



The Student Loan Borrower Assistance Project (SLBA) is a program of the [National Consumer Law Center](#) (NCLC).

POLICY BRIEF

Create a Meaningful Default Measurement

Rationale

The current cohort default rate calculation fails to capture the true scope of student loan defaults. This is a critical issue because the Department of Education relies on cohort default rate calculations to make quality assessments about schools and because sanctions are imposed on schools with high rates.

The cohort rate is a misleading indicator for several reasons, including: 1) Borrowers are tracked for just a few years after they go into repayment. This is a mere snapshot in time that does not give a full picture of default trends. 2) PLUS loans and certain consolidation loans are excluded. 3) The rates are calculated based on the number of borrowers in a cohort and not on the number of loans or the loan amount.¹

Further distorting the statistics, loans that are in deferment or forbearance in a particular cohort year are not placed in subsequent cohorts and are never included in calculations of a school's default rate even if the loans go into default after the deferment or forbearance period is over. In addition, the default measure does not include borrowers that are current, but struggling with overly burdensome debt or borrowers that are delinquent, but not yet in default.

Another important way in which schools may evade default rate penalties is by pressuring "risky" borrowers into taking out private loans instead of federal loans. Private loans are not included in cohort default rate statistics.

It is critical to ensure that these statistics are accurate for purposes of potential sanctions and for general research purposes. Otherwise, schools with serious problems escape penalties. This evasion is made easier by the liberal defenses allowed to schools that reach the penalty thresholds.

¹ This problem has been documented in: Department of Education, Office of the Inspector General, *Audit to Determine if Cohort Default Rates Provide Sufficient Information on Defaults in the Title IV Loan Programs*, ED-OIG/A03-C0017 (December 2003) and General Accounting Office, *Student Loans: Default Rates Need to Be Computed More Appropriately*, GAO/HEHS-99-135 (July 1999).

The 2008 HEA extension law includes some improvements, but more needs to be done. The law extends the cohort default rate calculation period by one year. The Department of Education is also required to publish a report showing cohort default rates and life of cohort default rates for categories of institutions. However, in future years, the cohort default rate threshold for ineligibility will increase from 25 to 30%.

The first set of [trial data](#) using the three year window highlights the importance of tracking borrowers over time. Among for-profit schools, for example, the 2007 two year cohort default rate is 11% while the three year rate is a shocking 21.3%.

These [tables](#) compiled by Education Sector show the sharp increase in default rates in all sectors when the calculation is extended for just one year.

If adding just one year to the calculation makes so much difference, imagine how much more accurate it would be to track life time loan default rates.

Providing accurate information about defaults is critical to ensure that schools with high default rates are appropriately penalized and to help students who are falling into these debt traps.

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