Seth: Thanks, good afternoon, everyone, and thanks for coming by this session. I'll give ya a little bit of background here and point out what I think is a very critical event about to occur in the next couple of years about cohort default rates, and we need to be very careful about it, so let's remind people of cohort default rates, where does this come from, what's our authority to calculate an issue and take sanctions on schools with high cohort default rates, well, obviously, the Higher Education Act, which justifies everything and authorizes everything that we do, Section 435 M of the Act is all about calculation cohort default rates and the sanctions that would apply for school has excessive cohort default rates, and then because, a number of years ago, the Congress included some incentives and some benefits for a school that has low cohort default rates, those were put in then the FFEL regulations also applies to direct loans because there's some disbursement relief which we'll cover a little bit. Obviously we regulate from what the statute tells us and over the years, so we had in our General Provisions Regulations Subpart M, we've had the for years, but then on the change that the Congress gave, which I wanna talk about in just a second, we created a second subpart, Subpart N that is relates to the new requirements. We also have our Cohort Default Rate Guide online which has lots of important information starting from the broad statutory conceptual discussion down to the very much details, and when Katrina and Frances get to their parts, they'll talk to you about the guide and the things that are in the guide, so why are cohort default rates important? It seems like an obvious, the questions are obvious and they really are.

Defaults in the Federal Student Loan programs are costly to the federal taxpayer, they clearly also harm the borrower very much so just because a loan defaults doesn't mean we stop trying to collect on it, just bad things happen to the borrower, in terms of their credit report, in terms of their – frankly, the aggressiveness of the collection activity and so forth, so it's very important, if we can, to avoid defaults and the statute does provide that if cohort default rates get too high for a school then sanctions can apply to that school, including being removed from the loan programs altogether, and just as a reminder, I'll probably say it a couple of times, if a school's removed from the loan programs, they're removed from the Pell Grant program as well, they go hand-in-hand, and, of course there are some incentives, as I mentioned, so we've always been asked over the years and you may or may not agree with this that, yeah, that's fine, and we should try to avoid defaults, and the cost of the taxpayer and it's bad for the borrower but why are you puttin' this burden on the schools? Well, I think

the best way to talk about is that schools have a major role to play not in, necessarily, preventing any particular student from defaulting but, in a number of their students, that would affect the cohort, that's measured by the cohort default rate. If the school offers a high-quality academic program, and admits only qualified and provides good counseling on the academic side then those students are more likely to be successful and to complete their program and what if with all of the research that's done on defaults, for many years, no matter who's doing it, the highest correlate to whether a person defaults or not is whether they completed their program or not, and obviously then you move into – away from the academics and you talk about, well, did the school provide adequate counseling, at least what our regulations required in terms of entrance and exit counseling but maybe more so, maybe some financial literacy, so people understand what an obligation is to take out a loan and what some of these terms are that are used in all of this, and the schools also have a – an obligation, regulatorily, and as well as just it makes common sense to assist the department or FFEL lender that has loans, or a guarantee agency to help avoid defaults, to help locate borrowers, to help do default aversion activities, and if schools do all those things and, in my view, particularly on the academic side, I don't think you'll have a problem with cohort default rates even if you serve a population that is, by definition, is an at-risk population, and that's fine that ya serve at-risk students, that's what our programs are about but there's work that has to be done on the schools, so let's look at the numbers or the chart at least. We – you see this goes for many years and back to a 1987 cohort where the rate was in the 17's and went up as high as 22 percent, unfortunately, and then because a series of actions taken by the government, first in statute, and then implemented by the department back in the day there. The rates dropped rather rapidly. Frankly, what happened is we removed about 1,000 schools from the program, and there's no indication that students didn't have alternative places to go.

We just moved 1,000 schools from the program because of their default rates because of other things about their performance. Then the rates stayed you know when you get to the early to mid '90s, they stayed relatively constant but went down, kept goin' down and that's good and I think that was based on increased awareness, it was based upon exit and entrance counseling being implemented and done well, and extra work done by our FFEL guaranteeing the season lenders, and then when direct loans came along, our direct loan process the same thing, and we get that down to what is the lowest one here, 4.6 percent, in 2005, and then rates

