Why are cohort default rates important?

Defaulted federal student loans cost taxpayers money. Cohort default rate sanctions and benefits provide an incentive to schools to work with their borrowers to reduce default. Sanctions also can prevent a school with a high percentage of defaulters from continuing to participate in the William D. Ford Federal Direct Loan (Direct Loan) and Federal Pell Grant programs. As a result, cohort default rates help save taxpayers money.

Why is it important to review the data for DRAFT cohort default rates?

Although there are no sanctions or benefits associated with a *draft* cohort default rate, it is important to review the data used to calculate the rate for accuracy, because this data forms the basis of a school's *official* cohort default rate. A school that fails to challenge the accuracy of its *draft* cohort default rate data through an Incorrect Data Challenge (see Chapter 4.1) may not contest the accuracy of that same cohort data when it receives its *official* cohort default rate. Therefore, it is critical that all schools review their *draft* cohort default rate data when the U.S. Department of Education (the Department) releases it. In addition, in certain circumstances a school may be able to avoid the sanctions associated with its *official* cohort default rate by submitting a successful Participation Rate Index Challenge (see Chapter 4.2) based on its *draft* cohort default rate.

Regulatory citations:
34 CFR 668.187
34 CFR 682.603
34 CFR 682.604
34 CFR 685.301
34 CFR 685.303

Will a school's DRAFT and OFFICIAL cohort default rate data be the same?

No, a school's *draft* cohort default rate data and *official* cohort default rate data will not necessarily be the same. The National Student Loan Data System (NSLDS), which contains the data used to calculate cohort default rates, is updated regularly. As a result, a school's *draft* cohort default rate data may differ from its *official* cohort default rate data even if the school does not challenge the *draft* cohort default rate data. In addition, "average rate" schools – schools having fewer than 30 borrowers entering repayment in their most recent cohort year – will have included in their draft rate data only those borrowers who entered repayment in that year, whereas the "official rates" for these schools will include not only that data but also the data regarding borrowers who entered repayment in the preceding two fiscal years.

It is critical that all schools review their draft cohort default rate data.

Regulatory citations:
34 CFR 682.604
34 CFR 685.303

Are there any benefits for schools with low official cohort default rates?

Yes, there are two benefits available to schools with a low official cohort default rate, as described in the chart below.

Benefits for schools with low official cohort default rates

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.

These benefits take effect as soon as the school receives its *official* cohort default rate notification letter or notification of a successful adjustment and/or appeal from the Department. Schools no longer qualify for these benefits starting 30 calendar days after receiving notice from the Department of an *official* cohort default rate that exceeds the benefit threshold.

Are there any sanctions associated with high official cohort default rates?

Yes, sanctions apply when a school's *official* cohort default rate is at or above certain percentages.

Sanctions for schools with high official cohort default rates

School	Sanctions
A school's three most recent *official* cohort default rates are 25.0 percent or greater for the two year calculation, or 30.0 percent or greater for both the three year calculation.	Except in the event of a successful adjustment or appeal, such a school will lose Direct Loan and Federal 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 greater than 40.0 percent, for both the two year and 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.
NOTE: A school is not subject to the loss of Federal Pell Grant Program eligibility if, prior to October 7, 1998, the school requested in writing to withdraw from or lost its eligibility to participate in the FFEL and/or Direct Loan programs and has not subsequently participated in those programs. In addition, a school is not subject to the loss of Federal Pell Grant Program eligibility if it did not certify any FFELs and/or originate any Direct Loans on or after July 7, 1998. A school that resumes participation in the FFEL or Direct Loan programs is no longer eligible for either of these Federal Pell Grant Program exemptions.	

***No school sanctions will be applied based on the three year cohort default rate calculation until there have been three consecutive years of such rates calculated. This means that sanctions based on the three year cohort default rate calculation will begin in 2014, with the release of the FY 2011 cohort default rate.**

Can a school avoid the sanctions associated with high official cohort default rates?

If a school is notified that it is subject to sanction, the school may submit an adjustment or appeal to attempt to avoid that sanction. Adjustments and appeals are available to schools after the release of the *official* cohort default rates. Challenges are available to schools after the release of the *draft* cohort default rates, and may also result in avoidance of a sanction.

The following chart summarizes the actions a school may take. Schools not subject to loss of eligibility and schools subject to provisional certification based on cohort default rates may only take a limited number of these actions. See Chapter 3.1, "Reviewing Rates and Loan Data," for an overview of the actions schools may take. For more information, including detailed explanations of each action and the timeframes for taking an action, see Part IV of this Guide, "Challenges, Adjustments, and Appeals."

