CDR – How is It Calculated and How Do You Manage It?

Presented by
American Student Assistance

Objectives

- Understand how the Cohort Default Rate (CDR) is calculated
- Understand the difference between the 2 year and 3 year calculation
- Understand how to achieve the CDR you want

The CDR is based on the number of borrowers entering repayment, not the number and types of loans entering repayment

Cohort Default Rate - Definition

A school’s CDR is the percentage of a school’s borrowers who enter repayment on a loan during the fiscal year and default within the cohort default period.

***For schools who have 30 or more current or former students entering repayment during the fiscal year.*

Cohort Default Rate - FYI

CDR's are based on federal fiscal years. *Federal fiscal years* begin Oct. 1 of a calendar year and end on Sept. 30 of the following calendar year.

The phrase "cohort fiscal year" refers to the fiscal year for which the CDR is calculated.

For example: When calculating the 2007 CDR, the cohort fiscal year was fy2007 (Oct. 1, 2006 to Sept. 30, 2007).

Cohort Default Period - FYI

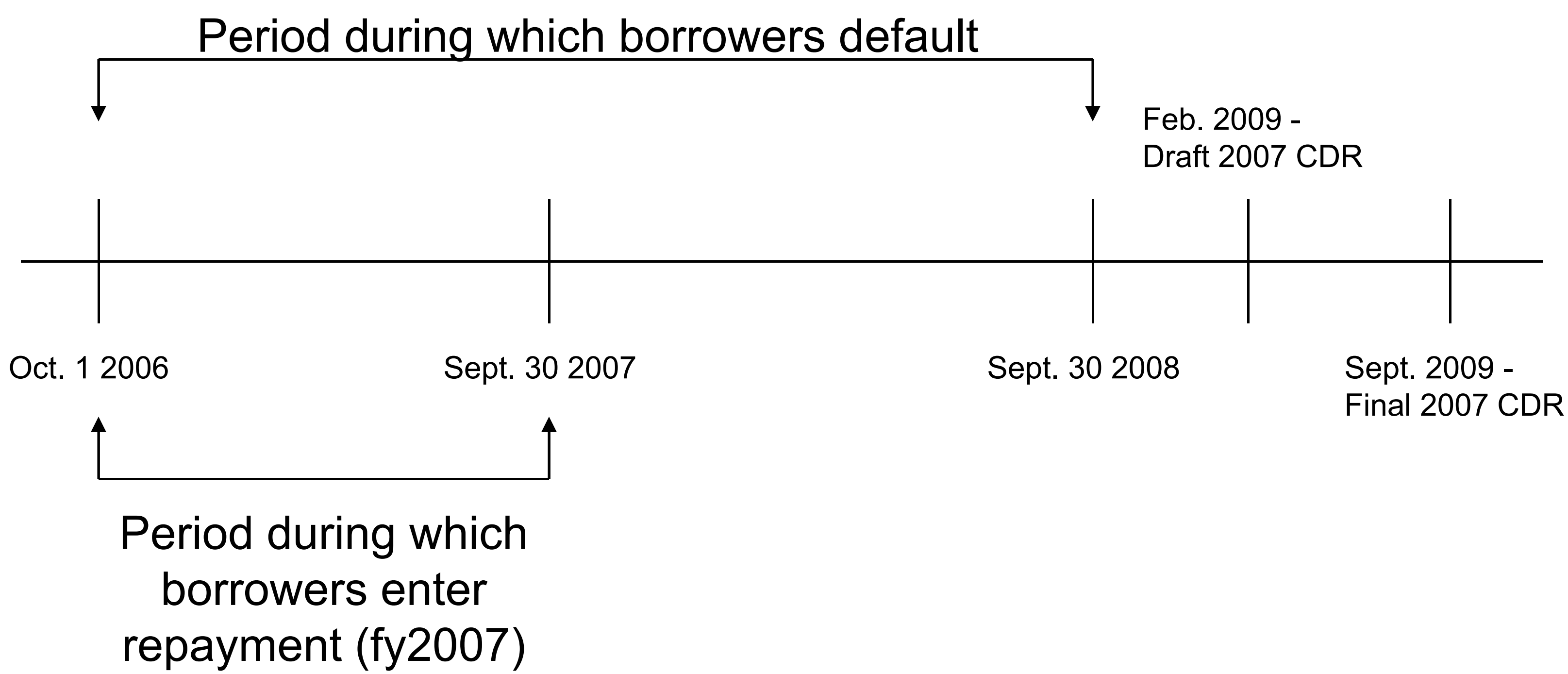
Refers to the two-year period that begins Oct. 1 of the fiscal year when the borrower enters repayment and ends on Sept. 30 of the following fiscal year. This is the period during which a borrower’s default affects the school’s CDR.

