NASFAA’s “Off the Cuff” Podcast – Episode 330 Transcript

OTC AskRegs Experts: Let’s Talk About Cohort Default Rates

Hugh Ferguson:

Hey everyone. Welcome to another episode of "Off the Cuff". I'm Hugh Ferguson with our communications team.

Jill Desjean:

I'm Jill Desjean with NASFAA's policy team.

Sarah Austin:

And I'm Sarah Austin, also with the policy team.

Hugh Ferguson:

Welcome back, Jill and Sarah. It's been a busy couple of weeks as always. I feel like I keep repeating that, but somehow it always is just different avenues of higher education policy that tend to be busy with each passing week. But for today, we thought we would take some time to dig into a specific issue that's become more relevant in the last couple of weeks with the resumption of student loan repayments and the beginnings of borrowers possibly entering into a default status due to the resumption in payments. And so we wanted to take some time today to talk about a metric that all our listeners are probably very familiar with, but just to provide more of a deep dive into the issue, and that's going to be cohort default rates.

And so yeah, I guess just to get us started, Jill and Sarah, what is it that's made cohort default rates relevant once more?

Jill Desjean:

Yeah, no, it's a great question. A great way to frame it, what makes them relevant, because people who are newer to financial aid probably just might not even know what they are because when they're zero, who cares? But they are a big deal. Obviously, they reflect the percentage of students who graduated in a certain cohort from a certain school who have defaulted on their student loans. It's an accountability metric for schools. And of course the negative consequence for students as well. And because of the pandemic three-ish year pause and then the one-year on-ramp to repayment that followed the payment pause, we have been sheltered from defaulting. No one has been able to default. No one has been forced into defaulting because they haven't had any required payments. So this is sort of that last piece of the resumption of student loan repayment, which is now the resumption of collections on defaulted student loans.

So students may have found themselves delinquent before the pandemic. And so when resumption of repayment began last fall, they could already be in default because they may have just had one or two payments left to get them into default. But we're even reaching the point right now where, because repayment began in September, if you haven't made a payment since September, even if you were current or hadn't been required to make payments before then, you could be now approaching that nine month point where you are going to default. And so we heard from the Department of Education back in April where they talked about the fact that they are resuming the Treasury offset program, which is where the federal government can withhold benefits, either your tax refund or other federal benefits. That started back up on May 5th and they have plans to begin administrative wage garnishment where the federal government can direct your employer to withhold up to 15% of your earnings to go toward your default loan balance. And that's going to start up later this summer.

And then after that, we heard from the department in early May urging schools to share repayment information with student borrowers because they are looking at the number of defaults and the number of delinquencies on the records right now, and they're high. They're estimating that 25% of the student loan portfolio is either in default or in a late stage of delinquency. And so that would put us at a point of default rates double what they were pre-pandemic.

So yeah, Sarah, maybe you could talk a little bit about CDR, what it is, what are the details of CDRs, how they get calculated, et cetera.

Sarah Austin:

Yeah, you bring up a good point earlier about how if you entered the financial aid profession anytime in the last five years, or even maybe not entered the profession, but got to a level in your position where you used to not have to worry about CDRs and now you do. But in the last five years, we haven't really had a normal situation regarding repayment and the cohort default rates. So I do think this is a little bit of a important topic for really anyone, but especially people that maybe just didn't have to deal with these before.

So basically the cohort default rate or CDR measures the percentage of student borrowers who entered repayment during the federal fiscal year, which the federal fiscal year runs from October through September. And so they entered repayment in a specific fiscal year and then default within the next three years. So we are talking about a lag here. So thinking about specific years, and even I had to sit down and be like, wait, what year are we talking about? Where the next CDRs that will be published, published annually will be in 2026, and those will be for fiscal year 2023. And if they entered repayment in 2023 or defaulted in 2023, '24 or '25. So that's the next set of students that we are talking about here.