School actions in response to cohort default rates

Draft/ Official	Type of Action	Purpose
Draft	Incorrect Data Challenge	Correct data before the *official* cohort default rates are released.
Draft	Participation Rate Index Challenge	Demonstrate a low borrower participation rate to avoid an anticipated sanction with the official cohort default rate.
Official	Uncorrected Data Adjustment	Contest a data error that was agreed upon in the draft process but is still reflected in the *official* cohort default rate data.
Official	New Data Adjustment	For a school that is not subject to sanction, contest *official* cohort default rate data that was not included in *draft* cohort default rate data or that is different from the *draft* cohort default rate data.
Official	Erroneous Data Appeal	For a school that is subject to sanction, contest *official* cohort default rate data that was not included in the *draft* cohort default rate data (new data) and/or contest the data manager's decision (disputed data).
Official	Loan Servicing Appeal	Contest servicing of the borrower's loan account.
Official	Economically Disadvantaged Appeal	Demonstrate a high number of low-income students and high placement or completion rates.
Official	Participation Rate Index Appeal	Demonstrate a low borrower participation rate.
*Official**	Average Rates Appeal	Demonstrate a low number of borrowers.

Before notifying you of your official cohort default rate, we make an initial determination about whether you qualify for these appeals

Are there any consequences if a school submits adjustments and/or appeals but fails to avoid sanctions?

In addition to losing eligibility, a school that submits adjustments and/or appeals but fails to avoid sanctions is liable for certain costs associated with the Direct Loans it originated and disbursed during the adjustment and appeal process. Liabilities are not calculated for loans that were disbursed more than 45 calendar days after the school submitted its completed adjustment or appeal to the Department. Schools may avoid this liability if they choose not to originate loans during the adjustment and appeal process.

If a school is subject to a sanction, when does the sanction take effect?

The effective date of the sanction is dependent upon whether or not the school timely submitted an adjustment or appeal, and the current sanction status of the school. The chart below summarizes the effective date of sanctions based upon these circumstances.

Effective date of sanctions

	School is NOT Currently Under Sanction	**School IS Currently Under Sanction**
School Does **Not Timely Submit** Adjustment or Appeal	The school's participation ends 30 calendar days after the date the school first receives notice that it is subject to the loss of eligibility.	The school's previous loss of eligibility remains in effect and the school will receive an additional sanction.
School **Timely Submits** Adjustment or Appeal, but Adjustment or Appeal **is Unsuccessful**	The school's participation ends on the date that the school received the Department's final decision indicating that the adjustment and/or appeal was unsuccessful. A school may choose not to participate during the period to avoid incurring a liability.	The school's previous loss of eligibility remains in effect and the new loss of eligibility is effective when the school receives the Department's final decision indicating that the school's adjustment or appeal was unsuccessful. The new loss of eligibility does not replace the previous loss but it does extend the length of time that a school is unable to participate in the Direct Loan or Federal Pell Grant Program.
School **Timely Submits** Adjustment or Appeal, and Adjustment **or Appeal is Successful**	The Department will withdraw the notification that the school is subject to a loss of eligibility.	The Department will withdraw the notification that the school is subject to an additional loss of eligibility. However, the previous loss of eligibility remains in effect.

A school that loses eligibility may continue to honor unpaid loan commitments and make certain second disbursements after notification of the loss of eligibility if the school meets certain criteria listed in the CFR. The criteria can be found at 34 CFR 668.26(d).

The *official* cohort default rates must be released no later than September 30th. If, however, cohort default rates are not issued until after that date, a school's loss of eligibility would continue only for the remainder of the fiscal year in which the cohort default rates are issued and for the following fiscal year. For example, if the Department issues cohort default rates for FY 2009 on October 2, 2011, then a loss of eligibility that is based on the FY 2009 cohort default rate would continue only for the remainder of FY 2011 (the fiscal year in which the cohort default rates were issued) and to the end of FY 2012.

How does a school withdraw from or reapply for participation in the Title IV loan programs?

A school should contact COD School Relations Center at 1-800-848-0978 for information on withdrawing from the Direct Loan Program.

A school that loses Direct Loan or Federal Pell Grant eligibility may reapply for participation when the sanction period ends. A school should apply online at (eligcert.ed.gov).