

NASFAA's "Off the Cuff" Podcast – Episode 372 Transcript

Making Sense of the New Cohort Default Rate

Maria Carrasco:

Hello and welcome to another episode of "Off the Cuff". Thank you so much for joining us. Today we have a special AskRegs episode with Jill and Sarah. But before we get started, I do want to highlight that this month we are celebrating 10 years of "Off the Cuff", which is kind of crazy to think about. And because of that, we want to hear back from you. So using our podcast feedback forum, you can share your favorite "Off the Cuff" memory and let us know what you would want to hear as we enter year 11. So thanks so much for listening. And yeah, let's kick it off with Jill. We have a lot of news this past week or so about cohort default rates. Do you want to tell us what we're talking about today?

Jill Desjean:

Yeah. So fiscal year 2023 cohort default rates came out at the end of September. And the interesting thing about the CDR this time around was that it's not zero. It has been zero for the past three years. And so we had our first non-zero CDR for a while. Not a huge jump, it's up, but not by much. The CDR for FY 2023 was 0.4%, so just under half a percent. That 0% CDR obviously was pretty atypical for the past three years, FY '20, '21 and '22. And that was related to the COVID-19 pandemic. We had that long payment pause and then we had a one-year on-ramp to repayment where borrowers were required to make payments, but they were immune to the consequences of default. So not surprisingly, the people whose first three years of repayment fell during that period didn't have the opportunity to default. It wasn't possible to default during that amount of time. So that rate was zero.

Now for this first time, those protections were not in place for the entirety, they were in place for some of this most recent cohort for FY 2023. So what we're seeing with this most recent CDR is that there was enough time in repayment to make it possible to default, hence a non-zero CDR.

Maria Carrasco:

It's surprising how long it takes to get these rates. We're in 2026 now and this is 2023 numbers, right?

Jill Desjean:

Yeah. Yeah. It's always a little tricky to think about when a CDR comes out, what it means and who it impacts. So this CDR that came out in 2026 is looking at students who actually graduated in fiscal year 2023. That's why we call it the fiscal year 2023 CDR. It's the fiscal year 2023 cohort of students who finished college, and it's measuring whether they defaulted during the three years that started their cohort. So somewhere between October 1 of '22 and September 30 of 2025.

And so given that that repayment window ended at the end of September 2025 and the on-ramp ended at the end of September 2024, we finally reached a point where this cohort, who was required to make payments and was subject to the consequences of default for more than 270 days during that three-year default measurement. They basically had a year in which they were required to make payments and just 270 days of those without payments would've put them into default.

So we're certainly not seeing the full effect of the return to repayment because this cohort just had this one year to default in as opposed to having three years, which a typical cohort would have. The next cohort default rate that we see that'll come out in 2027, that will cover fiscal year 2024. Those people

will have been in repayment for two of the three years. So we should expect to see that rate go up a little bit higher, maybe a lot higher, we don't know. And then the next one after that for fiscal year 2025, which will come out in 2028, will be a return to those pre-pandemic typical conditions where the full three-year default measurement window is one in which borrowers can potentially default.

Maria Carrasco:

So looking at this year's rate, are we at all surprised about the 0.4% rate?

Jill Desjean:

I was a little surprised. The CDR, I was kind of looking back at pre-pandemic rates. So we had this sort of 9.7 rate back in fiscal year 2017. And then as the pandemic protections came into play, the rate went down, down, and then down to zero. So I thought, okay, well maybe the year before the zeros would be a comparable year to this year after the zeros. And that rate was 2.3%. So I thought, ah, maybe 2.3 is a reasonable thing to expect.

I also thought though that there was a chance that fiscal year 2023 could be even higher than that 2.3% from fiscal year 2019 because the 2023 group may not have been as ready to assume that habit of making loan repayments. These are people who finished school and went into their six-month grace period and then immediately went into the pandemic pause and/or the on-ramp to repayment. So they've had a long, long time since they borrowed those loans and since they finished school where they weren't required to make payments. And so I thought maybe just some of them may have just accommodated their budgets to not make space for student loan repayments. Just got used to living off what they were making without setting aside a couple hundred dollars a month for their student loan repayments during that pause, and they couldn't just quickly pivot. I thought some people just would just forget, just not remember who their servicer was, get communications from their servicer and just say, "Oh, I don't know what this is. It doesn't seem relevant." Missed the memo on the on-ramp and the fact that repayment had resumed.