But basically these CDRs are released annually, like I said. They're an accountability measure for schools. So they do impact a school's financial aid Title IV eligibility, meaning if they have a single CDR rate that exceeds 40%, so for one year, if their CDR exceeds 40%, or for three consecutive years it exceeds 30%, a school actually loses title four eligibility. So that's the big impact on schools. But obviously if you have a CDR at 40%, that's bad for students as well. And I'm sure there's no financial aid administrators who want their students to default. So not only is this bad for the school on the accountability piece, but obviously also bad just for your students' well-being piece.

But over the last few years, like Jill said, we had this kind of pause on payments, but also pause on students defaulting on student loans. So the CDR rates of course went downward because no one could enter default. So where we saw back in fiscal year 2018, they were around 7% for the national CDR and then went all the way down to 2.3% for fiscal year 2019 and then went to zero for the next couple years. And so now that repayment has resumed, not only would you expect to return to what you would think of as your normal CDRs, but now we are expecting higher numbers because, similar to how if you entered the financial aid profession in the last five years, you haven't really had a normal experience, but also students, anyone who has entered repayment in the last five years, they have not had a normal repayment experience. They either weren't required to make payments or maybe have never made one payment, they had a break in payments, whatever the case may be.

But students have not had that normal repayment experience the last five years. And we know that because of that, we now have more students in default than pre-pandemic. And we also have a large group of students, like Jill mentioned, that are close to default. So we are expecting that now these new rates that would come out in 2026, they would be much higher in general for schools than what was typical before. Like I said, the 2026 rates would come out next year. That would be for fiscal year 2023. So we know that's when repayment resumed. And so schools just need to be thinking about and preparing for what those rates might be.

And along with that, this electronic announcement that came out in early May, that is the department basically urging schools to do some sort of outreach to their borrowers that have separated from the school, so either cease to be enrolled or graduated, but basically cease to be enrolled since January 1st, 2020. So back before the pandemic started, those borrowers have, like I said, not had a normal repayment experience. So they're urging schools to reach out to those borrowers and give them basically three pieces of information. So in the electronic announcement, they kind of break it down and have three bullet points that they think the schools should be providing these borrowers.

And the three pieces of information are to remind them that they are obligated to repay their loans, which sounds, of course they're obligated to repay their loans. But remember, some of these students, even five years out of school have not had that requirement this whole time. So it's not as easy as that sounds. So reminding them that they're obligated to repay their loans. Also suggesting that they log into StudentAid.gov and review the different repayment options, so the different repayment plans, deferment, forbearance, all of the options that they have available to them. And then also in StudentAid.gov, to review their contact information. And this is really the big piece that I have been telling basically anyone I can tell, I've been on several reporter interviews and I'm like, "If one thing comes away from this article, it's to tell people to make sure their contact information is up-to-date and accurate." Because how these borrowers will be contacted if they've missed a payment or if they are in default is by the contact information that they have in studentaid.gov. So that goes to their loan service and that's how they would reach out. So also to remind these borrowers that they need to log in and make sure that their contact information is up-to-date.

And these three pieces of information were given. This is what the department's urging schools to give to borrowers, however they really have no stipulation on how schools do this, and there's really no enforcement of this. However, they did say that they're urging that outreach be completed no later than June of 2025, so June 30th, 2025. So like I said, no enforcement, but they are urging schools to do this. And it's not just that the department's telling schools to do this, it's obviously also good for schools to be doing some sort of outreach to their borrowers if they can, because like I said, that CDR rate that's going to come out in 2026, we're expecting to be much higher. So anything that the school can do to help their students not go into default or get out of default is going to obviously benefit not only the borrower, but also the school.

And also in this electronic announcement, they did mention that they have plans to publish what's called the school's nonpayment rate. And they said that this would be posted on the FSA data center later this month, which we're now halfway through the month, so second half of the month maybe. We haven't seen any more details on that. They said the data is going to be from the data that's provided to the scorecard, and also that they would be publishing more details about this non-payment rate. And we haven't seen that quite yet. I know at NASFAA, we immediately were like, "What's non-payment rate? Where is the definition of this? Where is this calculated?" And it's not really a term that has been used before or that we know of that's an actual defined term. So we are interested to learn more about where this is coming from, what exactly will be published so that schools can know as well.

I think that's about it in the electronic announcement. Jill, do you want to talk about maybe the level of responsibility with schools and what they should be doing now?

