CHANGE IN THE COMPUTATION OF COHORT DEFAULT RATES WOULD MAKE RATES MORE ACCURATE

FINAL AUDIT REPORT

Control Number ED-OIG/A06-70006
March 2000

Our mission is to promote the efficient and effective use of taxpayer dollars in support of American education

U.S Department of Education
Office of Inspector General
Dallas, Texas

NOTICE

Statements that management practices need improvement, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by appropriate Department of Education officials.

In accordance with the Freedom Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MEMORANDUM

MAR 3 1 2000

To : Greg Woods
Chief Operating Officer
Student Financial Assistance

From : Lorraine Lewis Lorraine Lewis

Subject: Final Audit Report—Change in the Computation of Cohort Default Rates Would Make Rates More Accurate, Audit Control Number ED-OIG/A06-70006

You have been designated primary action official for this report. The Assistant Secretary, Office of Postsecondary Education, is a collateral action official. Please coordinate with him regarding any actions in connection with our recommendation to modify the current cohort default rate computation method through consultation with the public. Please provide the Office of the Chief Financial Officer - Financial Improvement and Post Audit Operations/Post Audit Group and the Office of Inspector General/Audit Services with semiannual reports on corrective actions until all such actions have been completed or continued follow-up is unnecessary.

In accordance with the Freedom of Information Act (5U.S.C. §552), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

If you have any questions concerning this report, please call Lee Greear, Acting Area Manager, Dallas, Texas, at (214) 880-3031.

Attachment

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

MEMORANDUM

MAR 3 1 2000

To: Lee Fritschler
Assistant Secretary
Office of Postsecondary Education

From: Lorraine Lewis Lorraine Lewis

Subject: Final Audit Report—Change in the Computation of Cohort Default Rates Would Make Rates More Accurate, Audit Control Number ED-OIG/A06-70006

You have been designated as a collateral action official for this report. The Chief Operating Officer for Student Financial Assistance, has been assigned as the primary action official. Please coordinate with him regarding any actions in connection with our recommendation to modify the current cohort default rate computation method through consultation with the public.

In accordance with the Freedom of Information Act (5U.S.C. §552), reports issued by the Office of Inspector General are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act. Copies of this audit report have been provided to the offices shown on the distribution list enclosed in the report.

If you have any questions concerning this report, please call Lee Greear, Acting Area Manager, Dallas, Texas, at (214) 880-3031.

Attachment

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Based on the Department of Education's longstanding interpretation and implementation of the default provisions of the Higher Education Act, official cohort default rates are understated. As a result, schools with high default rates are not being identified because not all of the borrowers who meet the statutory definition of a defaulter during the cohort period are included in the default rate computation. Our analysis of loans included for the 1994 cohort period calculation disclosed that an additional 115 schools would have reached the 25 percent cohort default rate threshold if claims paid during the three months following the end of the cohort period were considered. The 115 schools include 16 schools that would have reached or exceeded a 25 percent rate for three consecutive years and lost eligibility to participate in the Federal Family Education Loan and the Direct Loan Programs, subject to the appeals process. The 16 schools disbursed about $18.2 million annually in Federal loan funds. Based on a 25 percent default rate, we conclude that $4.6 million could have been better used annually. The remaining 99 schools would have reached or exceeded a 25 percent 1994 cohort default rate for one or two of the previous three years.

The Department considers a 25 percent or higher cohort default rate to be an indication of a lack of administrative capability and places schools on provisional certification to participate in the Title IV programs if that threshold is reached for a single year. Cohort default rates are also a key performance indicator in the Department and Student Financial Assistance performance plans. Therefore, it is important that the rates be accurate.

By statute, a default is included in the rate calculation only if the Secretary or a guaranty agency pays a lender's claim for reimbursement. The understated rates occur because the Department does not capture the default date or count reported defaults unless the claim is paid within the cohort period. Because of claims processing time, borrowers who default near the end of the cohort period are never considered in any cohort rate computation. This has been the interpretation and practice of the Department since default rates were first published in 1989.

Since the practice was instituted, technological advances and use of the National Student Loan Data System (NSLDS) have improved the Department's ability to calculate default rates. When the Department first computed cohort default rates, student loan data was available only on the annual guaranty agency tape dump. The NSLDS replaced the tape dump in January 1995 and is updated monthly.

We are recommending that the Chief Operating Officer (COO) for Student Financial Assistance capture the default date in the NSLDS and use that date in calculating cohort default rates for schools. We also are recommending that the Assistant Secretary for the Office of Postsecondary Education, with appropriate consultation with the public, modify the current cohort default rate computation method to include defaults that occurred within the cohort period but were subsequently paid during the first three months following the cohort period.

The COO agreed that it was necessary to support strong student default prevention measures to protect the government from the costs associated with high rates of default. However, the COO did not agree with our recommendations for changes in computing default rates. The COO stated: 1) A change in the calculation method would reduce the usefulness of the data to perform comparative analysis; 2) some of the loans we based our analysis on may have defaulted outside of the cohort period; 3) the scope of our analysis was too limited to be applied universally; 4) a change in the default calculation methodology would require major changes to the NSLDS system which are not an investment priority; and 5) adding another quarter to the cohort period would not allow the Department enough time to release the default rates by the required deadline.

To address the COO's comments, we performed additional audit work and made appropriate changes to the data presented in the report. Based on the totality of our work, we find that the recommended modification would not require major changes to NSLDS or prevent publishing the default rates within required deadlines. Based on a random sample review and a statistically valid sample projection, we estimate that 80 percent of the default claims paid in the first quarter of a cohort period were for loans that defaulted in the prior cohort period. As a result, there was no evidence collected to cause us to change our recommendations.

We have paraphrased the COO's comments and provided additional OIG comments after the Other Matters section of this report. The full text of the COO's response is included as Appendix III.

AUDIT RESULTS

Cohort default rates are understated because not all of the borrowers who meet the statutory definition of a defaulter are included as a default in the cohort default rate computation. The missing defaults are the result of the Department's longstanding interpretation and implementation of the default provisions of the Higher Education Act of 1965, as amended (HEA). Based on an analysis of the loans used to compute the fiscal year (FY) 1994 cohort default rates, 115 schools in addition to the schools identified by the Department would have reached at least a 25 percent cohort default rate. The 115 schools included 16 schools that would have reached at least a 25 percent rate for three consecutive years. The remaining 99 schools included 19 schools that would have reached at least a 25 percent rate for two consecutive years and 80 schools that would have reached at least a 25 percent rate for the latest year.

The 16 schools would have lost eligibility, subject to the appeals process, to participate in the Federal Family Education Loan Program (FFELP) and the Federal Direct Loan Program. They disbursed about $18.2 million in FFELP and Direct Loan funds annually. The 99 schools would have been placed on provisional certification and monitored.[1]

Higher Education Act Requires Cohort Default Rate Calculation

According to the HEA, section 435(l), a *default* occurs when no payments have been made on a loan for 180 days (currently 270 days) for a loan repayable in monthly installments or for 240 days (currently 330 days) for a loan repayable in less frequent installments. The HEA, section 435(m), sets forth the requirements for computing the cohort default rate. With certain exceptions, the HEA states that the cohort default rate is the: . . . *percentage of those current and former students who enter repayment on such loans received for attendance at that institution in that fiscal year who default before the end of the following fiscal year.*

The HEA, section 435(m), also states: *In determining the number of students who default before the end of such fiscal year, the Secretary shall include only loans for which the Secretary or a guaranty agency has paid claims for insurance, and, in calculating the cohort default rate, exclude any loans which, due to improper servicing or collection, would result in an inaccurate or incomplete calculation of the cohort default rate.*

[1] The Department had already provisionally certified 35 of the schools as a result of current policies and procedures.

The Department implemented the statutory requirements for determining cohort default rates. Under the Department's longstanding interpretation, a default is not counted unless the claim is paid within the 2-year cohort period. As a result, defaults that occur near the end of the cohort period are not counted because of the time it takes to process and pay claims. The HEA, section 435 (m), and implementing regulations, Title 34, Code of Federal Regulations (CFR), section 668.17 (d)(1)(C) do not specify that only claims paid during the 2-year cohort period need to be counted.

Claims Processing Time

Title 34, CFR 682.406 (a)(5) and (8), allows lenders 90 days to file a default claim with the guaranty agency (GA) and an additional 90 days for the GA to pay the lender for the default claim, a total of 180 days.

The regulations also contain incentives to complete claims processing in a total of 120 days [34 CFR 682.406 (a)(5) and (6)]. At the Texas Guaranteed Student Loan Corporation, it took an average of between 120 and 130 days[2] to process and pay a default claim.