So it was good to see that it was only 0.4%. That said, I don't think we should be interpreting this low CDR as some indication that all is well with the student loan portfolio. I think for sure fiscal year 2024 will be higher. Fiscal year 2025 is likely to be even higher than that when we get back to that more typical cycle. I mentioned before when we were in those pre-pandemic times, the last rate we had for those pre-pandemic times was 9.7%. And even that is not really a measure of the health of the student loan portfolio. That is one metric that schools are accountable for, but we have other repayment data aside from the CDR that isn't super encouraging, that probably speaks a little better to what's going on in the world of student loans.

The Department of Ed has recently started releasing data on students who are more than 90 days delinquent on their student loans. So the idea is if you've already gotten to the point where you've gone three months without making payments, odds might be good that you would continue to not make payments. One missed payment is like, oh, things happen. Two missed payments is a little concerning. Once you start getting to three, you might start worrying that this is more of a systemic problem.

They call this the non-payment rate. And the most recent data that the department put out showed that borrowers from 2,100 schools had non-payment rates of 25% or higher. So that's definitely concerning. And we also know that the overall default rate, so CDR is measuring default in those first three years of repayment. That's not the only time you can default. You can default at any time during your loan repayment. And so that overall default rate, which measures the people who are in the CDR cohort as well as anyone who's in repayment, that's closer to 20%. So one in five borrowers are in default. So even if the CDR stays low, those are still some troubling trends. So all stuff will be watching carefully.

Maria Carrasco:

Yeah, thanks Jill for putting that into context. I know we recently came out with a bunch of resources on this. Do you want to explain to our listeners what they are?

Jill Desjean:

Yeah, we did. We recently created a cohort default rate web center. Has lots of good information on there, including some graphics that will hopefully help people to better be able to visualize the year-to-year changes as well as who's in which cohort. This all kind of came out of me making a little chart for myself on a piece of paper, like which group is this? And then once I put it together, I said, "I wonder if this might be helpful to other people." So hopefully people like the graphics and like the web center, but please give us your feedback.

Maria Carrasco:

Thanks, Jill. And now we're going to shift over to Sarah. We're talking about FAFSA, right? What do we need to know?

Sarah Austin:

Yeah, so switching gears a little bit away from that and talking more about the '27/'28 FAFSA, which I believe I have already talked about on the podcast recently. I feel like it was yesterday, but I know that's not true. But the '27/'28 FAFSA is live. We know that. That is I think what I announced last time. And what I wanted to talk about today is about the identity verification process for '27/'28. And so I've seen a little bit of chatter from our members who were a bit surprised to have students or maybe even prospective students reaching out to complete their identity verification for '27/'28 already. But this actually makes sense because like I said, the FAFSA is live and because of how the identity fraud detection process works, this would make sense that this would start happening now. But since this is the first full FAFSA cycle that will have this new identity fraud detection process, I still thought it'd be worth talking about it a little bit.

Maria Carrasco:

Thanks. So you said this is the first FAFSA cycle with this fraud process. What does that mean?

Sarah Austin:

Yeah, so first full FAFSA cycle. So this actually did get implemented in the '26/'27 FAFSA, but it was mid-cycle. I think it was April, so a lot of people had already filed the FAFSA for '26/'27 by that point. So this is really the first FAFSA cycle where the functionality is live right from the start of the FAFSA launch.

So basically when this actually did start back in April, anyone who filed the '26/'27 FAFSA after that April date did have this real time identity fraud detection process on their FAFSA. But anyone who had filed it before that April date, the department did a one-time reprocessing of all of those '26/'27 FAFSAs. And I'm sure schools remember this because they got these reprocessed ICERs that maybe had students selected for V5 verification because those couldn't go through the real-time process. So instead they had to do V5 verification if there was any sort of risk of identity fraud for those FAFSAs.

