#	Subject	Summary of Change to Common Manual	Type of Update	Effective Date
1281	Calculation of School Cohort Default Rates	**16.2 Calculation of School Cohort Default Rates** **16.5 Consequences of High Official Cohort Rates for Schools** Corrects information on closed school, false certification and identity theft discharges included in the cohort default rate calculation and also introduces suggestions for schools regarding what a default management plan might include.	Federal	Expansion of the cohort default period from a two-year period to a three-year period beginning with fiscal year 2009.

Batch 190 (Approved)

COMMON MANUAL – FEDERAL POLICY PROPOSAL

Date: December 20, 2012

	DRAFT	Comments Due	
	FINAL	Consider at GB meeting	
X	APPROVED	with no changes	Dec 20

SUBJECT: **Calculation of School Cohort Default Rates**

AFFECTED SECTIONS:
16.2 Calculation of School Cohort Default Rates
16.5 Consequences of High Official Cohort Rates for Schools

POLICY INFORMATION: **1281/Batch 190**

EFFECTIVE DATE/TRIGGER EVENT: Expansion of the cohort default period from a two-year period to a three-year period beginning with fiscal year 2009.

BASIS:

2012 *Cohort Default Rate Guide*; GEN-05-14.

CURRENT POLICY:

Current policy states that for a student borrower whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions prior to the loan entering repayment, the borrower will be included in the denominator of the cohort default rate calculation. Current policy also states that for a student borrower whose loan was fully discharged for these same reasons after default, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator, if the default occurred within the applicable time frame.

REVISED POLICY:

Revised policy corrects information on closed school, false certification, and identity theft discharges included in the cohort default rate calculation. For a student whose loan was fully discharged due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness provisions without a previous default, the borrower will not be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator if the guarantor was notified of the condition in a timely manner. For a student borrower who paid a defaulted loan in full, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator. If a loan default occurred within the applicable time frame and the borrower rehabilitates the defaulted loan within the cohort default period, the borrower is not included in the numerator.

Revised policy also introduces suggestions for schools regarding what a default management plan might include.

REASON FOR CHANGE:

The Manual is being updated with guidance published in the *Cohort Default Rate Guide* and GEN-05-14.

PROPOSED LANGUAGE - *COMMON MANUAL*:

Revise Section 16.2, page 6, column 1, paragraph 3 as follows:

> . . .
>
> For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, ~~closed school, false certification~~, unpaid refund, or teacher loan forgiveness provisions *prior* to the loan entering repayment, the borrower will be included in the denominator of the cohort default rate calculation based on the date on which the guarantor paid the applicable claim or discharged the loan. <u>The borrower will not be included in the numerator because the borrower did not default.</u> For a student borrower whose loan was fully discharged ~~due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness~~ <u>for these same reasons</u> *after* the loan entered repayment<u>;</u> the borrower will be included in the denominator of the cohort default rate calculation based on the fiscal year in which the loan entered repayment. <u>The borrower will not be included in the numerator because the borrower did not default. If the borrower's loan was discharged due to school closure, false certification, or identity theft, the borrower is not included in the cohort default rate calculation.</u>

[~~2011~~ 2012 *Cohort Default Rate Guide*, p. 2.1 – 14]

Revise Section 16.2, page 7, column 1, paragraph 2, as follows:

For a student borrower whose loan was fully discharged due to death, disability, bankruptcy, unpaid refund, or teacher loan forgiveness provisions after default, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator, if the default occurred within the applicable time frame. For a student borrower whose loan was fully discharged ~~due to death, disability, bankruptcy, closed school, false certification, unpaid refund, or teacher loan forgiveness~~ for these same reasons without a previous default, the borrower will *not* be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator if the guarantor was notified of the condition in a timely manner. If the borrower's loan was discharged due to school closure, false certification, or identity theft the borrower is not included in the cohort default rate calculation. For a student borrower who paid a defaulted loan in full, the borrower will be included in the numerator of the cohort default rate calculation that contains the same loan in the denominator ~~(provided the loan was not rehabilitated by the borrower by the end of the following fiscal year), if the default occurred within the applicable time frame.~~ If a loan default occurred within the applicable time frame and the borrower rehabilitates the defaulted loan within the cohort default period, the borrower is not included in the numerator.
[2012 ~~2011~~ *Cohort Default Rate Guide*, pp. 2.1 – 13 and 2.1 – 14]

A loan will be considered to be in default, and will be included in the numerator, if a payment is made within the cohort default period by the school or its owner, agent, contractor, employee, or any other entity or individual affiliated with the school, in order to avoid default.
[§668.183(c)(1)(iii)]

. . .

