National Association of College and University Business Officers

NACUBO

NACUBO Executive Summary
Changes to Cohort Default Rate Calculations in the College Affordability Act (HR 4674)

College Affordability Act Cohort Default Rate Proposals

The College Affordability Act (CAA), as introduced by House Education and Labor Committee Chairman Bobby Scott (D-VA), builds on the existing calculation of a college or university's cohort default rate (CDR) to create an adjusted cohort default rate (aCDR) for the institution.

An institution's CDR and this proposed aCDR have broad implications for judgments made about a school's overall fiscal health and financial responsibility measurements. A school's CDR also impacts the types of federal financial aid it is eligible to receive and potentially the level of Department of Education (ED) monitoring it is under as a condition of participation in federal aid and loan programs. While NACUBO generally supports greater institutional accountability measures, and even potential changes to the current CDR calculation, some provisions of the proposed aCDR raise concerns.

Features of the aCDR

- The aCDR would equal the CDR multiplied by the percentage of enrolled students who are Direct Loan borrowers, and would measure default performance over three-, six-, and eight-year periods.
- The newly created six- and eight-year measurement periods include the ED secretary's assessment of an institution's progress in meeting its accrediting agency's standards for student achievement. The multi-year measurements also feature tiered aCDR thresholds to determine institutional ineligibility in Title IV federal student loan programs:
  - Ineligible to participate with an aCDR greater than 20 percent over three years
  - Ineligible to participate with an aCDR greater than 15 percent over six years
  - Ineligible to participate with an aCDR greater than 10 percent over eight years
- The proposal creates and defines "Progress Period Status" as "the status of an institution of higher education that is determined by the Secretary to be in danger of failing to meet Title IV eligibility criteria relating to student debt because the institution has an adjusted cohort default rate of not less than 10 percent and not more than 15 percent."
  - The bill also directs the secretary to prioritize program reviews of institutions with an aCDR in excess of 18 percent.
- It includes borrowers in a short-term forbearance (less than 18 months) in the aCDR calculations.
- It deems borrowers in default if they have been in forbearance for three years or more.
- It defines the on-time repayment rate as the percentage of an institution's student borrowers who have been in repayment for three years and have made at least 90 percent of the monthly payments during that period.
- Institutions that fail to meet the aCDR metrics will not be eligible to participate in the new Perkins Loan Program created by the CAA.
- Private nonprofit institutions with an aCDR of 20 percent or greater in the preceding two fiscal years are automatically deemed not in compliance with the required financial responsibility standards to participate in Title IV loan programs.
- Schools are exempt from related aCDR sanctions if 20 percent or fewer of all students, enrolled at least half time or more, have student loans.

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NACUBO Concerns

- The aCDR unnecessarily complicates an already complex regime of accountability measures contained in the CAA.
- Integrating a complex and multi-tiered approach to calculating an aCDR as a metric of financial responsibility should be tested with current data, and with the results published, before implementing a permanent change.
- Adding multi-layered measures by which an institution's aCDR is calculated, and subjecting some of the terms of those measures to negotiated rulemaking, will leave schools without sufficient compliance guidance, likely for an extended period of time.
- The proposal may diminish access to higher education for students with high financial need, who could be considered high-risk borrowers, as well as students who are deemed to be at high risk of non-completion, because statistically students who borrow for higher education, but do not complete a credential, are at a higher risk of loan default. This proposal incentivizes schools to reduce the percentage of enrolled students who borrow and are statistically most likely to default on their loans; instead, they should be incentivized to help high-need, high-risk students succeed.

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