start to go up, and, at least my perspective is that's not because anybody got lax in what's important but simply you can track this with our economy, the numbers in our economy, and you'll see that they track off a year or 2 because of the way these are calculated, and so we're up to 7.0 percent, we don't see dramatic increases but it's unsettling that they're going up and it's likely that even without the change that's gonna occur that rates will continue to go up at least a few more years, hopefully not very dramatically, so what's this change I've been talking about? Well, under the law, the Congress changed what we call the monitoring period for a cohort default rate -- I'm gonna cover that in just a second – from 2 years to 3 years. Now you don't have to be math genius to figure out that, except in some very, very rare circumstances, at very small schools, if you have n extra year of monitoring whether a student a student defaulted your default rates are gonna go up, they're absolutely gonna go up, and the Congress recognized that and so at the same time they made this 3-year monitoring they said the sanctions to a school, meaning being removed from the programs, would increase from 25 percent to 30 percent. They also built in because they knew this couldn't be done instantly, they built in a transition period, which we'll get to. There's also a – when Katrina gets to talk about some of the challenges and adjustments and appeals – is participation rates going on there, and the Congress also understood that because of the increased number of defaults, these percentages, these ratios have to change a little bit, and so they did that and so the disbursement relief went from 10 percent – a school that has cohort default rates of less than 10 percent for 3 years in a row, raise it to less than 15 percent because rates will go up, and those benefits are that a school that's eligible for these benefits, they do not, if they don't want to, have to do multiple disbursements for single-term loans, nor do they have to delay disbursements for 30 days for first-time/first-year borrowers if they have the very low cohort default rates, so lemme just give you the definitions here, so we're sure. Under the current rules, cohort default rate, we established the reasons we call it cohort, we established the cohort, the cohort of the number of the schools' borrowers at a loaner year school at any time who entered repayment during a federal fiscal year.

A federal fiscal year is October 1st through September 30th, and then, under the current rules, we monitor those students and that denominator for the rest of that fiscal and one more fiscal year and those that defaulted become the numerator because the rate is a percentage of the percentages of fraction, a fraction has a numerator and a denominator, those people go into the denominator and that's your cohort default rate but, beginning

with, under the law, beginning with the 2009 cohort, the students who entered – your former students who entered repayment between October 1st, 2008, and September 30th, 2009, that will be the denominator, that didn't change, but we will monitor them not just for the rest of 2009, which is already over, and the rest of 2010, which also already over, but also for 2011 until September 30th, 2011. Here's another, kinda, graphic to show ya this a little bit. We just made up these numbers. The 5,000 on both lines are the number of borrowers who entered repayment of your school's former students who had loans, fellow direct loan who entered repayment in a federal fiscal year. This would be federal fiscal year '09, and, under this model at the top, we pretend that 125 of them, unfortunately, defaulted during the rest of '09, and another 230 during fiscal year '10 for a total of 355 for default rate of 7.1 percent but we take that same cohort because a cohort doesn't change, and the same number who defaulted in '09, 125, and the same number that defaulted in '10, and then I added, just to make the point, another 250, you see the default rate almost doubled. That's what's gonna happen when we go to 3 cohort default rates. Now the numbers will vary about each of your schools, so I just wanted to give ya that framework and we'll come back to a little bit more and Frances is gonna take ya through the rest of the transition and so on.

Frances: Beginning with the transition period. As Seth has indicated that starting with 2009 cohort period, we're going to go to the 3-year, and, of course, during this transition period, Congress created a transition period, which no schools are gonna be subject to the sanctions based on those 3 years calculated rates until after we've received 3 consecutive years of 3-year rates. During this transition period sanctions will be based on the calculations that are made according to the ATOA provisions. During this transition period, also, you're gonna have 2 sets of draft in official cohort default rates, and they will be issued annually for the cohort years 2009, 2010, and 2011. This is just sort of briefing for your calendar that you might want to keep posted next to you to show you what the 2-year cohort-year calculation calendar looks like.

The end of the cohort federal fiscal year for the FFEL '09 was September the 30th, 2009; the tracking of those students was for September the 10th, 2010, September 30th, 2010. We're going to release these rates in February, 2011, and we're also gonna release the official rates for the 2009 2-year in September, 2011. When we look at the 3-year calendar, we see the end of the federal fiscal year for the borrowers into repayment is also September 30th, 2009. We'll choose the same for the 2-year period. However,

we're going to track those same individual students up through another year, and that's gonna be through September the 30th, 2011. You'll be seeing the release of the draft rates for that 2009, 3-year calculation in February, 2012, and then you're gonna see the official release for the 3-year calculation in September, 2012.

