

# Sizing Up the 3-Year CDR: What It Means For Schools and Borrowers

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## We Will Discuss

- Cohort Default Rate changes
- What the rate change means for you
- Who's defaulting
- Challenges for schools
- What you can do to prepare



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# Cohort Default Rate Changes



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## Cohort Default Rates

- The Department issues default rates according to the fiscal year that borrowers entered repayment
- Schools received 2007 Cohort Default Rates on September 14



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## Calculation Changes

- Future Cohort Default Rates will measure the percentage who default within the first ~~2 years~~ **3 years** of entering repayment
- Your first 3-year rate will be comprised of borrowers who:
  - Entered repayment between October 1, 2008, and September 30, 2009, *and*
  - Default on or before September 30, 2011



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## Why the Change?

- Defaulting takes 420 days
- 2006 study by the National Center for Education Statistics found that on average, defaults occur four years following graduation



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## Towards a More Accurate Rate

- More accurate information about the extent of the effect of student loan burdens
- More realistic assessments of student repayment success
- Indicators to reveal institutional problems



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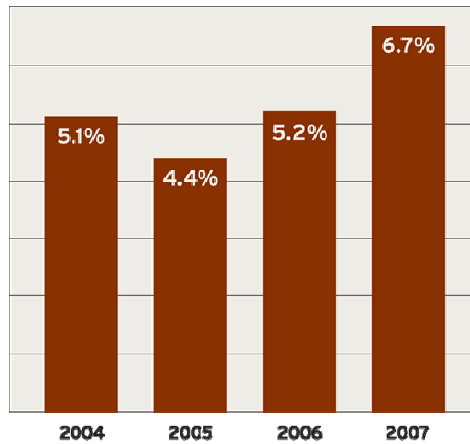
What Does the Rate  
Change Mean For You?



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## Rates are on the Rise



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## Calculation Change Impact

- Three-year rate calculation will mean higher default rates for virtually every postsecondary institution
- Rates are expected to increase approximately 60%



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## How Much Higher?

	2-Year	3-Year	Increase
Public 2-year	5.7%	9.7%	70%
Public 4-year	3.5%	5.3%	51%
Private 4-year	2.8%	4.5%	61%
Proprietary	8.6%	16.7%	94%
OVERALL	5.1%	8.6%	69%

Basis: FY2004 Cohort Default Rate data  
 Source: U.S. Department of Education data released by Inside Higher Ed



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## Penalties and Rewards

### CDR of 15% or less

- Exempt from:
  - 30-day delayed delivery rule
  - Multiple disbursement rule
- Single disbursement for one semester or quarter
- Begins FY 2012



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## Penalties and Rewards

CDR exceeds 30% for the first time or two consecutive years

- Required to establish a default prevention task force and submit plan to ED
- Begins FY 2012



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## Penalties and Rewards

CDR exceeds 30% for three consecutive years

- Lose Title IV eligibility
- Begins FY 2012



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## What It Won't Mean

- Only a very few schools will be at risk of losing Title IV eligibility
  - Threshold increases
  - Exceptions will be made for schools who have:
    - Disproportionate number of Pell-eligible or low-income students
    - High number of students who transfer from school to higher educational programs
    - High number of students who enter armed forces



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## When You Can Expect to See Rates

Calendar Year	Default Rate in February	Published Rate in September
2009	2007 CDR	2007 CDR
2010	2008 CDR	2008 CDR
2011	2009 CDR	2009 CDR
2012	2010 CDR*	2010 CDR*
	2009 CDR (3-yr)*	2009 CDR (3-yr)*
2013	2011 CDR*	2011 CDR*
	2010 CDR (3-yr)*	2010 CDR (3-yr)*
2014	2011 CDR (3-yr)	2011 CDR (3-yr)

\*The transitional schedule has not been finalized by the Department of Education, and is subject to change during negotiated rulemaking



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# Who's Defaulting?



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## Challenges Borrowers Are Facing

- Unemployment
- Foreclosure
- Lack of financial literacy skills
- Too much debt
- Rising cost of living
- Repayment confusion



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## Characteristics of Defaulters

- Withdrew from school
- Did not meet satisfactory academic progress standards
- Low GPA
- Did not declare a major
- Did not complete exit counseling
- Had prior default



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## Characteristics of Defaulters

- Had 0 EFC
- Earned GED or passed ATB test
- Registered late
- Required to take developmental courses



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## Other Factors to Consider

- Program of study
- High school
- Transfers
- Aggregate debt amount



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## Challenges for Schools



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## What We're Facing

- Higher loan limits
- SAP issues
- Enrollment increases
- Communicating changes to administration, faculty, staff, and students



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## MATC's Strategies

- Updated our default management plan
- Conducted a formal presentation to the administration
- Offered informational sessions to faculty and staff
- Instituted "mandatory" loan counseling



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## What You Can Do To Prepare



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## Steps You Can Take Now

1. Estimate your 3-year rate
2. Communicate the plan
3. Prepare students for repayment
4. Update or initiate your default management plan
5. Seek assistance



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## I. Estimate Your 3-year Rate

- How to size up your 3-year rate:
  - Start with your 2007 cohort default rate
  - Keep your denominator (borrowers who entered repayment in FFY 07)
  - Add to your numerator (borrowers who defaulted in FFY07 and FFY 08) with those additional borrowers who defaulted in FFY 09 (between 10/1/08 and 9/30/09)
  - Ask your guarantor or Direct Loan servicer for the number of default borrowers for FFY 09



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## 2. Communicate the Plan

- Conduct a formal presentation to your administration
- Provide informational sessions for faculty and staff
- Provide informational sessions for students
- Implement mandatory loan counseling
  - Prior to awarding additional loans
- Implement mandatory loan counseling prior to graduation



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### 3. Prepare Students for Repayment

- Provide an annual notification of cumulative debt
- Help them track their loans
  - [NSLDS.ed.gov](http://NSLDS.ed.gov)
  - [Meteornetwork.org](http://Meteornetwork.org)
  - [Annualcreditreport.com](http://Annualcreditreport.com)
- Explain how to use calculators to estimate and manage debt
- Tell them how and when to contact the loan servicer



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### 4. Update or Initiate Your Default Management Plan

- Develop a strategic plan that works for your institution
- Use three to five years of data on prior defaulters
- Review annually



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## 5. Seek Assistance

- Work with your guarantor partners to develop a plan that works for you
  - Online tools
  - Default prevention consultation
  - Entrance/exit counseling materials
  - Repayment brochures



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## Conclusion

- Be proactive in managing your rate now
  - Borrowers who entered repayment on/after October 1, 2008 will impact your 3-year rate
- Develop a plan
- Ask for advice or help
  - Partners and/or other schools



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Thank You



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