If the 120 day incentive processing time was representative of all GAs, borrower defaults which occur after early June of the second year of the cohort period most likely will not be considered in a cohort default computation. The defaults that are not included will never be included in future cohort default rate computation because only borrowers with loans that enter repayment status in the base year of cohort periods are used in the rate computation process.

At the time the Department first computed cohort default rates for FY 1987, student loan data was available only on the old annual GA tape dump. The tape dump contained information GAs provided to the Department on all of their FFELP loans. However, the tape dump data did not include

[2] A GA official told us that it took between 30 and 40 days for lenders to send the claim to the GA. We determined that it took about 90 days for the GA to process the claim. This results in an average of 120 to 130 days.

all of the information necessary to compute the rates based on the actual default dates. The NSLDS replaced the tape dump in January 1995 and it contains additional data that is updated monthly. However, the defaults on the NSLDS are recorded as the date the default claim was paid.

Default rates would be more accurate if the Department's calculation considered all defaults that occurred within the cohort period, including those default claims that were paid in the quarter after the cohort period ended. This would give the Department nine months rather than a full year to meet the statutory September 30th deadline to publish the cohort default rates. The Department advised us that it takes a minimum of nine months to publish the cohort default rates.

Effect of Not Counting Borrower Defaults

Not including defaults where claims are paid after the end of the cohort period in the rate computation reduces the Department's ability to identify, monitor, or take administrative action for schools when necessary. For example, 34 CFR 668.16 (m)(1)(i) states: . . . *a school is administratively capable if default rates are under 25 percent over a three-year period.*

Further, 34 CFR 668.16 (m)(2)(i) states: *Except that, if the Secretary determines that the institution is not administratively capable solely because the institution fails to comply with paragraph (m)(1) of this section, the Secretary will provisionally certify the institution.*

The Department places schools on provisional certification after the first year that a 25 percent default rate is computed. In a response to our audit report, "Review of the Effectiveness of Provisional Certification Administered by the U.S. Department of Education," Audit Control Number A07-70008, the Department stated: *A default rate in excess of 25 percent is considered a lack of administrative capability.*

Title 34 CFR 668.17 outlines default rate thresholds where the Department may initiate a proceeding to limit, suspend, or terminate the participation of the institution in the Title IV programs. For example, the Secretary may take termination action if a school exceeds a 40 percent default rate for a single year.

Cohort default rates also are a key performance indicator in the Department and Student Financial Assistance performance plans.[3] Therefore, it is important that default rates be accurate.

Analysis of 1994 Cohort Default Rate Data

The NSLDS contains the date a default claim was paid, but it does not contain the date a borrower defaulted on a loan. As a result, we could not determine the number of defaults that actually fell within the 1994 cohort period. As an alternative, we identified all borrowers with paid claim dates that occurred in the quarter following the end of the cohort period, and considered them to have actually defaulted during the cohort period. We did not include schools that had less than 30 borrowers. This process identified the 115 schools in addition to the 351 schools that were identified by the Department as discussed in this report and shown in the table on the following page.

Our analysis at the Texas Guaranteed Student Loan Corporation for four schools reviewed, disclosed that all claims paid during the quarter after the end of the 1994 cohort period were related to borrowers who defaulted during the 1994 cohort period

The following table compares the number of schools reaching the 25 percent default threshold based on the Department's published 1994 rates and the number that would have reached the threshold if default claims paid in the quarter after the cohort period ended were considered.

[3] The U.S. Department of Education 1999 Performance Reports and 2001 Plans and the Performance Plan for Student Financial Assistance for FYs 2000 through 2004.

NUMBER OF INSTITUTIONS REACHING 25 PERCENT THRESHOLD

PUBLISHED 94 COHORT RATE			RATES CONSIDERING CLAIMS PAID IN THE SUBSEQUENT QUARTER		
Type of Institution	Number Reviewed	94 Rate Over 25%	Number Over 25% W/3 Additional Months Claim Data	Number Increase	Percent Increase
Public	1411	37	72	35	94.6 %
Private	1376	43	50	7	16.3 %
Proprietary	1202	271	344	73	26.9 %
Total	3989	351	466	115	32.8 %

Appendix I and II of this report detail our recalculated 1994 rates for the 16 schools that would have potentially lost eligibility and the remaining 99 schools that would have been placed on provisional certification and monitored. These results are conservative because we used the published rates computed by the Department for cohort years 1992 and 1993 in the evaluation of the three-year period.

Additional Schools Subject to Administrative Action

Our analysis of the 1994 cohort default rates also disclosed an additional 13 schools that would have reached the 40 percent threshold if default claims paid in the quarter after the cohort period ended were considered. The Department could have initiated a proceeding to limit, suspend, or terminate the participation of the 13 schools in the Title IV programs [34 CFR 668.17 (a)(2)]. Default rates for the 13 schools ranged from 40.0 to 45.7 percent when default claims paid in the quarter after the cohort period ended were considered. The 13 schools received about $24.7 million in Title IV funds annually.

The Department's practice has been to refer schools with default rates of 40 percent or more to the Administrative Actions and Appeals Division. The Administrative Actions and Appeals Division considers each school's default rate, number of borrowers, and other factors in determining whether to initiate a proceeding to limit, suspend, or terminate the school's Title IV participation.

Analysis of 1996 Cohort Default Rate Data

We performed additional work after our draft audit report was issued to address comments received by the Chief Operating Officer (COO) for Student Financial Assistance. The additional work included analysis of the 1996 cohort data that further supports our conclusion that the majority of claims paid during the first quarter of a cohort period are for loans that defaulted in the previous period.

We identified 23,278 borrowers from NSLDS records as of September 24, 1999, who had claims paid during the quarter after the 1996 cohort period ended. Our statistically valid projection based on a random sample review of 100 of the 23,278 borrowers disclosed that 80 percent had defaulted within the 1996 cohort period. For each of the 100 sample borrowers, we provided the lender loan data obtained from the NSLDS on the borrower's loan(s) and asked the lender to provide documentation of the actual default date for the loan(s). Lenders provided documentation for 97 of the 100 borrowers. Based on the sample results, we are 90 percent confident that 18,622 (plus or minus 1,528) of the 23,278 borrowers defaulted during the 1996 cohort period.

RECOMMENDATIONS

We are recommending that the COO for Student Financial Assistance capture the statutory default date in the NSLDS and use that date to calculate cohort default rates for schools.

We are recommending that the Assistant Secretary for the Office of Postsecondary Education, with appropriate consultation with the public, amend the cohort default rate computation method to include defaults that occurred within the cohort period but were subsequently paid in the first quarter following the cohort period.

OTHER MATTERS

The reauthorization of the HEA, enacted on October 7, 1998, contains several provisions that will have an impact on the computation of cohort default rates. One important change made was in the definition of a default. The default date, which previously occurred after 180 days of delinquency, was extended to 270 days for borrowers who have a monthly payment schedule. The change highlights the need to consider the amount of time required for processing default claims to ensure that the cohort default rates capture all of the borrowers who have in fact defaulted during the cohort period. For example, borrowers who enter repayment between early July and September 30th of the base year of the cohort period may never be included as a default in any cohort rate calculation. This failure to be included as a default occurs because it can take 450 days for the default to be recognized. The borrower must be delinquent for 270 days and the lender and GA are allowed 180 days to process and pay the claim. Another important change with the reauthorization was that the Secretary is now required to publish the cohort default rate report by September 30 of each year.

DEPARTMENT RESPONSE TO DRAFT REPORT

The COO agreed that it was necessary to support strong student default prevention measures to protect the government from the costs associated with high rates of default, but did not agree with our recommendations for changing the way default rates are computed. The COO stated:

- The current cohort default rate calculation method has achieved the desired objective of identifying institutions that have extremely high current default rates, 1,180 schools have been removed from the loan programs, and the national default rate has declined from 22.4 percent in 1991 to the present 9.6 percent.

- The current reporting practices are better than those in effect during the audit period which spanned the time that the Department was changing the way it calculated default rates. Changes during this time period included a new transmission mechanism (NSLDS), new data elements, additional data, and a new contractor.

- Changing the calculation method would reduce the usefulness of data when comparative analysis is performed because the analysis would no longer be a consistent benchmark.

- To determine how many additional defaulted loans would have been included, the OIG analysis assumes that all default claims paid within three months of the end of the cohort period were for loans that defaulted within that cohort period. However, some of these loans may actually have defaulted outside of the cohort period. The net effect of any erroneously included defaulted loans would be to inflate the revised cohort default rate.

- The scope of the OIG's analysis of the claim payment process after the loan defaults, which was based on only one GA's experience with four schools, is too limited to be applied universally to approximately 4,000 schools across the country. Based on experience with lenders and GAs, the Department believes the claim payment process is generally completed much more quickly than indicated in the OIG report.

