STUDENT LOAN COHORT DEFAULT RATES and COMMUNTY COLLEGES - FAQs

Federal law requires that the U.S. Department of Education publish “cohort default rates” or CDRs for every college participating in the federal direct student loan program. Colleges that have CDRs exceeding specified maximums can face consequences, including removal from the federal student loan program. It is crucial that community colleges are aware of the default rates of their alumni and former students. Further, they should actively work to provide support for borrowers.

The following resource is provided by the Association of Community College Trustees (ACCT) and Edamerica to support community college boards in understanding how the consequences of cohort default rates could impact the financial standing of the institutions that they govern.

Who makes up a student loan cohort?

Group of Federal Direct Student Loan Borrowers who entered repayment within a given federal fiscal year (FY), *October 1st to September 30th.*

What is a cohort default rate (CDR)?

The percentage of borrowers in a school’s cohort who default within the next three fiscal years (36 months). Example below for the FY2024 Calculation Period.

Note: The last student loan cohort default rate that was not impacted by the COVID-19 repayment pause was FY2017. For that cohort year, the average CDR for community colleges was 15.2% (public 2-3 years) and 13.1% (less than 2 years).

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How is it calculated?

Divide the Total # of borrowers who default by the Total # of borrowers who entered repayment for the given federal fiscal year.

- NOTE: Cohort default rates are lagging indicators. Official CDRs are available at NSLDS: Official Cohort Default Rate - Schools (ed.gov)
- Keep in mind that colleges have just received Draft CDRs for 2022 which were at or near 0%, giving a false impression that rates are low. The current cohorts have high rates of delinquency. The current cohorts in active calculation periods are FY2023, FY2024 and FY2025. For more information, use Cohort Tool – Edamerica.

What are the thresholds colleges need to stay under?

Below 15%

- Some professional accrediting bodies encourage colleges to keep CDRs below a 15% threshold.
- College financial aid offices have more flexibility regarding timing and number of student loan disbursements if rates are below 15%.

What are the consequences of surpassing the threshold?

CDRs above 30% place colleges at risk of losing Title IV eligibility.

- Single Year at 30% or higher, colleges must:
  - Establish a default prevention task force
  - Develop a default prevention plan
  - Submit default prevention plan directly to US Dept. of Education.
- Two consecutive years at 30% or higher, colleges:
  - Must revise default prevention plan
  - Must implement additional measures to prevent/reduce defaults
  - May be subject to provisional certification
- Three consecutive years at 30% or higher results in:
  - Loss of program eligibility for:
    - Federal Pell Grants
    - Federal Direct Student Loans
- Single Year at 40% or higher results in:
  - Loss of program eligibility for:
    - Federal Direct Student Loans

Is there an appeals process if colleges exceed the thresholds?

Appeal options are available. Some can be used even if a college is below the threshold for sanctions. Options include:

- Incorrect Data Challenges (draft rate)
- Uncorrected Data Adjustment (official rate)
- New Data Adjustment (official rate)
- Loan Servicing Appeals (official rate)
- Participation Rate Index Challenge (alleges that the college should not be subject to sanctions because the college has very low student loan borrowing rates)

How can colleges check their data to know their rates in advance?

Data for student loan cohorts can be accessed via NSLDS. The file format may require technical assistance from college IT staff. However, vendors like Edamerica provide FREE Student Loan Risk Analysis. Colleges can request the analysis by calling Edamerica at 1-855-493-1785 or online at Connect – Edamerica.

What strategies can colleges use to keep their default rates low?

- Financial aid packaging strategies that use direct costs only. Students needing additional loans can request additional loan dollars, if needed.
- Financial aid offices should disburse loan proceeds using multiple disbursement options even if the college cohort rate is below the 15% threshold.
- Colleges should deploy outreach services for delinquent borrowers. While some colleges may be able to do this without third party help, third party organizations like Edamerica have the expertise to help colleges manage default rate and support borrowers with much needed student loan counseling. Prior to the COVID pandemic many colleges had reserved budgetary dollars to support this work.
- Provide financial literacy information to borrowers. Colleges should consider developing financial literacy services that can be deployed across the curriculum for first-year students. Organizations like the Higher Education Financial Wellness Alliance (HEFWA) are a great resource. With membership fees that are based on the number of full-time students enrolled (FTE), HEFWA provides educational opportunities for faculty and staff via webinars and an annual summit. They also support CashCourse which provides online financial education courses through instructor assignment or self-study. For more information, go to HEFWA.org.

For more information, contact ACCT at publicpolicy@acct.org or visit www.acct.org/advocacy/legislative-priorities/student-loans

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