

Understanding the Change to Three-Year Cohort Default Rates



The Higher Education Opportunity Act changed how school cohort default rates will be calculated, beginning with borrowers who enter repayment in the 2009 federal fiscal year. Beginning with the 2009 cohort, an additional year's data will be factored into the numerator for figuring the CDR — which will result in a significant increase in the CDR for most schools. The table below illustrates how CDRs will be calculated for fiscal years 2009 through 2011 under the three-year CDR methodology.

Cohort Year	Denominator	Numerator	Official Rate Published
2009	Borrowers entering repayment 10/1/2008–9/30/2009	Of the borrowers in the denominator, those who default between 10/1/2008–9/30/2011	Calendar year 2012
2010	Borrowers entering repayment 10/1/2009–9/30/2010	Of the borrowers in the denominator, those who default between 10/1/2009–9/30/2012	Calendar year 2013
2011	Borrowers entering repayment 10/1/2010–9/30/2011	Of the borrowers in the denominator, those who default between 10/1/2010–9/30/2013	Calendar year 2014

School Requirements and Sanctions

Default prevention plans. Beginning in calendar year 2012 and corresponding with the publication of the official 2009 three-year cohort rate, a school with a single-year CDR of 30 percent or greater will be required to establish a default prevention task force. The task force must develop a default prevention plan that includes measurable objectives designed to lower the school's CDR.

Schools must submit the plan directly to the U.S. Department of Education. Schools with CDRs of 30 percent or greater for two consecutive years must revise their plans to implement additional measures and also could be subject to provisional certification.

Loss of eligibility. The first time that schools may lose program eligibility as a result of the three-year CDR calculations will be in calendar year 2014, under either of the following conditions:

- ♦ The official CDR was 30 percent or greater for three consecutive years. Without a successful appeal, the school would lose eligibility to participate in the Federal Direct Loan Program and the Federal Pell Grant Program.
- ♦ The official 2011 three-year rate (published in calendar year 2014), or any succeeding year's rate exceeds 40 percent. Without a successful appeal, the school would lose eligibility to participate in the Direct Loan Program. The school would retain eligibility for the Federal Pell Grant Program, however.

Multiple Disbursement and Delayed Delivery

Beginning with loan disbursements made on or after Oct. 1, 2011, the threshold rate for allowing single-term loans to be disbursed in a single installment changes to 15 percent from 10 percent.

If a school's official CDR is less than 15 percent for either the two-year or three-year CDR calculations, for the three most recent consecutive years, the school may deliver loan funds in a single installment if the loan is made for a single term in a standard term-based program. The same applies to nonstandard, term-based programs when the term is not longer than four months.

Additionally, the school is not required to delay delivery of Stafford loan funds to first-year students who are first-time borrowers if the school's three most recent consecutive official CDRs are less than 15 percent.

Transition Period

Schools remain subject to current regulations through the publication of the two-year CDRs for 2011 (published in calendar year 2013). Existing threshold rates for loss of eligibility do not change during this period for rates calculated under the two-year CDR methodology.

Beginning in calendar year 2014, the only rates the Department officially publishes will be the rates based on the new methodology. Any school with three consecutive years of two-year rates that are 25 percent or greater during the transition period will lose eligibility to participate in the Direct Loan Program as well as the Pell Grant Program. Any school whose rate exceeds 40 percent during any transition year under the two-year CDR calculation will lose eligibility to participate in the Direct Loan Program.