This is just another form that you can just put by your desk and give ya a guideline as to what the transition period and the years will actually look like. Now as far as the publications for the 2-year calculation period, as you can see, as I stated previously, we're going to be giving you your 2009 cohort year that is gonna be effective February the 11th, you're gonna get your draft, September, 2011, you're going to receive the data, which is effective for FY '07, FY '08, and FY '09. As far as sanctions, they will still be based on those 2 years, where you have 2 years greater than 25 percent, or, I'm sorry, 3 years greater than 25 percent, or the current year, which is FY '09 calculation at 40.1 percent – greater than 40 percent. Your sanctions are still gonna be based on that 2-year period. You're gonna see your 2010, we're gonna be issuin' those in September, 2012, the cohort year 2011 and September 2013.

The FY 2011 cohort period is going to be the last time that you're actually going to see the 2-year cohort calculation period, and, of course, that's the last time that you're going to be able to – you're gonna be sanctions based on the 2-year of 20 – 2-year where you have 25 percent, or greater, for 3 years or before they pull 1 percent of greater. As we look at the 3-year cohort default calculation year, as you can see for the FY '09, we're gonna issue those in September, 2012. There will be no sanctions applied to that particular year because we do not have 3 years yet for FY 2010, there will be no sanctions applied. Of course for 2011, this will be the very first year that you're gonna have 3 consecutive years of 3-year rates, and the sanctions are gonna be applied at the 30 percent rate for 3 years and also for the 1-year, which is gonna be the 40-percent-or-greater, and you're gonna be looking at those 3 year of FY '09, FY '10, and FY '11 cohort years, so those are when the 3-year sanctions will kick in and those will be applied as of September, 2014. Beginning in AT '08, AT '08 race, the single-year threshold for preparing a default management plan from 25 percent to 30 percent, so effective 2012, schools with the cohort default rate, which is equal to or greater than 30 percent must establish a Default Prevention Taskforce.

The Default Prevention Taskforce is the schools must create a taskforce and prepare a Default Prevention Plan first that identifies

the factors causing the schools' cohort default rate to exceed the threshold, establish measureable objectives, and identify steps to take to improve the cohort default rates, and it also specifies actions the school will take to improve student-loan repayments. This is includin' the Loan Repayment Counseling. At this point in time we will be lookin' at the Cohort Adjustment Appeals and Katrina Turner will take over from here.

Frances Turner: Okay, CDR Challenges, Adjustments and Appeals. As you can see from this slide, these are the challenges, adjustments with such challenges as the Incorrect Data Challenge, the Participation Rate Index Challenge, Adjustments or Uncorrected Data Adjustment, New Data Adjustment, New Data Adjustment, and the appeals as the Loan Servicing Appeals, Erroneous Status Appeals, Economically Disadvantaged and Participation Rate. Please note that challenges are submitted after the release of the draft CDR's, and adjustments and appeals are submitted after the release of the draft CDR's and adjustments are an appeals are submitted at the release of the official CDR's. These are the two types – these are two of the challenge-types of appeals, which the challenges can be submitted by a school, again, after the release of the Draft Cohort Default Rate. The IDC and Correct Data Challenge is used to challenge incorrect data included on the school's Draft Loan Record Detail Report, better known as LRDR.

The PRI, Participation Rate Index, is used for schools that are facin' a potential sanction due to their CDR. Incorrect Data Challenges, which are also covered HEOA, are submitted by guarantee agencies for FFEL loans held by the GA until the department services. There is a timeline associated with these challenges and the timeline is 45 days from the begin date that you receive the rate. The timeframe begin date is the sixth business day after the IFAP announced CDR release date, so let's say our release date is September 14th then you have 6 business days after that date. We do allow schools 5 business days to report any errors in transmission. If the data manager agrees that the data is incorrect, they will make the necessary changes at NSLDS that the school's CDR can be corrected.

The Participation Rate Index Challenge, they're also covered in the HEOA and there is a timeline associated, which is 45 days, and if the school is successful, the school will not be subject to any loss of eligibility when the official rate is released. The CDR challenges, the Participation Rate Index Challenge Formula. As you can see we've included the rate calculation on this slide. The threshold for a successful PRI is determined by the sanction the

school is potentially subject to. For instance, if the school is subject to sanction due to the most recent CDR is greater than 40 percent, then the PRI must be equal to, or less than, .06015. For the 2-year calculation, if a school is subject to sanction due to the 3 most-recent CDR's, and the CDR's are equal or greater to 25 percent, the PRI must be equal to, or less than, .0375.