Cohort Default Period – Going Forward

Refers to the three-year period that begins Oct. 1 of the fiscal year when the borrower enters repayment and ends on Sept. 30 of the 2nd following fiscal year. This is the period during which a borrower's default affects the school's CDR.

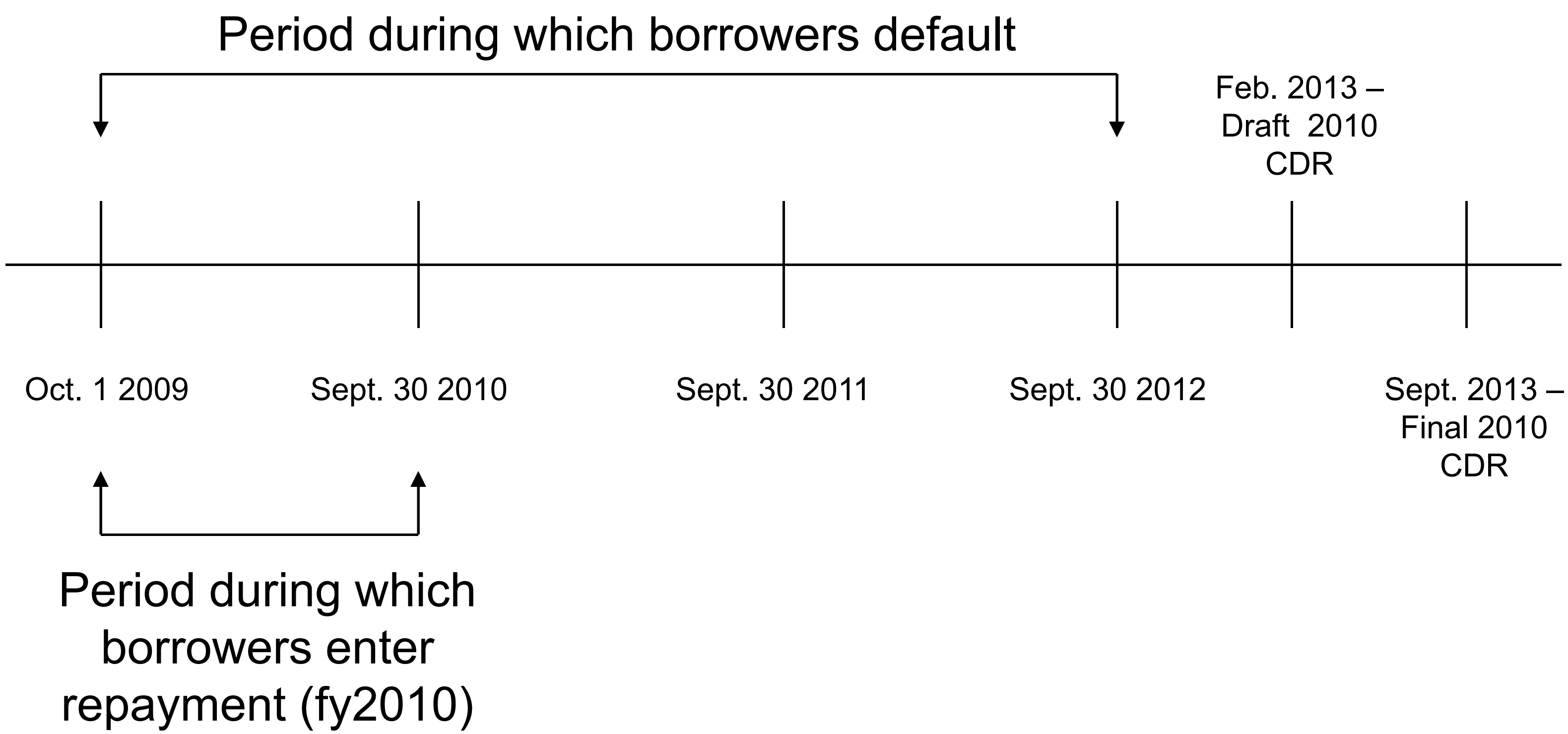
Timeline

2-year CDR Calculation (example)



Timeline

3-year CDR Calculation (example)



How the CDR is Calculated

Number of student loan borrowers who entered repayment during a specific fiscal year and have entered default within the same or following two fiscal years

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Number of student borrowers who entered repayment during the initial or specified fiscal year

Multiplied by 100

Note: this formula is for schools with thirty (30) or more student borrowers who entered repayment.