Revise Section 16.5, page 14, column 2, by adding a new paragraph 5, as follows:

A student who is enrolled at the school and has received the first disbursement of a Direct loan before the school loses Direct loan eligibility may receive any remaining disbursements of that loan if he or she is otherwise eligible. However, a student who is enrolled at the school but to whom the first disbursement of a Direct loan has not been delivered (either directly or by credit to his account) by the date on which the school becomes ineligible may not receive that loan.
[§668.26(d)(3); §668.187; §668.206; §685.303(b)(2)(iii)]

Default Prevention Plans

Beginning with the official publication of three-year cohort default rates, a school whose three-year cohort default rate for a fiscal year is 30% or more must establish a default prevention task force to prepare a default prevention plan to:

- Identify the factors causing the school's rate to be 30% or more.
- Establish measurable objectives and steps to improve its default rate.
- Specify actions that can be taken to improve loan repayment, including counseling regarding loan repayment options.

Default Prevention Task Force

The Department recommends that a school's default prevention task force be comprised of appropriate senior level school officials including representatives from offices other than the financial aid office. The purpose of the default management task force is to:

- Identify and allocate the personnel and administrative and financial resources necessary to implement the default management plan.
- Establish a process to ensure the accuracy of data used to calculate its draft and official cohort default rates.

- Provide for a data collection system to track and analyze borrowers who default on their loans.

- Define evaluation methods, set default reduction targets, conduct an annual comprehensive self-evaluation to reduce defaults, and implement any indicated modifications.

Developing a Default Prevention Plan

A default prevention and management plan describes measurable objectives and the steps the school will implement in an effort to reduce student debt and default rates.

- *Enhanced Loan Counseling*

  During entrance and exit counseling, in addition to complying with the standard entrance and exit counseling requirements (see Chapter 4, Subsection 4.4.C), obtain information from borrowers regarding references and family members beyond those requested in the loan application, as well as cell phone numbers and e-mail addresses for borrowers. During exit counseling, (see Chapter 4, Subsection 4.4.D) collect updated information from the borrowers.

- *Information about Repaying the Loan*

  Provide borrowers with the estimated balance and interest rate(s) of their loan(s), as well as a sample loan repayment schedule based on their projected total loan obligation upon completion of the program. Provide the name, address, and telephone numbers of their loan servicers, and the estimated date of their first scheduled payment. Provide an estimated monthly income that the borrower can reasonably expect to receive in his or her first year of employment, based on the education received.

- *Financial Management*

  − Provide financial literacy resources to borrowers upon enrollment, during attendance, and following graduation or withdrawal.

  − Explain to the borrower that he or she should borrow only what is needed, and can cancel or return any funds in excess of that amount.

  − Make clear that the borrower must inform his or her loan servicer immediately of any changes of name, address, telephone number, or Social Security number.

  − Advise the borrower to contact the loan servicer to discuss a change in repayment plan or other repayment options if the borrower is unable to make a scheduled payment.

  − Provide general information about budgeting for living expenses and other aspects of personal financial management, including deferment, forbearance, consolidation, and other repayment options, and how to obtain these.

  − Explain the possible sale of loans by lenders and the use of outside contractors to service loans.

  − Explain that dissatisfaction with, or non-receipt of, expected educational service and underemployment does not excuse the borrower from repayment of loans.

  − Explain the consequences of default, including a damaged credit rating, loss of eligibility for further Title IV assistance, loss of generous repayment and deferment options, offset of tax refunds and federal benefits, wage garnishment, and possible civil suit.

- *Identification and Counseling of At-Risk Students*

  − The plan should include a means of identifying borrowers who withdraw prematurely from their educational program, who do not meet standards of satisfactory academic progress, or both, and provide counseling that offers intervention options and support.

- *Campus-Wide Communication*

  - Communication of information relevant to the prevention and management of defaults must be a school-wide effort and should not be the responsibility of only a single office. To promote success, campuses should evaluate their communication procedures to ensure compliance and accuracy. Information regarding borrowers' academic progress and enrollment status should be components of the information received by all relevant offices across campuses, including the offices that disburse funds and authorize payments. Accurate and timely reporting of borrowers' enrollment status is essential.