- It is questionable whether implementation of OIG recommendations would increase the Department's ability to take administrative action and result in the savings anticipated. The COO concluded that only 16 schools would have lost eligibility because of high default rates instead of the 22 schools identified by the OIG. In addition the COO stated that 35 of the remaining 99 schools (over 1/3 of the schools) are provisionally certified under current policies and procedures.

- Changing the methodology would require major changes to the NSLDS system that is not an investment priority and the effect of the change would only result in a small change in the national default rate.

- The NSLDS system is not currently programmed to use the date of default that is maintained in the system to calculate cohort default rates.

- Adding three months to the calendar for computing default rates, which would be necessary to include the additional quarter of data, would only leave seven months, and nine months are needed, to comply with the current law which requires the Department to release the official rates by September 30 each year.

- Analysis shows that the recent statutory change to the definition of default from 180 days to 270 days of delinquency will result in only a 1.1 percent decline in the cohort default rate. In addition, the change will result in only a 0.19 percent reduction in the number of schools that are subject to loss of loan program eligibility due to three years of rates over 25 percent and only a 0.02 percent reduction in the number of schools that are subject to loss of Title IV program eligibility due to one rate over 40 percent.

The COO also stated: "As we reevaluate methods, we will keep in mind that data collection dates can make a difference. If we determine the computation of the cohort default rate could be improved, I would then recommend that the Secretary either change the default rate calculation or recommend that Congress change the definition, as appropriate." A copy of the COO's full response is included as Appendix III to this report.

OIG COMMENTS

To address the COO's comments, we updated our findings based on additional data provided. We also performed additional analysis to test our conclusion that default claims paid during the quarter after the end of the cohort default period were for borrowers who defaulted within the cohort period. Our analysis of the COO's response and our additional audit work did not cause us to change our recommendations.

Current Success

We agree that the current cohort rate has identified schools that have high cohort default rates. We also believe it is important to identify all schools that exceed the statutory threshold for default rates. Based on our additional analysis and statistically valid projection, schools that are not identified continue to operate and the students are harmed because one out of four (25 percent) or more of them likely will default on their loans and their credit standing will reflect the default. The default status will also block access to future Title IV assistance.

Current Reporting Practices

We agree that there have been changes since our audit of the 1994 cohort data. However, those changes have not resulted in the changes we are recommending to more accurately reflect the cohort default rate. This was confirmed by our additional analysis that included the 1996 cohort period and is discussed below.

Inconsistent Bench Mark

We do not agree that changing the calculation methodology would reduce the usefulness of default data or cause difficulties when performing comparative analysis. Since the HEA amendments of 1998 extended defaults by 90 days, Congress has already altered the year-to-year comparability of the default rates. Adding another quarter of defaults paid outside the cohort period would not distort comparative analysis in the future. Including the additional 90 days of defaults may improve comparability.

Default Claims Paid in the Quarter after the Cohort Period Ends

In a meeting held after the COO's comments were received, Department officials stated that their comments regarding the time it takes to process default claims were based on their experience with GAs and lenders. However, no data was provided to support their comments. We performed additional analysis using the 1996 cohort period to confirm that the majority of default claims paid in the quarter after a cohort period ended were for defaults that occurred within that cohort period.

The additional analysis included a review of a valid random sample of 100 borrowers from the population of 23,278 borrowers who had claims paid during the quarter after the 1996 cohort period ended on September 30, 1997. This review disclosed that 80 percent of the borrowers had reached the 180th day of non-payment (i.e., defaulted) within the 1996 cohort period. As a result, the Department's 1996 cohort default rate calculations did not consider an estimated 18,622 borrowers (based on our statistically valid projection) who had defaulted in the 1996 cohort period. Additional details of this analysis are provided in the Audit Results section of this report.

Questionable Better Use of Funds

We agree with the Department that only 16 rather than 22 schools should have been cited in our report. The 22 schools included two that successfully appealed their rates and four that would not have been excluded from the loan programs (one Historically Black College and University and three schools that had voluntarily dropped out of the loan programs). The 16 schools received about $18.2 million in FFELP and Direct Loan funds annually. The schools would have reached a default rate of 25 percent or more for three consecutive years. Based on a 25 percent default rate, we conclude that $4.6 million annual better use of funds is significant. Moreover, it adds to the overall efficiency of the Title IV programs by allowing the Department to focus its resources on true problem schools.

Systems Modification

The COO indicated that changes in the NSLDS system used to calculate cohort default rates were not a priority, and that the changes would be costly and the effect on the cohort rate would be small. The COO stated that inclusion of an additional quarter of data could jeopardize compliance with the requirement to publish cohort rates by September 30 of each year because of the time it takes to complete the process. We conclude that a small change in the percentage of the national default rate represents a significant amount of money that could be better used as illustrated by our identification of the 16 schools and the associated $4.6 million that could be better used annually. In addition, students attending the schools are harmed as discussed above.

We do not agree that the cost of our recommended changes would be prohibitive or that the amount of time required to complete the cohort process would be appreciably extended. The system contains provisions for reporting changes in loan status and the effective date. There would be no need to modify the system beyond adding another two-letter status code definition to the choices already available for reporting loan status. The change would also require some direction to the lenders and GAs to include the data in their normal reporting. GAs and lenders do have this information. Out of our sample of 100 borrowers, lenders provided the actual default date on 97 borrowers. We conclude that the funds available for better use would more than offset the cost of the action.

The 1994 and 1995 draft rates were computed in mid-April and at the end of March, respectively. We were advised that delays were caused by programming problems. The 1998 draft rates were calculated on December 18, 1999. Since NSLDS is required to be updated monthly, future draft rates could be calculated in January or early February following the end of the cohort period. As a result, the start of the process would only be delayed by a short period.

Default Date

The COO stated that the system already contains data to identify the default date. We agree that the system contains a number of status codes and the related dates for defaulted loans. However, our review of status codes available for defaulted loans disclosed no status code defined as an initial default, specifically the 180th (now 270th) day of non-payment as default is defined by the HEA. During a meeting with Department officials held after we received the COO's written comments, we learned that the default date in the system that the COO referred to was actually the default paid claim date.

BACKGROUND

The Default Management Division within Student Financial Assistance calculates cohort default rates annually from information obtained from the NSLDS. In November 1994, GAs began reporting data to the NSLDS. Lenders were required to collect and report data to the GAs not less than once a quarter starting in July 1995. These new processes were implemented to enhance the procedures for collecting, calculating, and verifying the accuracy of the data used to calculate official cohort default rates.

The cohort default reduction initiative was designed to monitor the default rate of schools and to remove schools with high default rates from the various loan programs. The first cohort default rates released were the FY 1987 rates that were released in 1989. The first year that schools were subject to sanctions due to their cohort default rates was 1991, when the FY 1989 cohort default rates were released. Approximately 1,065 schools have lost eligibility to participate in the FFELP and/or the Direct Loan Program since 1991 due to cohort default rates that exceeded the statutory threshold for loan program participation.

OBJECTIVES, SCOPE, AND METHODOLOGY

An original audit objective was to determine whether cohort rates were being manipulated by participating schools, and if so, whether controls can be implemented to reduce manipulation. Based on our analysis of four schools and one GA, we found no evidence that schools were manipulating cohort default data. However, we found that the default rates were understated and expanded our objectives to include a review of the methods for calculating and the accuracy of the 1994 cohort default rates.

We also evaluated management controls related to actions taken by the Department for schools with cohort default rates exceeding those stipulated by law. In order to accomplish these objectives, we analyzed the data used to compute the 1994 cohort rates, interviewed Default Management employees, and employees at Texas Guaranteed Student Loan Corporation. We also reviewed and tested data pertaining to four schools that utilized the Texas Guaranteed Student Loan Corporation as a guarantor.

Our audit dealt primarily with the data for the 1994 official cohort default rates and our recalculation of those rates considering additional claim/default data not considered by the Department. We used computerized back-up data provided by the Department and FFELP default claims paid during the period October 1, 1995 through September 30, 1996.

FFELP default claim data related to borrowers that entered repayment during the period October 1, 1993 through September 30, 1994 were obtained from NSLDS. The Department in computing the 1994 cohort default rates did not consider direct loan data because the Direct Loan Program did not begin until July 1, 1994.

The 1992 and 1993 official cohort rates published by the Department were considered to analyze the effects of the recalculated 1994 cohort rates. In total, our calculations and comparisons involved 3,989 institutions. Institutions with less than 30 borrowers that entered repayment during the base year (October 1, 1993 through September 30, 1994) were excluded from our review.

After receiving the COO's response to our draft report, we expanded our audit to include analysis of the 1996 cohort period. We reviewed a random sample of 100 borrowers from a universe of 23,278 borrowers who had a default claim paid during the quarter after the end of the 1996 cohort period (i.e., September 30, 1997), to determine if the default occurred within the 1996 cohort period. We are 90 percent confident that 18,622 (plus or minus 1,528) of the 23,278 borrowers defaulted within the 1996 cohort period.