2 Year Cohort Default Rate Calculation (examples)

2002	Borrower enter repayment in fy2002 and default in 2002 and 2003 ――― Borrowers who enter repayment in fy2002	10/01/2001 to 09/30/2003 ――― 10/01/2001 to 09/30/2002
2004	Borrowers enter repayment in fy2004 and default in 2004 or 2005 ――― Borrowers who enter repayment in fy2004	10/01/2003 to 9/30/2005 ――― 10/1/2003 to 9/30/2004

3 Year Cohort Default Rate Calculation (examples)

2009	Borrowers who enter repayment in fy2009 and default in 2009, 2010, and 2011 ——————— Borrowers who enter repayment in fy2009	10/01/2008 to 09/30/2011 ——————— 10/01/2008 to 09/30/2009
2011	Borrowers who enter repayment in fy2011 and default in 2011, 2012 or 2013 ——————— Borrowers who enter repay in fy2011	10/01/2010 to 9/30/2013 ——————— 10/1/2010 to 9/30/2011

Types of Loans Included in CDR Calculation

- Subsidized and unsubsidized Federal Stafford Loans
- Federal Direct subsidized and unsubsidized Stafford loans
- Federal Supplemental Loans for Students (Federal SLS loans)

Types of loans NOT included in CDR Calculations

- Federal PLUS Loans
- Federal Graduate / Professional PLUS Loans (FFEL / Direct)
- Federal Insured Student Loans (FISLs)
- Federal Perkins Loans (they have a separate CDR calc)

Which borrowers are included in the denominator?

Borrowers are included in the denominator based on when their loans enter repayment

- Repayment begins 6 months after the borrower separates.
- Official repayment date is the first day after the end of the grace period.
- Even if the borrower uses a deferment or forbearance, they are still included.

Which borrowers are included in the numerator?

- Only borrowers included in the denominator can be included in the numerator.

- For FFEL, only if the guaranty agency has paid a default claim to the lender holding the loan. The claim date (the date the GA pays the lender) is used to determine what year the loan defaults.

- For DL, a loan is considered in default after 360 days of delinquency.

How does Consolidation affect the numerator?

- Consolidation loans are not directly included in the CDR calculation.

- They may cause a borrower to be included in the numerator of the CDR calculation if the consolidation loan defaults within the cohort default period that is applicable to the underlying loan(s).

How do Rehabilitations affect the numerator?

- Once a borrower makes the required payments, the loan is rehabilitated and no longer in default.

- If loan is rehabilitated before the end of the cohort default period, borrower is not included in the CDR.

- If the loan is rehabilitated after the end of the cohort default period, the borrower is still considered to be in default for purposes of the CDR calculation.

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The Cohort Default Rate Guide (Guide) is a comprehensive publication that presents information on cohort default rates for schools participating in the Federal Family Education Loan (FFEL) Program and the William D. Ford Federal Direct Loan (Direct Loan) Program. Default Prevention and Management previously provided the Guide twice a year with the draft and the official cohort default rates. The original Guide, was published August 2001. The revised Guide was published August 2006 and posted on the Default Prevention and Management's web site at http://ifap.ed.gov/DefaultManagement/DefaultManagement.html. It is the permanent version and any change to its content will be accessible from the "Updates" link on the Guide homepage.

Cohort Default Rate Guide Master File

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http://www.ifap.ed.gov/DefaultManagement/CDRGuideMaster.html

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Determining Target CDR and At Risk Population

Determine Your Target CDR

Once you determine the target CDR for your institution, how do you find the maximum number of defaults allowed to keep you at that rate?