Now the difference now is, like I said, it's fully functioning from the start of the FAFSA cycle. So all of the '27/'28 FAFSAs are going through this real-time detection process. No reprocessing needed. They're all going to have the opportunity to have that real-time detection process.

Maria Carrasco:

Could you give us a refresher on the process of what schools need to do?

Sarah Austin:

Yeah. So that's what I think I'm seeing a bit of chatter about is maybe just because it's a new cycle and they haven't been doing this as much, thought we'd just do a little refresher on the overall process. So while a student is completing a FAFSA, they now go through this screening that's looking for risk of identity fraud. And so basically the FAFSA is looking for certain characteristics that would indicate potential fraud. And then it assigns a risk indicator or a category to that applicant based on that screening process.

So it could say this applicant is low risk, which in that case, the FAFSA really just gets processed like normal. There's no comment codes. The student isn't prompted to do anything else. There's no reject status. It just is kind of the regular processing of the FAFSA. Moderate risk is kind of the next step up, and that means that the applicant had certain elements that raised concern that there would be potential risk of identity fraud, but did not actually reach the level of requiring some sort of second verification or identity verification.

So the applicant doesn't need to do anything. There's no reject code, but there will be a comment code and it's 353. So on the ICER that the school would see, they would know that there were some characteristics that have potential risk of fraud, but no action is actually required. So the school doesn't need to do anything with that. They just are kind of made aware that there's some potential risks, but again, not to the level where the student needs to actually confirm their identity.

Now when we get to the next stage, that's the high risk, that is where there's actually some additional action required. So a student would be prompted to do a live video check while they're actually completing the FAFSA. So this is where it's built into the actual FAFSA, and they would need to come on camera and present their government issued ID. Obviously it should match who they actually are on camera, but depending on if that live camera check is successful or not, there would be certain comment codes for that particular ICER.

So two of the codes, 354 or 355, would mean that it was not successful. Either the student didn't even attempt to complete the live camera check or they did, but it was not able to verify their identity, so not successful. And then another code would be if they actually did it and they were successfully verified. So that's kind of a different one. But if it cannot be confirmed on the FAFSA because either they weren't able to produce that or they didn't attempt to, and they get those comment codes that I mentioned, then they actually would need to work with the financial aid office in order to complete their identity verification. So they don't do it on the FAFSA, they have to do the process with the school.

Now, these ones are actually going to be rejected FAFSAs. And so the student is actually told on their FAFSA submission summary that they need to contact the financial aid office at their school in order to complete the process. And then again, the ICER would actually show these comment codes and it would be in the rejected status.

Now, similarly, the highest risk applicants, they are not even given the opportunity to do that live camera check. So they're going to kind of automatically go into this rejected status with a different comment code, 357. So we have a bunch of new comment codes, but they get this other comment code that basically says they weren't even given the opportunity to do live camera check and instead need to do their identity verification process with the financial aid office.

And I think that these rejected records, whether they're the high risk or the highest risk, either one, they're going to be rejected. I think these are the ones that are telling the student to contact the

financial aid office. Now that we're in '27/'28, students are seeing that messaging, they're reaching out to the schools. And I think that's what's causing these schools to now be talking about this process again. Because some of these students who are, I guess, really on top of it, or maybe they're fraudsters and that's why they're really on top of it, but they're getting this message that says their identity can't be confirmed and they need to reach out to the financial aid office, and they're doing it immediately. I mean, we're October 8th right now, so we're only a few weeks into the FAFSA and we already have students who are reaching out to schools to complete their identity verification.

Now, I hope we're not seeing huge numbers of these. I would hope that schools are not hearing from the actual fraudsters. So the amount of legitimate students who get flagged as either high risk or highest risk, I would hope are low. And that's obviously the intent. The Department of Education, when they rolled out this process, said that their algorithm was doing a really good job of actually only flagging the fraudsters. So I hope that the algorithm is working well and you're not seeing huge numbers of these. But if there are some legitimate students that come through, they may be flagged and now they would need to be actually confirming their identity with the financial aid office because they are rejected ICRs.