For purposes of our analysis, we relied on the claim data that we extracted from NSLDS. Our analysis of this data was based on the assumption that all claims paid during the first three months after the cohort period were for borrowers that defaulted during the cohort period. We performed "completeness tests" for the 1994 back-up data provided by the Department. We also performed limited tests of the output of computer processes to verify results. Based on the results of the tests described, we concluded that the computerized data was sufficiently reliable to formulate conclusions associated with the objectives described above.

We conducted fieldwork from August 1997 through August 1998. Additional fieldwork was conducted from October 1999 through January 2000. All audit work was conducted in accordance with generally accepted government auditing standards appropriate to the scope described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our review, we assessed the system of management controls, policies, procedures, and practices applicable to the Department's management of the cohort default rates. Our assessment was performed to determine the level of control risk for determining the nature, extent, and timing of our substantive tests to accomplish the audit objectives. For the purposes of this report, we assessed and classified the significant controls into the following categories: 1) calculation of cohort default rates; 2) monitoring of default rates; and 3) inclusion of schools in the cohort default rates.

Because of inherent limitations, a study and evaluation made for the limited purpose described above would not necessarily disclose all material weaknesses in management controls. The Department has appropriate controls in place to ensure that proper action is taken when schools exceed a 25 percent cohort rate for three consecutive years or exceed 40 percent for any year as the rates are currently computed. Our review did, however, disclose that cohort default rates are understated because not all of the borrowers who meet the statutory definition of a defaulter are included as a default in the cohort default rate computation. This weakness is discussed in the AUDIT RESULTS section of this report.

COHORT DEFAULT RATE DATA

for 16 schools that would have exceeded the 25 percent threshold for three consecutive years had the Department considered three additional months of claim payments in computing the 1994 Cohort Default Rate.

SCHOOL		RECOM. 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
1	IN DEFAULT:	60	54	54	56
	IN REPAYMENT:	227	227	12	193
	RATE:	26.4	23.8	25.5	29.0
2.	IN DEFAULT:	35	32	145	198
	IN REPAYMENT:	140	140	451	501
	RATE:	25.0	22.9	32.2	39.5
3.	IN DEFAULT:	33	30	30	22
	IN REPAYMENT:	123	123	118	81
	RATE:	26.8	24.4	25.4	27.2
4.	IN DEFAULT:	67	63	118	149
	IN REPAYMENT:	267	267	362	508
	RATE:	25.1	23.6	32.6	29.3
5.	IN DEFAULT:	234	214	281	331
	IN REPAYMENT:	883	883	932	1,091
	RATE:	26.5	24.2	30.2	30.3
6.	IN DEFAULT:	15	11	24	25
	IN REPAYMENT:	52	52	75	85
	RATE:	28.8	21.2	32.0	29.4
7.	IN DEFAULT:	88	81	157	138
	IN REPAYMENT:	337	337	494	498
	RATE:	26.1	24.0	31.8	27.7
8.	IN DEFAULT:	83	71	102	90
	IN REPAYMENT:	297	297	340	290
	RATE:	27.9	23.9	30.0	31.0
9.	IN DEFAULT:	137	129	240	232
	IN REPAYMENT:	531	531	817	820
	RATE:	25.8	24.3	29.4	28.3

APPENDIX I

SCHOOL		RECOM. 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
10.	IN DEFAULT:	102	85	84	61
	IN REPAYMENT:	351	351	284	224
	RATE:	29.1	24.2	29.6	27.2
11.	IN DEFAULT:	34	30	41	58
	IN REPAYMENT:	127	127	123	183
	RATE:	26.8	23.6	33.3	31.7
12.	IN DEFAULT:	34	31	32	27
	IN REPAYMENT:	129	129	124	89
	RATE:	26.4	24.0	25.8	30.3
13.	IN DEFAULT:	33	31	44	60
	IN REPAYMENT:	131	131	169	238
	RATE:	25.2	23.7	26.0	25.2
14.	IN DEFAULT:	43	39	63	94
	IN REPAYMENT:	166	166	237	285
	RATE:	25.9	23.5	26.6	33.0
15.	IN DEFAULT:	52	45	59	60
	IN REPAYMENT:	204	204	212	229
	RATE:	25.5	22.1	27.8	26.2
16.	IN DEFAULT:	15	13	14	33
	IN REPAYMENT:	59	59	44	73
	RATE:	25.4	22.0	31.8	45.2

APPENDIX II

COHORT DEFAULT RATE DATA

for 99 schools that would have exceeded the 25 percent threshold for two consecutive years (19 schools), two non-consecutive years (18 schools), or for the first time (62 schools), had the Department considered three additional months of claim payments in computing the 1994 Cohort Default Rate (school names and OPEID numbers have been omitted).

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
1.	IN DEFAULT:	43	36	43	26
	IN REPAYMENT:	165	165	159	158
	RATE:	26.1	21.8	27.0	16.5
2.	IN DEFAULT:	230	211	236	218
	IN REPAYMENT:	894	894	853	898
	RATE:	25.7	23.6	27.7	24.3
3.	IN DEFAULT:	206	187	205	234
	IN REPAYMENT:	779	779	712	954
	RATE:	26.4	24.0	28.8	24.5
4.	IN DEFAULT:	126	117	119	160
	IN REPAYMENT:	479	479	438	651
	RATE:	26.3	24.4	27.2	24.6
5.	IN DEFAULT:	50	48	47	40
	IN REPAYMENT:	195	195	168	184
	RATE:	25.6	24.6	28.0	21.7
6.	IN DEFAULT:	12	10	21	11
	IN REPAYMENT:	48	48	59	46
	RATE:	25.0	20.8	35.6	23.9
7.	IN DEFAULT:	39	38	83	50
	IN REPAYMENT:	154	154	220	234
	RATE:	25.3	24.7	37.7	21.4
8.	IN DEFAULT:	76	68	89	89
	IN REPAYMENT:	278	278	338	375
	RATE:	27.3	24.5	26.3	23.7
9.	IN DEFAULT:	25	19	40	18
	IN REPAYMENT:	81	81	119	79
	RATE:	30.9	23.5	33.6	22.8

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
10.	IN DEFAULT:	109	103	144	107
	IN REPAYMENT:	425	425	452	458
	RATE:	25.6	24.2	31.9	23.4
11.	IN DEFAULT:	41	38	21	7
	IN REPAYMENT:	153	153	84	29
	RATE:	26.8	24.8	25.0	22.2
12.	IN DEFAULT:	51	42	43	22
	IN REPAYMENT:	185	185	170	169
	RATE:	27.6	22.7	25.3	13.0
13.	IN DEFAULT:	102	97	136	135
	IN REPAYMENT:	394	394	494	565
	RATE:	25.9	24.6	27.5	23.9
14.	IN DEFAULT:	190	167	183	193
	IN REPAYMENT:	701	701	712	793
	RATE:	27.1	23.8	25.7	24.3
15.	IN DEFAULT:	85	76	88	66
	IN REPAYMENT:	336	336	291	300
	RATE:	25.3	22.6	30.2	22.0
16.	IN DEFAULT:	29	25	42	32
	IN REPAYMENT:	101	101	167	140
	RATE:	28.7	24.8	25.1	22.9
17.	IN DEFAULT:	148	131	127	61
	IN REPAYMENT:	592	592	509	282
	RATE:	25.0	22.1	25.0	21.6
18.	IN DEFAULT:	67	60	21	6
	IN REPAYMENT:	248	248	75	35
	RATE:	27.0	24.2	28.0	17.1
19.	IN DEFAULT:	20	17	22	120
	IN REPAYMENT:	73	73	73	562
	RATE:	27.4	23.3	30.1	21.4