Maximum Number of Defaults Allowed

Target CDR:	4%
Number of borrowers who entered repayment between 10-01-05 and 9-30-06:	5,000
Maximum number of defaults allowed:	200
Increase in 2006 CDR for every borrower who defaults during the cohort period:	0.02%

Projecting Your CDR

Default Rate Projection

Cohort Fiscal Year (CFY) 2006

Cohort Default Rate Elements		
Borrowers who entered repayment in CFY 2006 and already in default	A	110
Borrowers who entered repayment in CFY 2006 and are ≥ 320 days delinquent	B	60
Borrowers who entered repayment in CFY 2006	C	5,000
Cohort Default Rate (CDR) Calculations		
Current CDR based on actual defaults	A/C	2.2%
Projected increase in CDR assuming all borrowers ≥ 320 days delinquent default	B/C	1.2%
Projected CDR based on actual defaults and current delinquencies ≥ 320 days	(A+B)/C	3.4%

Difference between 2-Year and 3-Year Cohort Default Rates

Difference between 2 and 3 year calculation

Increases in Cohort Default Rates (2-year vs 3-year window)			
Institution Type	**FY2004 2 year rate**	**FY2004 3-Year Rate**	**Increase in Default Rates**
Public	4.7%	7.4%	53%
<2 year	5.7%	9.7%	70%
2-3 year	8.1%	12.9%	23%
4 year	3.5%	5.3%	51%
Private	3.0%	4.7%	57%
< 2 year	9.0%	18.7%	108%
2-3 year	7.4%	12.2%	65%
4 year	2.8%	4.5%	61%
Proprietary	8.6%	16.7%	94%
< 2 year	8.9%	18.5%	108%
2-3 year	9.9%	19.5%	97%
4 year	7.3%	13.7%	88%
Foreign	1.5%	2.5%	67%
Unclassified	5.5%	10%	82%
Total	5.1%	8.6%	69%

From http://www.finaid.org/loans/cohortdefaultrates.phtml

Default Management

At Risk Population

What types of student loan borrowers are considered at risk?

- Withdrawn students
- Borrowers for whom you have received return mail (for any type of mailing
- Borrowers who have missed their first payment
- Borrowers who did not complete the exit interview or any other action “required” by your institution

Identifying Your At Risk Population

Get reports that list your institution's student loan borrowers. You should be able to get these reports from NSLDS or from partners.

- All student loans at each stage of delinquency
- If you have limited time and/or resources, track only those that are in your cohort population
- All student loans at the point of pre-claim

Now that you have this information…what do you do with it?

Why Do You Want To Manage Your Defaults?

- To assist the student loan borrower
- To insure future Title IV fund availability to your students
- To be eligible for loan disbursement waivers and exceptions
- To insure that you are not in a position to be mandated to use a default management plan by the Department of Education

As the school, you are the ‘trusted agent’. Your name is recognized and trusted more so than other loan partners. The actions you take can make a difference.

Best Practices and Proven Impact Activities

- Early education with the student loan borrower
- Continued information and education as long as the student is enrolled
- Early skip-trace efforts
- Active involvement with students that have withdrawn or are delinquent
- Use of policies that mandate collection of information
- Collection of additional information from the student loan borrower by the school (mandated)
- Staying informed as to what your partners are doing
- Choosing partners whose mission is aligned with yours

Early Education Activities

- Work with your institutional partners—make it count!
- When you have a regulation-based activity—like entrance and exit interviews—use a mandate to insure that it occurs.
- Utilize the activity to gather as much information as you can.
  - Supplemental information sheets (references)
  - Individual or group discussion/meetings
  - Detailed fact sheets about every loan program you have
  - Informational materials for the student loan borrower about repayment and financial literacy
  - Financial literacy programs

Continuous Information and Education

- Take every opportunity to deliver information to your student loan borrowers, not just at the time of entrance and exit interviews.
- Make sure that the borrower clearly understands what types of loans they have and who they will have to pay.
- Make sure the borrower understands their responsibility.
- Survey your borrowers to find out how prepared they feel for repayment, and then develop ways to help them.
- Work with your institutional partners (business office) who have responsibility for the other loan programs (this is critical).

Early Skip-Trace Efforts

- If a borrower withdraws, do your best to ensure you know how to contact them.
- As soon as the school receives returned mail—for any reason—begin skip-tracing activities.
- Use your supplemental information sheets to obtain reference, relative, and employment information to use in skip-tracing.
- Send default management mailings to the borrower during grace periods and during repayment (three purposes: education, to keep the school present to the borrower, and potential skip-tracing).

