data Adjustment (NDA) be submitted via eCDR Appeals System website.

Challenges can only be submitted during the ***draft cycle*** for ***draft rates***. There are two challenges available: An Incorrect Data Challenge (IDC) and a Participation Rate Index Challenge (PRI).

Adjustments and appeals can only be submitted during the ***official cycle*** and are based solely on ***official rates***.

- There are two adjustments—the Uncorrected Data Adjustment (UDA) and a New Data Adjustment (NDA).
- There are six appeals available—a Loan Servicing Appeal (LSA), an Erroneous Data Appeal, a Participation Rate Index Appeal, an Economically Disadvantaged Appeal an Average Rates Appeal, and a Thirty-or-Fewer Borrowers Appeal.

For more details on adjustments and the eCDR Appeals application, please refer to FSA's eCDR Appeals System website.

Is there a CDR schools should target achieving?

As mentioned in the introduction, the lower the CDR the lower the number of defaults affecting borrowers, taxpayers, and schools. So the lower the CDR the better!

That being said, schools with rates of 30% or greater may have sanctions that include the loss of eligibility to participate in the Direct Loan and or Pell programs and can limit a school to provisional certification.

A school would then be required to develop a default prevention task force and prepare a plan to:

- Identify factors causing the default problem.
- Establish measurable objectives and evaluate the steps being taken to reduce the number of students defaulting.
- Outline the school's plans to remedy the repayment problem and include student repayment counseling.

The Vulnerable Face of Default

Attended a for-profit college	First generation student
Pell Grant recipient	Relatively small loan amount
Dropped out	African American
Family annual income < $40,000	Approximate age range late 20s to early 30s

Source: Brookings Study, TICAS and Bigthink

What are the sanctions associated with high CDRs?

FSA's 2.4 Cohort Default Rate Effects defines sanctions as follows:

School	Sanctions (34 CFR 668.206)
A school's three most recent official cohort default rates are 30% or greater for the three-year calculation.	Except in the event of a successful adjustment or appeal, such a school will lose Direct Loan and Pell Grant program eligibility for the remainder of the fiscal year in which the school is notified of its sanction and for the following two fiscal years.
A school's current official cohort default rate is 40% for the three-year CDR calculation.	Except in the event of a successful adjustment or appeal, such a school will lose Direct Loan program eligibility for the remainder of the fiscal year in which the school is notified of its sanction and for the following two fiscal years.

What are the benefits associated with low CDRs?

FSA's 2.4 Cohort Default Rate Effects defines benefits as follows:

Eligible School	Benefits
A school whose most recent official cohort default rate is less than 5.0 percent and is an eligible home institution that is originating loans to cover the cost of attendance in a study abroad program	May disburse loan proceeds in a single installment to a student studying abroad regardless of the length of the student's loan period. May choose not to delay the disbursement of the first installment of loan proceeds for first-year first-time borrowers studying abroad.
A school with a cohort default rate of less than 15.0 percent for each of the three most recent fiscal years for which data are available, including eligible home institutions and foreign institutions	May disburse, in a single installment, loans that are made for one semester, one trimester, one quarter, or a four-month period. May choose not to delay the first disbursement of a loan for 30 days for first-time, first-year undergraduate borrowers.

Where are rates made available to the public?

The public can find official CDRs on website such as College Navigator, College Scorecard, or a school's website.