- *After Students Leave School*

  - On a scheduled basis, schools should request and review their NSLDS Date Entered Repayment (DER) Report to assure that the data on this report matches their records.

  - Early Stage Delinquency Assistance (ESDA) begins at the time of separation or early in the grace period. This is a focused effort by lenders, guarantors, and schools to assist particular borrowers in preparing for entry into loan repayment. ESDA activities afford an opportunity to provide focused, enhanced loan counseling, borrower education, and personal support during the grace period to help decrease the chance of later loan default.

  - Late Stage Delinquency Assistance (LSDA) requires collaboration with guarantors and servicers to enhance communication with borrowers throughout repayment. LSDA techniques enable schools to help prevent seriously delinquent borrowers from default.

  - Loan Record Detail Report (LRDR) data should be reviewed to ensure that CDR rates are accurate and include the correct borrowers and loans.

  - Periodically review the school's progress in preventing defaults. Evaluate commonalities and trends among defaulters and use this information to improve the school's default prevention plan and initiatives.

[GEN-05-14]

The school must submit its plan to the Department, and after reviewing the plan, the Department will offer technical assistance to the school to help improve the default rate.

If, for a second year, the school's default rate is 30% or more, the task force must review and amend the plan submitted earlier and send it to the Department for review. The Department may require the school to take additional actions that promote student loan repayment.
[HEA §435(a)(7); §668.217]

PROPOSED LANGUAGE - COMMON BULLETIN:

Calculation of School Cohort Default Rates

The *Common Manual* is being revised to correct information on the treatment of closed school, false certification, or identify theft discharges in the cohort default rate calculation. In addition, information on developing a Default Prevention Plan has been added.

GUARANTOR COMMENTS:

None.

IMPLICATIONS:

Borrower:
None.

School:
A school whose three-year cohort default rate for a fiscal year is 30% or more must develop a default prevention and management plan that describes measurable objectives and the steps the school will implement in an effort to reduce student debt and default rates.

Lender/Servicer:
None.

Guarantor:
A guarantor may need to amend its program review procedures.

U.S. Department of Education:
The Department may need to amend its program review procedures.

To be completed by the Policy Committee

POLICY CHANGE PROPOSED BY:
CM Policy Committee

DATE SUBMITTED TO CM POLICY COMMITTEE:
December 13, 2011

DATE SUBMITTED TO CM GOVERNING BOARD FOR APPROVAL:
December 13, 2012

PROPOSAL DISTRIBUTED TO:
CM Policy Committee
CM Guarantor Designees
Interested Industry Groups and Others
CM Governing Board Representatives

Comments Received From:
AES/PHEAA, ASA, College Assist, FAME, Great Lakes, HESC, MGA, NASFAA, NCHER, NELA, NSLP, OGSLP, PPSV, SCSL, SLND, SLSA, TG, UHEAA, USA FUNDS, and VSAC.

Responses to Comments
Most of the commenters supported this proposal as written. Several commenters recommended punctuation or wordsmithing changes that were incorporated without comment. We appreciate the review of all commenters, their careful consideration of this policy, and their assistance in crafting clear, concise policy statements.

COMMENT:
One commenter noted that this should be a Federal Policy Proposal as it introduces new information regarding default prevention plans that was not previously published in the manual.

Response:
The Committee agrees.

Change:
The Committee changed the proposal type to a Federal Policy Proposal.

COMMENT:
Several commenters noted they were unable to locate a requirement for the task force to include the school's chief executive officer in DCL GEN-05-14 and believe the proposed text is more onerous than federal requirements.

Response:
The Committee agrees.

Change:
The Committee has revised the language as follows.

Default Management Task Force

The Department recommends that a ~~A~~ school's default management task force ~~should include the~~

~~school's chief executive officer and relevant senior executive officials and~~ be comprised of appropriate ~~senior level~~ school officials including representatives from offices other than the financial aid office. The purpose of the default management task force is to:

COMMENT:
One commenter recommended adding a sentence to Late Stage Delinquency Assistance (LSDA) to provide additional clarification as to the purpose of LSDA.

Response:
The Committee agrees.

Change:
The Committee added the information with modification as follows:

- Late Stage Delinquency Assistance (LSDA) requires collaboration with guarantors and servicers to enhance communication with borrowers throughout repayment. LSDA techniques enable schools to help prevent seriously delinquent borrowers from default.

om/edited-aes