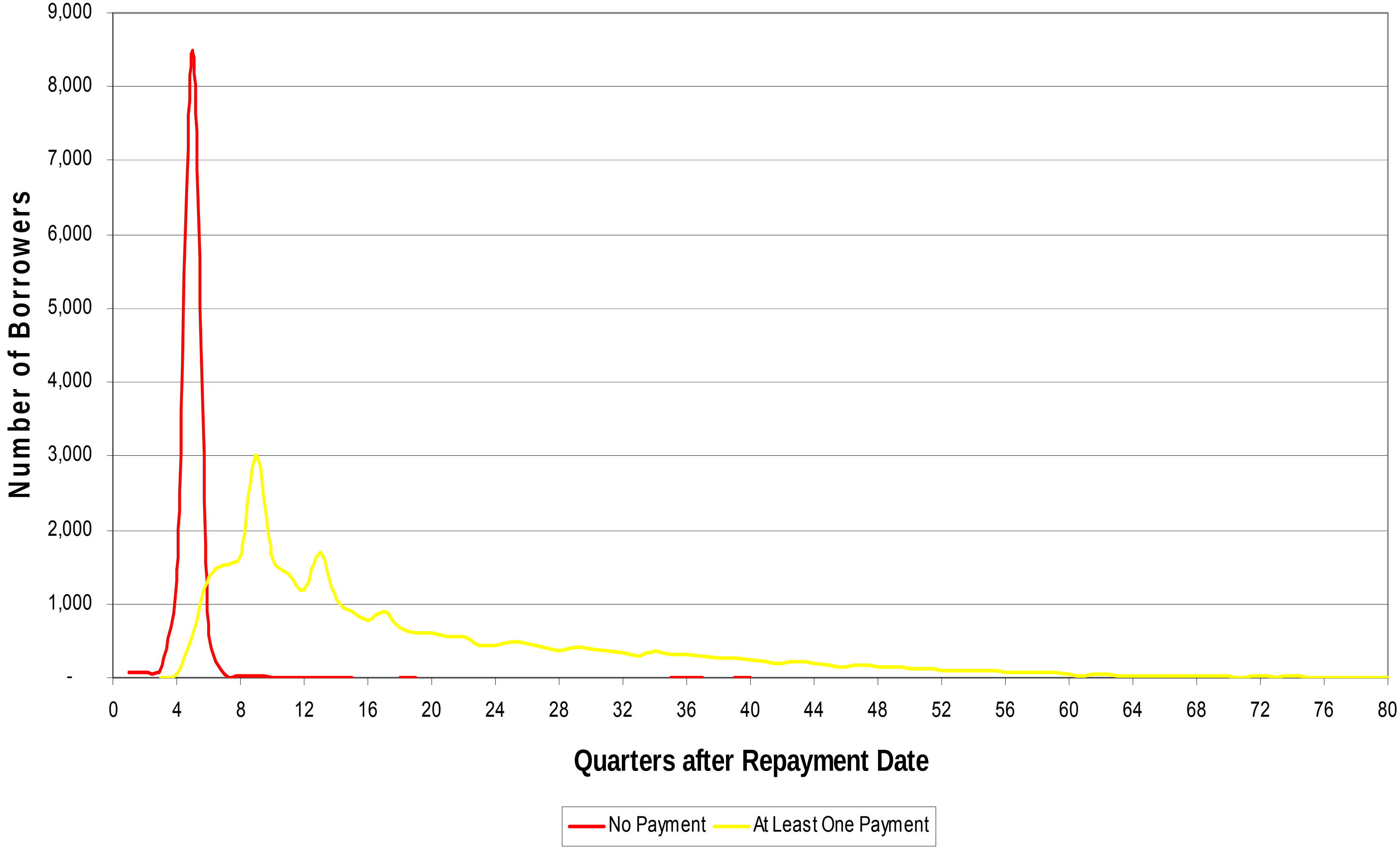
Withdrawn Students & Delinquent Borrowers

Students who withdraw before completing their program of study and student loan borrowers who first become delinquent are the two highest risk categories within your cohort population.

Focus your default management efforts on these two groups of student loan borrowers.

This is the most effective strategy in terms of resources and results.

Figure 7a: Timing of Defaults of All Borrowers



Policies That Mandate Collection Of Information

- Many schools have policies that mandate collection of information or regulatory requirements.
- Often it is done through the office that has responsibility for collection of monies owed to the institution.
- If a borrower does not provide the required information when they are a student, there's a much higher likelihood of delinquency and default.
- Because of the higher risk with these students, education and information becomes critical.
- Work with your partner offices to develop and/or utilize the best policy for default management.

Collection of Additional Information

It is imperative that a school collect information from a student loan borrower that can assist both the school and it's partners in default aversion and management.

- Address---both current and permanent
- Parent and grandparent names, address, phone numbers
- Employment information—student and parent
- References, at least three to five—each year if possible
- List of other institutions where the borrower has received a student loan, and what type.

Questions

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