And I know from what I've seen our members talking about, I know that you don't have an FSA Handbook yet for '27/'28, meaning there's no application and verification guide for '27/'28 yet. But what we do have, and I wanted to make sure everyone knows we have this, is the FAFSA Specifications Guide for '27/'28 and Volume 7 in there is the comment codes, and it also lists the required action for resolution for those comment codes.

Maria Carrasco:

Could you walk us through some of those required actions, Sarah?

Sarah Austin:

Yes. So like I said, we have these new-ish, new since last year comment codes and they're applicable reject codes. And so for the ones that actually are in the rejected status, the 354, 355, and 357, those have corresponding reject codes. The required action for these to have the resolution form is two. And what it actually says in there is, "If contacted by the student, the financial aid administrator must complete verification using the procedures associated with V4 verification." So while these are not selected for V4 verification, you follow the procedures of V4 to resolve and to confirm the identity.

But I want to point out, it says if contacted by the student, so you don't need to proactively reach out to these, it's only if the student contacts the office. But then you do the V4 verification process, you confirm their identity or not, and you then submit, there's a new, again, new-ish, but FAA fraud override field where you will then mark if you were able to confirm their identity or not. And if you are, then it kind of knows resolution is done, that you can keep processing the FAFSA won't be in a rejected status anymore. Obviously, if you're not able to confirm the identity, that's a different pathway, but you do have that new field. You'll have to mark what happened after confirming identity.

Now, I don't expect that all schools are ready to start processing verification this early in the process, so I totally understand, but know that we do at least know that the required action for these comment codes is to process as if it's a V4 verification. But again, you don't have to proactively reach out to these students. The department is really hoping that because their algorithm is working well, that the majority of these students flagged as higher, highest risk will not actually reach out to the office because they are in fact real fraudsters or ghost students, not real people at all, and you'll never hear from them.

So while this is resolved by doing the V4 verification procedures, if this student, you don't have to... Say when a student is selected for verification, you automatically send them verification documents to

submit. You don't need to do that. These are not students actually selected for verification. It's a different process. You're just following the V4 verification in order to confirm their identity.

So I'd say to wrap it up, to summarize, if I haven't said it enough, this is not new. This started in '26/'27, just never been from the very start of the FAFSA cycle. So I do think this is kind of new territory in that sense. You follow the instructions in that volume seven of the FAFSA specs guide where it tells you the specific comment codes and their required resolution.

And then I just wanted to maybe throw out a few answers to questions I saw our members talking about over in Slack communities. So why are these students reaching out? I guess that's the number one question. Why are they reaching out? And it's because their FAFSA submission summary is telling them too. So you know on the ICER you see certain wording with these comment codes, but the student also sees different wording. And what they're seeing is, "There was some issue confirming your identity, you need to reach out to the financial aid office at your school in order to confirm your identity," something along those lines. So that is why they're reaching out is because they're being told to.

And then is this stopping students from submitting their FAFSA? That was another question I saw out there and I just want to make it clear. It's not stopping them from submitting. So even if they are not able to confirm their identity or aren't even given the opportunity to, they can still submit their FAFSA. It will be in a rejected status, so it will not calculate their SAI. It will tell them that there is an issue with their FAFSA, but it's not going to stop them from submitting. So you don't need to be concerned if they're going to miss a priority deadline or anything like that. This will not stop them from submitting. It's just going to be in that rejected status and of course then require a little extra work with the financial aid office in order to get it out of that rejected status.

But because this is not new, there are some resources out there for our members if you just wanted a little refresher on this overall process and what you need to do and your part in it. The Department of Education Data Webinar back in May, after this had actually launched, and that's still available on the FSAA training site. So you can definitely still watch that or look at the transcript. And then they also put out a list of frequently asked questions about the real time fraud detection process. So that may be helpful as well to just reference back to that now that you're going to start seeing these again. And I know some schools aren't even looking at their ICERs for '27/'28 yet. So if you want to do this before you start that process, you may want just a little refresher. So we'll be sure to link those in the show notes as well.

Maria Carrasco:

Thanks so much, Sarah. And we'll also have in our show notes links to all the stuff about cohort default rates, all our resources, so make sure to check that out. Yeah. Thank you so much, Sarah, and thanks so much, Jill. And thank you for listening to another episode of "Off the Cuff". We'll see you again real soon.