CDR Changes — Timelines for Implementation

	Required Activities and Sanctions	Loss of Eligibility	Multiple Disbursement and Delayed Delivery Exemptions
Calendar Year 2010 (Two-Year CDR)	School with a single-year CDR that exceeds 40% loses eligibility to participate in the Direct Loan Program.	School with three consecutive years of official two-year CDRs of 25% or greater loses eligibility to participate in the Direct Loan and Pell Grant Programs. School with two-year CDR greater than 40% for any single year loses eligibility to participate in the Direct Loan Program. Eligibility to participate in the Pell Grant Program is not affected.	A school with a two-year official CDR of less than 10% for the three most recent years for which rates are published may: <ul style="list-style-type: none"> Deliver loan funds in a single installment for a single term loan for standard term-based programs. The same applies to nonstandard term-based programs when the term is not longer than four months. Deliver the first disbursement of loan funds to first-year students who are first-time borrowers without the 30-day delay.
Calendar Year 2011 (Two-Year CDR)	School with a single-year CDR that exceeds 40% loses eligibility to participate in the Direct Loan Program. School with an official CDR of 25% or greater for three most recent years loses eligibility to participate in the Direct Loan and Pell Grant Programs.	School with three consecutive years of official two-year CDRs of 25% or greater loses eligibility to participate in the Direct Loan and Pell Grant Programs. School with two-year CDR greater than 40% for any single year loses eligibility to participate in the Direct Loan Programs. Eligibility to participate in the Pell Grant Program is not affected.	For loan disbursements made on or after Oct. 1, 2011, the threshold rate for allowing single-term loans to be disbursed in a single installment changes to 15% from 10%. If a school's official CDR is less than 15% for either the two-year or three-year calculations for the most recent published rates for three consecutive years, the school may: <ul style="list-style-type: none"> Deliver loan funds in a single installment for a single term loan for standard term-based programs. The same applies to nonstandard term-based programs when the term is not longer than four months. Deliver the first disbursement of loan funds to first-year students who are first-time borrowers without the 30-day delay.
Calendar Year 2012 (First Three-Year CDR)	School with a single-year CDR of 30% or greater must: <ul style="list-style-type: none"> Establish a default prevention task force. Develop a default prevention/reduction plan with measurable objectives for lowering the CDR. Submit the default reduction plan directly to ED. 	School with three consecutive years of official two-year CDRs of 25% or greater loses eligibility to participate in the Direct Loan and Pell Grant Programs. School with two-year CDR greater than 40% for any single year loses eligibility to participate in the Direct Loan Programs. Eligibility to participate in the Pell Grant Program is not affected.	A school with a three-year official CDR less than 15% for the three most recent years for which rates are published may: <ul style="list-style-type: none"> Deliver loan funds in a single installment for a single term loan for standard term-based programs. The same applies to nonstandard term-based programs when the term is not longer than four months. Deliver the first disbursement of loan funds to first-year students who are first-time borrowers without the 30-day delay.
Calendar Year 2013 (Three-Year CDR)	School with a single-year CDR of 30% or greater must: <ul style="list-style-type: none"> Establish a default prevention task force. Develop a default prevention/reduction plan with measurable objectives for lowering the CDR. Submit the default reduction plan directly to ED. School with two consecutive years of CDRs of 30% or greater must revise the default reduction plan and implement additional measures to prevent and reduce defaults.	School with two consecutive years of official CDRs of 30% or greater may be subject to provisional certification.	A school with a three-year official CDR less than 15% for the three most recent years for which rates are published may: <ul style="list-style-type: none"> Deliver loan funds in a single installment for a single term loan for standard term-based programs. The same applies to nonstandard term-based programs when the term is not longer than four months. Deliver the first disbursement of loan funds to first-year students who are first-time borrowers without the 30-day delay.
Calendar Years 2014 and Beyond (Three-Year CDR)	School with a single-year CDR of 30% or greater must: <ul style="list-style-type: none"> Establish a default prevention task force. Develop a default prevention/reduction plan with measurable objectives for lowering the CDR. Submit the default reduction plan directly to ED. School with two consecutive years of CDRs of 30% or greater must revise the default reduction plan and implement additional measures to prevent and reduce defaults.	School may lose eligibility under either of the following conditions: <ul style="list-style-type: none"> Three consecutive official CDRs of 30% or greater, school would lose eligibility to participate in Direct Loans and Pell Grant Programs. 2011 official three-year CDR (published in calendar year 2014) or any succeeding single-year CDR exceeds 40%, school may lose eligibility to participate in Direct Loans. Eligibility to participate in the Pell Grant Program is not affected. 	A school with a three-year official CDR less than 15% for the three most recent years for which rates are published may: <ul style="list-style-type: none"> Deliver loan funds in a single installment for a single term loan for standard term-based programs. The same applies to nonstandard term-based programs when the term is not longer than four months. Deliver the first disbursement of loan funds to students who are first-time borrowers without the 30-day delay.