THE PRECEDING 19 SCHOOLS WOULD HAVE HAD RATES EXCEEDING 25 PERCENT FOR TWO CONSECUTIVE YEARS ¾ 1994 AND 1993

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
20.	IN DEFAULT:	81	66	55	55
	IN REPAYMENT:	290	290	233	193
	RATE:	27.9	22.8	23.6	28.5
21.	IN DEFAULT:	246	231	222	366
	IN REPAYMENT:	965	965	900	1,199
	RATE:	25.5	23.9	24.7	30.5
22.	IN DEFAULT:	11	8	9	14
	IN REPAYMENT:	41	41	40	37
	RATE:	26.8	19.5	22.5	37.8
23.	IN DEFAULT:	10	7	7	16
	IN REPAYMENT:	36	36	40	34
	RATE:	27.8	19.4	17.5	47.1
24.	IN DEFAULT:	11	9	8	14
	IN REPAYMENT:	43	43	44	41
	RATE:	25.6	20.9	18.2	34.1
25.	IN DEFAULT:	53	46	60	145
	IN REPAYMENT:	205	205	242	544
	RATE:	25.9	22.4	24.8	26.7
26.	IN DEFAULT:	15	9	8	27
	IN REPAYMENT:	51	51	41	70
	RATE:	29.4	17.6	19.5	38.6
27.	IN DEFAULT:	13	11	8	14
	IN REPAYMENT:	48	48	59	51
	RATE:	27.1	22.9	13.6	27.5
28.	IN DEFAULT:	160	141	122	123
	IN REPAYMENT:	614	614	506	491
	RATE:	26.1	23.0	24.1	25.1
29.	IN DEFAULT:	64	59	47	89
	IN REPAYMENT:	248	248	260	283
	RATE:	25.8	23.8	18.1	31.4
30.	IN DEFAULT:	36	34	24	26
	IN REPAYMENT:	140	140	112	77
	RATE:	25.7	24.3	21.4	33.8

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
31.	IN DEFAULT:	23	20	54	167
	IN REPAYMENT:	91	91	220	392
	RATE:	25.3	22.0	24.5	42.6
32.	IN DEFAULT:	101	93	107	86
	IN REPAYMENT:	388	388	481	299
	RATE:	26.0	24.0	22.2	28.8
33.	IN DEFAULT:	136	116	82	169
	IN REPAYMENT:	503	503	526	672
	RATE:	27.0	23.1	15.6	25.1
34.	IN DEFAULT:	24	23	12	26
	IN REPAYMENT:	93	93	79	100
	RATE:	25.8	24.7	15.2	26.0
35.	IN DEFAULT:	24	21	22	32
	IN REPAYMENT:	94	94	91	113
	RATE:	25.5	22.3	24.2	28.3
36.	IN DEFAULT:	10	8	7	12
	IN REPAYMENT:	40	40	34	43
	RATE:	25.0	20.0	20.6	27.9
37.	IN DEFAULT:	149	139	85	89
	IN REPAYMENT:	574	574	359	340
	RATE:	26.0	24.2	23.7	26.2

THE PRECEDING 18 SCHOOLS (#20 - #37) WOULD HAVE HAD RATES EXCEEDING 25 PERCENT FOR TWO NON-CONSECUTIVE YEARS ¾ 1994 AND 1992

38.	IN DEFAULT:	10	7	3	4
	IN REPAYMENT:	35	35	42	29
	RATE:	28.6	20.0	7.1	13.8
39.	IN DEFAULT:	121	113	84	93
	IN REPAYMENT:	470	470	379	432
	RATE:	25.7	24.0	22.2	21.5
40.	IN DEFAULT:	35	30	27	9
	IN REPAYMENT:	138	138	132	54
	RATE:	25.4	21.7	20.5	16.7

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
41.	IN DEFAULT:	48	45	24	34
	IN REPAYMENT:	182	182	129	171
	RATE:	26.4	24.7	18.6	19.9
42.	IN DEFAULT:	47	43	28	17
	IN REPAYMENT:	182	182	194	183
	RATE:	25.8	23.6	14.4	9.3
43.	IN DEFAULT:	10	9	10	4
	IN REPAYMENT:	39	39	52	38
	RATE:	25.6	23.1	19.2	10.5
44.	IN DEFAULT:	137	119	102	86
	IN REPAYMENT:	520	520	468	587
	RATE:	26.3	22.9	21.8	14.7
45.	IN DEFAULT:	18	16	9	8
	IN REPAYMENT:	69	69	59	42
	RATE:	26.1	23.2	15.3	19.0
46.	IN DEFAULT:	10	7	4	5
	IN REPAYMENT:	37	37	31	38
	RATE:	27.0	18.9	12.9	13.2
47.	IN DEFAULT:	19	18	22	20
	IN REPAYMENT:	76	76	89	101
	RATE:	25.0	23.7	24.7	19.8
48.	IN DEFAULT:	18	16	21	16
	IN REPAYMENT:	68	68	98	73
	RATE:	26.5	23.5	21.4	21.9
49.	IN DEFAULT:	15	10	7	7
	IN REPAYMENT:	53	53	61	49
	RATE:	28.3	18.9	11.5	14.3
50.	IN DEFAULT:	105	101	64	95
	IN REPAYMENT:	415	415	328	382
	RATE:	25.3	24.3	19.5	24.9
51.	IN DEFAULT:	9	8	0	8
	IN REPAYMENT:	34	34	28	36
	RATE:	26.5	23.5	14.0	22.2

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
52.	IN DEFAULT:	48	42	30	35
	IN REPAYMENT:	172	172	159	168
	RATE:	27.9	24.4	18.9	20.8
53.	IN DEFAULT:	16	13	9	12
	IN REPAYMENT:	61	61	64	63
	RATE:	26.2	21.3	14.1	19.0
54.	IN DEFAULT:	64	54	12	89
	IN REPAYMENT:	244	244	74	370
	RATE:	26.2	22.1	16.2	24.1
55.	IN DEFAULT:	40	36	25	26
	IN REPAYMENT:	156	156	144	134
	RATE:	25.6	23.1	17.4	19.4
56.	IN DEFAULT:	10	8	5	5
	IN REPAYMENT:	36	36	32	46
	RATE:	27.8	22.2	15.6	10.9
57.	IN DEFAULT:	38	33	32	46
	IN REPAYMENT:	148	148	156	257
	RATE:	25.7	22.3	20.5	17.9
58.	IN DEFAULT:	9	8	4	0
	IN REPAYMENT:	35	35	24	4
	RATE:	25.7	22.9	14.3	0.0
59.	IN DEFAULT:	17	15	5	5
	IN REPAYMENT:	66	66	40	26
	RATE:	25.8	22.7	12.5	22.9
60.	IN DEFAULT:	65	60	46	48
	IN REPAYMENT:	246	246	230	290
	RATE:	26.4	24.4	20.0	16.6
61.	IN DEFAULT:	20	18	64	61
	IN REPAYMENT:	73	73	257	258
	RATE:	27.4	24.7	24.9	23.6
62.	IN DEFAULT:	43	37	23	31
	IN REPAYMENT:	159	159	133	126
	RATE:	27.0	23.3	17.3	24.6

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
63.	IN DEFAULT:	86	78	68	58
	IN REPAYMENT:	314	314	279	241
	RATE:	27.4	24.8	24.4	24.1
64.	IN DEFAULT:	59	54	16	0
	IN REPAYMENT:	228	228	75	2
	RATE:	25.9	23.7	21.3	0.0
65.	IN DEFAULT:	173	160	155	6
	IN REPAYMENT:	664	664	677	622
	RATE:	26.1	24.1	22.9	1.0
66.	IN DEFAULT:	221	202	206	233
	IN REPAYMENT:	864	864	947	1,177
	RATE:	25.6	23.4	21.8	19.8
67.	IN DEFAULT:	102	90	111	109
	IN REPAYMENT:	394	394	462	560
	RATE:	25.9	22.8	24.0	19.5
68.	IN DEFAULT:	128	114	102	113
	IN REPAYMENT:	506	506	476	572
	RATE:	25.3	22.5	21.4	19.8
69.	IN DEFAULT:	114	91	74	127
	IN REPAYMENT:	395	395	444	561
	RATE:	28.9	23.0	16.7	22.6
70.	IN DEFAULT:	48	46	29	7
	IN REPAYMENT:	187	187	122	97
	RATE:	25.7	24.6	23.8	7.2
71.	IN DEFAULT:	19	18	14	13
	IN REPAYMENT:	74	74	92	70
	RATE:	25.7	24.3	15.2	18.6
72.	IN DEFAULT:	168	158	100	60
	IN REPAYMENT:	656	656	481	423
	RATE:	25.6	24.1	20.8	14.2
73.	IN DEFAULT:	97	86	96	90
	IN REPAYMENT:	388	388	418	464
	RATE:	25.0	22.2	23.0	19.4