Jill Desjean:

Yeah, yeah. Thank you, Sarah for that good summary.

I think that the tone of the EA reminded schools of their responsibility, and I think some of us on the policy team sort of took notice of that. I think some of our financial aid administrators as well, of course, we all accept that schools have responsibility to advise their students about responsible borrowing to conduct entrance and exit counseling. But in this environment, at least the EA did say shared responsibility, so they didn't put it all in the schools. But this is a tough situation. I think everyone gets that. I hope the department gets that as well. We're coming off this incredibly long forbearance, it's not financial aid administrators' fault that we had a pandemic.

The on-ramp to repayment was a good thing for students, but it just did kind of kick the can down the curb for these consequences of late payments and defaults. And then of course, we've got all the SAVE plan litigation that's going on that has caused a lot of chaos in the repayment environment because the income-driven repayment plan application has been up and down and up and down. The options that are available on that have been on the form and off the form. And the result of all of that has also been an application backlog where they're getting processed much later.

So it is really tricky for schools. It's really tricky for borrowers who are... People don't generally default on their student loans because they don't feel like paying their loans back. They default on their student loans because of a lack of information, because of a lot of things. And we certainly haven't made it easy in the past five years for students to understand their student loan obligations. And that's everyone we, not financial aid administrators we. So while that language in the EA says they give a deadline and they're urging schools, we definitely think schools should be doing what they can to reach out to their students because it's in the school's best interest and it's in their students' best interests. But that shared responsibility should be stressed in the sense that there is a limit to what you can do as financial aid administrators too.

A lot of challenges in terms of reaching out to students. Sarah mentioned addresses, right? I mean, it's not like you've got access to updated address information for students who graduated even five years ago. So how to contact borrowers is going to be a challenge, what to share and in what format. The department gave those three points, but how will you do that? What's the best way to reach out to them during this incredibly busy time of year while you're all experiencing staffing shortages? Definite challenges.

So we're hoping that the information that the EA says that the department will be sharing in the future to assist schools in identifying and communicating with these borrowers will give more information about exactly what you can do. But let NASFAA know. Email the policy team at Policy@NASFAA.org or in the NASFAA Slack communities if you're a member of a community, about what resources you would like to see from us because we would like to be able to support you and help you as much as we can. And we're really looking to hear from you about what you need and where we can be the most helpful. Definitely recommend that anyone who has a really good student loan outreach plan, contribute to the community resource library on NASFAA's website so that other financial aid administrators can use what you've developed and make it work for their own schools. And again, yeah, just let us know how we can be helpful because we really want to help schools here. We want to keep your students out of default as much as we know you all do.

Sarah Austin:

I think that's a really good point, Jill, that when this first came out, I saw on social media, instantly schools were, "What are you doing? How is everyone reaching out? Does anyone have a template?" And it's like, this is the perfect example of how great financial aid administrators are because they all want to help each other. One school already had a one-page document made and they're like, "Here you go. We took our logo off. Feel free to put your logo on. It's yours." And so our community resource library is basically that, it's that hub of all those things that schools submit to us so that other schools can use. But I just love that example of instantly schools are ready to help. I don't have time to create a document, but hey, look, my colleague at this other school did, or this person, I don't even know. But it's just so cool to see how they just rally around each other.

Jill Desjean:

It truly is.

Hugh Ferguson:

Yeah, thank you both for all that information and just the heads-up that this is coming and that we've been following it. It's a really complicated metric. I know when we were reading through this electronic announcement, Sarah, we were going over what does this three year window actually look like?

Sarah Austin:

Yes, even we could not figure it out for a minute there.

Hugh Ferguson:

And yeah, I think it's just also really important to note that a big portion of this metric is a lot of new borrowers, as you highlighted, Sarah. And so a lot of these folks probably weren't in repayment before the pandemic, so they've really had a long onboarding to this point in time. And so yeah, feel free to send us any information you guys have or if you have any questions that we can help answer, feel free to send us those notes in the comments. And yeah, thanks for tuning in to another episode of "Off the Cuff", and we look forward to talking to you all again real soon.