For the 3-year rate, if a school is subject to sanction due to the 3 most-recent CDR's equal to, or greater to 30 percent, the PRI must be equal to, or greater than .0625. CDR Adjustments, the adjustments are also submitted by the school to the department after the release of the official rates. There are 2 types of adjustments, the Uncorrected Data Adjustment, UDA, and the New Data Adjustment. The Uncorrected Data Adjustments, UDA's have a timeframe. They must be submitted within 30 days of the timeframe begin date.

The department will review and adjust the school's CDR accordingly. It's important to note that they are only available for the most recent cohort of borrowers, which were used to calculate the most recent official rate. New Data Adjustment, these – there is a timeline associated, allegations must be submitted to the data manager within 15 days of the timeframe begin date. Data manager will respond to the school's allegations accordingly. If the data manager agrees with the school's allegations, the school will include those agreed-upon allegations in its final NDA to the department, which is the New Data Adjustment.

Final NDA to the department must be submitted within 30 days of receipt of the final data manager's response. Again the department will review and adjust the school's CDR accordingly. CDR Appeals, appeals are also submitted to the department, after the release of the CDR rate. There are 4 appeals, Loan Servicing, Erroneous Data, Economically Disadvantaged, and the Participation Rate Index. Erroneous Data Appeals, they are only available if the school is subject to loss or eligibility based on their official rate. Allegations must be submitted to the data manager within 15 days of the timeframe begin date.

The data manager, again, will respond to the school's allegation, and the final, the erroneous appeal, to the department must be submitted within 30 days of receipt of final data manager response. The department will review and adjust the CDR accordingly. If the rate falls below the sanction threshold, the school will no longer be subject to a sanction if applicable in that case. Loan Servicing Appeals, school requests loan servicing records from the

GA for FFEL loans held by the GA and the Department of Education services for FFEL loans held by ED and for direct loans. Schools must request for loan servicin' records must be submitted to the data manager within 15 days of the timeframe begin date. The school's final Loan Servicing Appeal to the department must be submitted within 30 days of receipt of the final data manager response. The school reviews the Loan Servicing Appeals once they've received them to determine if any of the loans are considered improperly serviced for CDR purposes.

To be considered improperly serviced, the records must reflect that the lender servicer failed to do one of the following: They may have failed a phone attempt, may have failed to submit at least one letter, pre-claim, they may have failed to submit pre-claims assistant, and if the borrower was a skip, elements above are not necessary as long as the skip tracing was reflected, and if the borrower made at least one payment the loan is considered properly serviced. Economically Disadvantaged Appeals, it's important to note that the Economically Disadvantaged Appeals requires an independent-auditor opinion certifying a school's low-income rate, and completion or placement rates that meet the regulatory requirements. The timeline here is that they must be submit – they must submit the Written Assertion, which is also explained in our CDR Guide, to the department within 30 days of the timeframe being date. The independent auditor's opinion must be submitted within 60 days within the timeframe begin date. A low-income rate must be 2/3 or more, the completion rate for degree-granting school, must be 70 percent, or more.

The placement rate for a non-granting degree school must be 44 percent or more. Again, all of these details are in our CDR guide. CDR Appeals, the Participation Rate Index Appeals, they must be submitted within 30 days of the timeframe begin date, and, again, if the school is successful, they will no longer be subject to sanctions. The Average Rate Appeals, if a school is subject to a loss of eligibility but two or more of the official rates are average rates, the actual rates will be used for those years. Before notice of the official rate, the department will make an initial determination that the school may qualify for an Average Rate Appeal. A notice will be sent out to the school to that effect. 30 or Fewer Borrower Appeals, if the combined total of all three years of borrowers entering repayment is less than 30, there will be no loss of eligibility.

Before notice of an official rate, the department will make an initial determination that the school may qualify for a 30-or-fewer

borrower appeal. The school will again receive official notice of that action. What is on the screen now is a screenshot of our Cohort Default Rate Guide. It's available on our website, which is further in the presentation under the Resources. Part 1 of our guide explains how to use the guide, Part 2 explains the calculation, how the CDR's are calculated, how to request your Loan Record Detail Report as well as how to read it, and how to make status changes that may affect your CDR.