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
74.	IN DEFAULT:	49	44	30	12
	IN REPAYMENT:	187	187	122	68
	RATE:	26.2	23.5	24.6	17.6
75.	IN DEFAULT:	14	9	1	4
	IN REPAYMENT:	43	43	7	19
	RATE:	32.6	20.9	19.7	15.7
76.	IN DEFAULT:	22	19	12	15
	IN REPAYMENT:	86	86	49	68
	RATE:	25.6	22.1	24.5	22.1
77.	IN DEFAULT:	12	10	6	7
	IN REPAYMENT:	47	47	49	29
	RATE:	25.5	21.3	12.2	21.7
78.	IN DEFAULT:	14	11	13	15
	IN REPAYMENT:	48	48	61	69
	RATE:	29.2	22.9	21.3	21.7
79.	IN DEFAULT:	30	26	21	19
	IN REPAYMENT:	106	106	103	78
	RATE:	28.3	24.5	20.4	24.4
80.	IN DEFAULT:	92	83	80	86
	IN REPAYMENT:	336	336	368	382
	RATE:	27.4	24.7	21.7	22.5
81.	IN DEFAULT:	34	26	39	46
	IN REPAYMENT:	129	129	188	266
	RATE:	26.4	20.2	20.7	17.3
82.	IN DEFAULT:	71	62	63	83
	IN REPAYMENT:	268	268	330	367
	RATE:	26.5	23.1	19.1	22.6
83.	IN DEFAULT:	48	39	30	38
	IN REPAYMENT:	165	165	181	206
	RATE:	29.1	23.6	16.6	18.4
84.	IN DEFAULT:	30	26	11	19
	IN REPAYMENT:	114	114	94	91
	RATE:	26.3	22.8	11.7	20.9

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
85.	IN DEFAULT:	114	97	58	76
	IN REPAYMENT:	456	456	334	315
	RATE:	25.0	21.3	17.4	24.1
86.	IN DEFAULT:	132	116	103	62
	IN REPAYMENT:	524	524	415	358
	RATE:	25.2	22.1	24.8	17.3
87.	IN DEFAULT:	190	178	149	147
	IN REPAYMENT:	737	737	698	647
	RATE:	25.8	24.2	21.3	22.7
88.	IN DEFAULT:	154	140	128	119
	IN REPAYMENT:	612	612	544	602
	RATE:	25.2	22.9	23.5	19.8
89.	IN DEFAULT:	54	51	41	52
	IN REPAYMENT:	212	212	213	258
	RATE:	25.5	24.1	19.2	20.2
90.	IN DEFAULT:	245	207	213	161
	IN REPAYMENT:	876	876	867	915
	RATE:	28.0	23.6	24.6	17.6
91.	IN DEFAULT:	17	15	7	3
	IN REPAYMENT:	66	66	63	43
	RATE:	25.8	22.7	11.1	7.0
92.	IN DEFAULT:	117	105	49	58
	IN REPAYMENT:	435	435	280	296
	RATE:	26.9	24.1	17.5	19.6
93.	IN DEFAULT:	84	75	45	34
	IN REPAYMENT:	331	345	361	180
	RATE:	25.4	22.7	12.5	18.9
94.	IN DEFAULT:	27	22	23	26
	IN REPAYMENT:	98	98	133	151
	RATE:	27.6	22.4	17.3	17.2
95.	IN DEFAULT:	9	7	4	3
	IN REPAYMENT:	31	31	21	21
	RATE:	29.0	22.6	11.9	6.7

APPENDIX II

SCHOOLS		RECOM 94 RATE	DEPT. 94 RATE	DEPT. 93 RATE	DEPT. 92 RATE
96.	IN DEFAULT:	64	59	35	42
	IN REPAYMENT:	246	246	266	259
	RATE:	26.0	24.0	13.2	16.2
97.	IN DEFAULT:	30	26	15	21
	IN REPAYMENT:	114	114	84	85
	RATE:	26.3	22.8	17.9	24.7
98.	IN DEFAULT:	360	335	137	135
	IN REPAYMENT:	1,360	1,360	774	650
	RATE:	26.3	24.6	17.7	20.8
99.	IN DEFAULT:	192	175	184	175
	IN REPAYMENT:	764	764	817	965
	RATE:	25.1	22.9	22.5	18.1

THE PRECEDING 62 SCHOOLS (#38 - #99) WOULD HAVE REACHED THE 25 PERCENT THRESHOLD FOR THE FIRST TIME IN THREE YEARS

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-

JUL 30 1999

Mr. Daniel J. Thaens
Western Area Manager
Office of Inspector General
U.S. Department of Education
1999 Bryan Street, Suite 2630
Dallas, Texas 75201-6817

Dear Mr. Thaens:

Thank you for the opportunity to review and comment on your report entitled *Improvements Needed in the Computation of Cohort Default Rates* (Audit Control Number: 06-70006).

I was pleased to read your assessment that we have the necessary controls in place to ensure that we calculate cohort default rates for all schools in accordance with current policies and that proper action is taken when schools' cohort default rates exceed established thresholds. I note with interest that you found no evidence that schools were manipulating cohort default rate data. However, your report also states that cohort default rates are understated, and schools with high cohort default rates are not being identified, because all borrowers that meet the current statutory definition of a defaulter during the cohort period are not included in the current cohort default rate computation.

We agree that it is necessary to support strong student loan default prevention measures to protect the government from the costs associated with high rates of default. However, I would not recommend that the Secretary change the cohort default rate calculation as you describe. I believe there are benefits to retaining the current calculation; I have some significant questions about the data and analysis which support your recommendation; I am concerned that if we made the recommended changes, we would not be able to meet the statutory deadline for issuing cohort default rates; and changing the calculation would require major changes to our systems.

The current cohort default rate calculation, which is prescribed by statute, has achieved the desired objective of identifying institutions that have extremely high current default rates. As you noted in your report, as of your audit period, the Department had removed approximately 1,065 schools from one or more of the Title IV programs because their default rates were too high. We have now removed approximately 1,180 schools from the loan programs. In part as a result of these actions and the emphasis the Department and schools have placed on default prevention measures, the national cohort default rates have been reduced each year since 1991, from a high of 22.4 percent to 9.6 percent.

A significant benefit of maintaining the current calculation is that we can compare the cohort default rate each year to a constant benchmark to determine the effectiveness of activities and identify trends. Our student financial aid community partners and we have been accumulating this default data for over a decade. Changing the methodology for calculating official cohort default rates would inhibit this process and prevent the Department and our partners from performing comparative analyses of default data.

After a careful review of the data your office analyzed and provided to support your recommendations, my staff has identified some problems with the data and resulting recommendations. We question whether implementation of your recommendations would increase the Department's ability to take administrative action and result in the savings you anticipate. A detailed response to the recommendations and our analysis of the data are provided in the enclosed appendices as Appendix I, Appendix II, and Appendix III, respectively.

In addition, we are currently in the process of identifying our information technology investment priorities. Your recommended change in methodology would require a costly change to the NSLDS legacy system. At this time, we are focusing on implementation of our Modernization Blueprint and therefore do not plan to make major investments in our legacy systems. The General Accounting Office (GAO) is exploring an alternative method for calculating the cohort default rate, and we are also looking at new ways to view default rates over the lifetime of loans. As we reevaluate methods, we will keep in mind that data collection dates can make a difference. If we determine the computation of the cohort default rate could be improved, I would then recommend that the Secretary either change the default rate calculation or recommend that Congress change the definition, as appropriate.

Again, we appreciate the opportunity to review and comment on the draft report.

Sincerely,

Greg Woods
Chief Operating Officer
Office of Student Financial Assistance

Enclosures

cc: Mike Smith
Linda Paulsen
Jeanne VanVlandren
Tom Pestka
Pat Howard

APPENDIX I

***Analysis of Cohort Rate Data and Finding*:**

Official cohort default rates are understated and schools with high default rates are not being identified because not all of the borrowers that meet the statutory definition of a defaulter during the cohort period are included in the default rate computation. The OIG analysis identified 22 schools that would have reached or exceeded a 25 percent rate for 3 consecutive years. Subject to appeals, the 22 schools could have lost eligibility for participation in the federal loan programs. The 22 schools received about $26.8 million annually that could have been better used.

On page five of the report, there is a statement that the date of a borrower's default is not recorded in NSLDS.

Response:

Problems Identified with Data Analysis and Conclusions

We believe that your estimate of the effect of your proposed recommendations is inflated. We reached this conclusion based on the following reasons:

- Current data indicates that schools' average default rates have declined (i.e., improved) each year since this data analysis was performed. Therefore, any changes to cohort default rate calculations today could produce a lesser effect than those seen on schools during the study period.

- Current reporting practices are better than those in effect during the study period. We note that we believe there is a serious problem with the study period because it spans the time that OSFA was changing its way of calculating rates. Changes during this time period included: a new transmission mechanism (NSLDS), new data elements, additional data, and a new contractor.

- To determine how many additional defaulted loans would have been included, your analysis assumes that all default claims paid within three months of the end of the cohort period were for loans that defaulted within that cohort period. However, some of these loans may actually have defaulted outside of the cohort period. The net effect of any erroneously included defaulted loans would be to inflate the revised cohort default rates.

- The scope of the OIG's analysis of the claim payment process after the loan defaults, which was based on only one guaranty agency's experience with four schools, is too limited to be applied universally to approximately 4,000 schools across the country. Based on our experiences with lenders and guaranty agencies, we believe the claim payment process is generally completed much more quickly than indicated in your report.

- The total number of schools listed in your report as schools that would have lost eligibility as a result of the revised cohort default rate calculation is also overstated. Our review found that only 16 of the 22 schools would have been lost eligibility just by changing the period during which data were gathered because--

-- 1 school is an HBCU and at the time of the analysis was exempt from the loss of loan program eligibility due to cohort default rates;
-- 3 are schools that subsequently lost loan program and/or institutional eligibility as a result of the Department's current policies and procedures; and
-- 2 schools successfully appealed their cohort default rates below any applicable thresholds. (Your report did acknowledge that you did not take the affect of appeals into account; our research confirms that this limitation did have an effect on the potential number of schools affected.)

- We note also that 35 of the remaining 99 schools (over 1/3 of the schools) included in your report are provisionally certified currently as a result of current policies and procedures. And one school has closed and another school has withdrawn from the loan programs.

- The potential harm to the government and taxpayers would be significantly less than a "better-use-of-funds" figure, such as you computed, based on annual loan volume.

Finally, though NSLDS is not currently programmed to use the date of default in the calculation of cohort default rates, there is a date of default in the system: the "date of loan status" for a loan that has defaulted.

OIG Recommendations

We recommend that the Chief Operating Officer of the OSFA capture the default date in the National Student Loan Data System (NSLDS) and modify the current cohort default rate computation method to include defaults that occurred within the cohort period, but were subsequently paid during the first quarter following the cohort period.

Response

In addition to the concerns raised above with respect to the support for the recommendations, and the fact that we are not making major changes to our legacy systems, we are concerned about both the cost effectiveness of the changes and the difficulty of meeting the new statutory deadline for publishing rates.

Cost Effectiveness

As noted above, NSLDS is not currently programmed to use the date of default to calculate cohort default rates. The cost to change the current formula would be significant. As the date of loan status includes the date for every loan status ever recorded, and there could be more than one default date, we would need to revise the logic in the system to select the proper date.

We note that the 16 schools that could have lost eligibility as a result of the revised cohort default rate calculation represent only 0.26 percent of the postsecondary school population and account for only 0.02 percent of the total defaulted dollars within the student loan programs. It is unclear what appeals these schools might submit if they were subject to loss of participation in the loan programs, or institutional eligibility. In addition, our analysis of the FY 1994, FY 1995, and FY 1996 rates shows the national rate would only increase between 1.2 and 1.4 percent if the revised cohort default rate calculation were used. Consequently, at this time, we question whether there are sufficient potential cost savings to warrant implementation.

Effect on Program Efficiency and Compliance with Current Law

We also have serious concerns about the impact implementation of your recommendations would have on our ability to comply with the new statutory provision that requires OSFA to release official cohort default rates by September 30 each year.

Your report states that the additional time needed to determine if a claim has been paid will not significantly impact the timely release of the cohort default rates. However, adding three months to the calendar, which would be necessary to include data from the first quarter following the cohort period, would not provide OSFA with any room for minor adjustments or slips in the schedule. To comply with current law, the longer collection period would only leave us with seven months to complete the full cohort default rate calculation cycle, which requires, at a minimum, two months to complete the calculation and mailing of draft cohort default rates to schools after the end of the collection period, followed by 45 days for schools to review their draft data, 105 days for the guaranty agencies to review the challenges and submit corrected data to NSLDS, and another two months to calculate and mail official cohort default rates to schools.

Other Matters

Your report stated that the recent statutory change to the definition of default from 180 days to 270 days of delinquency will lessen the likelihood that a borrower will be included in the cohort default rate calculation as a defaulted borrower. However, OSFA's analysis shows that the definition of default will result in only a 1.1 percent decline in the cohort default rate. In addition, this change will result in only a 0.19 percent reduction in the number of schools that are subject to loss of loan program eligibility due to three years of rates over 25.0 percent and only a 0.02 percent reduction in the number of schools that are subject to loss of Title IV program eligibility due to one rate over 40.0 percent.

APPENDIX II – REVISED COHORT DEFAULT RATE DATA

This appendix contains OSFA's comments and data on the 22 schools that would have exceeded the 25 percent threshold for three consecutive years had OSFA considered three additional months of claim payments in computing the 1994 cohort default rates.

OPE ID	SCHOOL	NEW DEFAULT DOLLARS		REC. 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	DEPT. 92 CDR	COMMENTS
1		10,636	DFLT:	60	54	54	56	
			IN RPYMNT:	227	227	12	193	
			RATE:	26.4	23.8	25.5	29.0	
2.		117,396	DFLT:	260	211	251	180	HBCU
			IN RPYMNT:	916	916	860	674	
			RATE:	28.4	23.0	29.2	26.7	
3.		7,000	DFLT:	35	32	145	198	
			IN RPYMNT:	140	140	451	501	
			RATE:	25.0	22.9	32.2	39.5	
4.		7,875	DFLT:	33	30	30	22	
			IN RPYMNT:	123	123	118	81	
			RATE:	26.8	24.4	25.4	27.2	
5.		10,500	DFLT:	67	63	118	149	
			IN RPYMNT:	267	267	362	508	
			RATE:	25.1	23.6	32.6	29.3	
6.		5,250	DFLT:	20	18	23	27	Out of Loan Programs
			IN RPYMNT:	76	76	72	64	
			RATE:	26.3	23.7	31.9	42.2	
7.		43,967	DFLT:	234	214	281	331	
			IN RPYMNT:	883	883	932	1,091	
			RATE:	26.5	24.2	30.2	30.3	
8.		13,125	DFLT:	17	12	14	15	94 CDR 24.5% Appealed to 19.6%
			IN RPYMNT:	49	49	48	56	
			RATE:	34.7	24.5	29.2	26.8	

APPENDIX III

APPENDIX II – REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		REC. 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	DEPT. 92 CDR	COMMENTS
9.			10,475	DFLT:	15	11	24	25	
				IN RPYMNT:	52	52	75	85	
				RATE:	28.8	21.2	32.0	29.4	
10.			11,998	DFLT:	44	38	79	68	94 CDR 23.6%
				IN RPYMNT:	161	161	250	264	Appealed to
				RATE:	27.3	23.6	31.6	25.8	22%
11.			3,200	DFLT:	20	18	60	45	
				IN RPYMNT:	75	75	137	93	
				RATE:	26.7	24.0	43.8	48.4	
12.			18,375	DFLT:	88	81	157	138	
				IN RPYMNT:	337	337	494	498	
				RATE:	26.1	24.0	31.8	27.7	
13.			30,946	DFLT:	83	71	102	90	
				IN RPYMNT:	297	297	340	290	
				RATE:	27.9	23.9	30.0	31.0	
14.			18,375	DFLT:	137	129	240	232	
				IN RPYMNT:	531	531	817	820	
				RATE:	25.8	24.3	29.4	28.3	
15.			950	DFLT:	14	13	0	198	Out of Title IV Programs
				IN RPYMNT:	54	54	0	501	
				RATE:	25.9	24.1	34.7	39.5	
16.			44,197	DFLT:	102	85	84	61	
				IN RPYMNT:	351	351	284	224	
				RATE:	29.1	24.2	29.6	27.2	

APPENDIX III

APPENDIX II – REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		REC. 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	DEPT. 92 CDR	COMMENTS
17.			8,750	DFLT:	34	30	41	58	
				IN RPYMNT:	127	127	123	183	
				RATE:	26.8	23.6	33.3	31.7	
18.			5,250	DFLT:	34	31	32	27	Out of the Loan Programs
				IN RPYMNT:	129	129	124	89	
				RATE:	26.4	24.0	25.8	30.3	
19.			6,125	DFLT:	33	31	44	60	
				IN RPYMNT:	131	131	169	238	
				RATE:	25.2	23.7	26.0	25.2	
20.			9,086	DFLT:	43	39	63	94	
				IN RPYMNT:	166	166	237	285	
				RATE:	25.9	23.5	26.6	33.0	
21.			12,877	DFLT:	52	45	59	60	
				IN RPYMNT:	204	204	212	229	
				RATE:	25.5	22.1	27.8	26.2	
22.			5,250	DFLT:	15	13	14	33	
				IN RPYMNT:	59	59	44	73	
				RATE:	25.4	22.0	31.8	45.2	

OSFA'S DATA ANALYSIS

- ❑ **Only 16 schools may have exceeded 25% threshold for three years**
  - 2 of 22 schools submitted a cohort default rate appeal that brought the rate below 25.0%
  - 3 of 22 schools lost eligibility to participate in loan programs and/or all Title IV programs
  - 1 of 22 schools is an HBCU that would not have been subject to loss of loan program eligibility
- ❑ **Dollar Amounts**
  - 22 schools represent $401,603 in defaulted dollars
  - 16 schools represent $247,634 in defaulted dollars

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

This appendix contains OSFA's comments and data on the 99 schools that would have exceeded the 25 percent threshold for two consecutive years (19 schools), two non-consecutive years (18 schools), or for the first time (62 schools), had OSFA considered three additional months of claim payments in computing the 1994 cohort default rates.