Part 3 explains how to review your rate and the loan data, as well as how to monitor your borrowers throughout the year, and it gives you different information on the NSLDS Reports. Part 4 gives info on each one of the challenges and appeals that I mentioned previously. The guide is in the process of being updated, and we hope to have it completed by 2012, which is the release of the official 3-year rates. ECDR Appeals, you may process the IDC's, the UDA's, and the NDA's electronically. They first became available in February, 2008, which was during the release of the '06 CDR Draft Rate.

The link here shows you the link that you may go to reach the ECDR Appeals, and, just as in FYI, we are having 2 sessions. We just had one prior to this session on the Electronic CDR's, a hands-on demonstration, so if you're not signed up, or if you do not know how to use it, we have a hands-on demonstration. Beginning with the '09 Cohort Draft Rate, which will be released this February, 2011, all schools are gonna be required to use the Electronic CDR Appeals Process to prepare and submit their IDC's, UDA's and NDA's. You can monitor IFAP for up-coming electronic announcements, and, again, please come to our hands-on demonstration, which will be also held tomorrow. Benefits of the ECDR appeals is that it's easy-to-use interface.

It also protects against the Privacy Act data, and it automatically packages your allegations by the data manager, and it compares the draft and official LDR and populates the UDA, so it's very user-friendly and it helps to ease some of the manual steps that some of you may have been used to doing. Here is a screen pic of the ECDR Appeals Homepage, and, again, you will see that it has the links to the IDC, UDA, and NDA appeals. We also have a videotape demonstration if you're not able to come to the hands-on demonstration tomorrow, we also have a videotape demonstration that you can go out to our website, and you can click on the links and you can also see the videotape and a walkthrough of the process. Further information is available in the PC lab, we have a booth there, Default Prevention, we have hands-on, where we can

register you for the electronic appeals, if you're not already registered, we can also walk you through some of the data screens, and also through our website. Again, we have a resource page; you may contact our Default Prevention and Management Group at the website as well as the phone number that we've also included on the Contact Information.

We do hope that this session has been helpful, and if you have any questions, we will take your questions.

Male 1: I have a question on the three-year appeal for the draft three-year appeal, when you're appealing the 3-year Cohort Default Rate, and, say, the fault or problem occurred within the first 2 years but you didn't appeal it at the 2-year rate, would ya be able to appeal it at the 3rd year? Am I making myself clear on that, or --?

Seth: Our technical expert.

Female 1: Yes, you will. Is this on? Can you – okay, yes, you will be able to, if you miss it because it's going to be calculated for a two-year and a three-year rate, if you didn't get it in the two-year calculation, if ya didn't challenge it, you will be able to challenge it then it's listed in the three-year rate.

Male 1: Three-year, thank you.

Seth: Yes, ma'am?

Female 2: Hi, I'd just like to ask whether or not you expect to release another year of estimated three-year CDR's, in this case it would be for FY '08, and, if so, when? I know last year we saw them in December.

Katrina Turner: Yes, we do plan to release them and they should be released in late January of 2011.

Seth: Just to make everyone understands the context of the question. When the law changed for the 3-year Calculation, and even with the first year of the 3-year Calculation wasn't gonna be until the 2009 Cohort, which you won't see the results of that until 2012, we said, "Well, wait a minute, let's see what this might bring us," so we went back to 3 most-recent years that there were 3 years worth of behavior by the students and we call them Test Rates or *[crosstalk]* --

Frances: Trial Rates.

Seth: Trial rates. Last year we released them last year, and they showed, unfortunately, not unexpectedly, but maybe unfortunately, very high increases, much greater than we may have expected. Now those are really rough-cut rates, we didn't run them by all of the crazy details of a specific calculation. This year, when we run them, they'll be more accurate but they're not real, they're just test, okay? Somebody else?

Male 2: I have a question. Regarding the – you know, in the last couple years with all the put loans or the different servicers and there's been a lotta issues as we've followed it. A lot of issues on the put loans where borrowers had deferments or forbearances but when they were transferred over, the deferment or forbearance was supposed to be transferred over but, according to the new servicer, it was not, and the borrowers default. Would there be some provisions in the appeals regarding these put loans and these servicing problems or will we have to do a service – a loan service appeal?

Katrina Turner: At this point, we can't expand on that but through the appeal process, as those issues come up, we'll more than likely have to handle those on a case-by-case at this point.

Male 2: Right, okay, okay.

Seth: Anyone else? Okay, well, enjoy your evening, thank you.

[Applause]

[End of Audio]