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
1.			18,375	DF:				43	36	43	Provisional
				RP:				165	165	159	
				CDR:				26.1	21.8	27.0	
2.			44,797	DF:				230	211	236	
				RP:				894	894	853	
				CDR:				25.7	23.6	27.7	
3.			48,562	DF:				206	187	205	Provisional
				RP:				779	779	712	
				CDR:				26.4	24.0	28.8	
4.			22,750	DF:				126	117	119	Provisional
				RP:				479	479	438	
				CDR:				26.3	24.4	27.2	
5.			3,625	DF:				50	48		Provisional
				RP:				195	195		
				CDR:				25.6	24.6		
6.			3,500	DF:				12	10	47	
				RP:				48	48	168	
				CDR:				25.0	20.8	28.0	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
7.			2,625	DF:				39	38	83	Provisional
				RP:				154	154	220	
				CDR:				25.3	24.7	37.7	
8.			18,375	DF:				76	68	89	
				RP:				278	278	338	Closed
				CDR:				27.3	24.5	26.3	
9.			13,845	DF:				25	19	40	Provisional
				RP:				81	81	119	
				CDR:				30.9	23.5	33.6	
10.			14,000	DF:				109	103	144	
				RP:				425	425	452	
				CDR:				25.6	24.2	31.9	
11.			7,875	DF:				41	38	21	
				RP:				153	153	84	
				CDR:				26.8	24.8	25.0	
12.			14,125	DF:				51	42	43	
				RP:				185	185	170	
				CDR:				27.6	22.7	25.3	
13.			13,125	DF:				102	97	136	Provisional
				RP:				394	394	494	
				CDR:				25.9	24.6	27.5	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
14.			51,909	DF:				190	167	183	Provisional
				RP:				701	701	712	
				CDR:				27.1	23.8	25.7	
15.			20,663	DF:				85	76	88	Provisional
				RP:				336	336	291	
				CDR:				25.3	22.6	30.2	
16.			10,500	DF:				29	25	42	
				RP:				101	101	167	
				CDR:				28.7	24.8	25.1	
17.			41,635	DF:				148	131	127	
				RP:				592	592	509	
				CDR:				25.0	22.1	25.0	
18.			14,930	DF:				67	60	21	Provisional
				RP:				248	248	75	
				CDR:				27.0	24.2	28.0	
19.			7,575	DF:				20	17	22	Provisional
				RP:				73	73	73	
				CDR:				27.4	23.3	30.1	
20.			28,830	DF:				81	66	55	
				RP:				290	290	233	
				CDR:				27.9	22.8	23.6	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
21.		39,204	DF:				246	231	222	Provisional
			RP:				965	965	900	
			CDR:				25.5	23.9	24.7	
22.		7,875	DF:				11	8	9	Provisional
			RP:				41	41	40	
			CDR:				26.8	19.5	22.5	
23.		7,875	DF:				10	7	7	Provisional
			RP:				36	36	40	
			CDR:				27.8	19.4	17.5	
24.		5,250	DF:				11	9	8	
			RP:				43	43	44	
			CDR:				25.6	20.9	18.2	
25.		17,063	DF:				53	46	60	Provisional
			RP:				205	205	242	
			CDR:				25.9	22.4	24.8	
26.		9,926	DF:				15	9	8	
			RP:				51	51	41	
			CDR:				29.4	17.6	19.5	
27.		4,375	DF:				13	11	8	
			RP:				48	48	59	
			CDR:				27.1	22.9	13.6	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
28.			49,875	DF:				160	141	122	Provisional
				RP:				614	614	506	
				CDR:				26.1	23.0	24.1	
29.			12,448	DF:				64	59	47	Provisional
				RP:				248	248	260	
				CDR:				25.8	23.8	18.1	
30.			4,616	DF:				36	34	24	
				RP:				140	140	112	
				CDR:				25.7	24.3	21.4	
31.			6,325	DF:				23	20	54	Provisional
				RP:				91	91	220	
				CDR:				25.3	22.0	24.5	
32.			14,875	DF:				101	93	107	
				RP:				388	388	481	
				CDR:				26.0	24.0	22.2	
33.			45,488	DF:				136	116	82	Provisional
				RP:				503	503	526	
				CDR:				27.0	23.1	15.6	
34.			2,406	DF:				24	23	12	Provisional
				RP:				93	93	79	
				CDR:				25.8	24.7	15.2	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
35.			5,540	DF:				24	21	22	
				RP:				94	94	91	
				CDR:				25.5	22.3	24.2	
36.			3,937	DF:				10	8	7	Provisional
				RP:				40	40	34	
				CDR:				25.0	20.0	20.6	
37.			20,629	DF:				149	139	85	
				RP:				574	574	359	
				CDR:				26.0	24.2	23.7	
38.			7,750	DF:				10	7	3	
				RP:				35	35	42	
				CDR:				28.6	20.0	7.1	
39.			21,000	DF:				121	113	84	
				RP:				470	470	379	
				CDR:				25.7	24.0	22.2	
40.			11,900	DF:				35	30	27	
				RP:				138	138	132	
				CDR:				25.4	21.7	20.5	
41.			7,875	DF:				48	45	24	Provisional
				RP:				182	182	129	
				CDR:				26.4	24.7	18.6	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
42.			7,012	DF:				47	43	28	
				RP:				182	182	194	
				CDR:				25.8	23.6	14.4	
43.			2,625	DF:				10	9	10	Provisional
				RP:				39	39	52	
				CDR:				25.6	23.1	19.2	
44.			42,437	DF:				137	119	102	
				RP:				520	520	468	
				CDR:				26.3	22.9	21.8	
45.			5,250	DF:				18	16	9	Provisional
				RP:				69	69	59	
				CDR:				26.1	23.2	15.3	
46.			7,550	DF:				10	7	4	
				RP:				37	37	31	
				CDR:				27.0	18.9	12.9	
47.			2,625	DF:				19	18	22	
				RP:				76	76	89	
				CDR:				25.0	23.7	24.7	
48.			5,250	DF:				18	16	21	
				RP:				68	68	98	
				CDR:				26.5	23.5	21.4	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
49.			8,751	DF:				15	10	7	
				RP:				53	53	61	
				CDR:				28.3	18.9	11.5	
50.			8,394	DF:				105	101	64	
				RP:				415	415	328	
				CDR:				25.3	24.3	19.5	
51.			2,625	DF:				9	8	0	
				RP:				34	34	28	
				CDR:				26.5	23.5	14.0	
52.			15,375	DF:				48	42	30	Provisional
				RP:				172	172	159	
				CDR:				27.9	24.4	18.9	
53.			7,350	DF:				16	13	9	
				RP:				61	61	64	
				CDR:				26.2	21.3	14.1	
54.			25,375	DF:				64	54	12	
				RP:				244	244	74	
				CDR:				26.2	22.1	16.2	
55.			10,500	DF:				40	36	25	
				RP:				156	156	144	
				CDR:				25.6	23.1	17.4	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
56.			5,250	DF:				10	8	5	
				RP:				36	36	32	
				CDR:				27.8	22.2	15.6	
57.			13,275	DF:				38	33	32	
				RP:				148	148	156	
				CDR:				25.7	22.3	20.5	
58.			1,400	DF:				9	8	4	Provisional
				RP:				35	35	24	
				CDR:				25.7	22.9	14.3	
59.			5,250	DF:				17	15	5	
				RP:				66	66	40	
				CDR:				25.8	22.7	12.5	
60.			9,951	DF:				65	60	46	
				RP:				246	246	230	
				CDR:				26.4	24.4	20.0	
61.			5,250	DF:				20	18	64	
				RP:				73	73	257	
				CDR:				27.4	24.7	24.9	
62.			14,427	DF:				43	37	23	
				RP:				159	159	133	
				CDR:				27.0	23.3	17.3	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
63.			20,125	DF:				86	78	68	
				RP:				314	314	279	
				CDR:				27.4	24.8	24.4	
64.			12,250	DF:				59	54	16	
				RP:				228	228	75	
				CDR:				25.9	23.7	21.3	
65.			31,263	DF:				173	160	155	
				RP:				664	664	677	
				CDR:				26.1	24.1	22.9	
66.			49,875	DF:				221	202	206	
				RP:				864	864	947	
				CDR:				25.6	23.4	21.8	
67.			31,500	DF:				102	90	111	
				RP:				394	394	462	
				CDR:				25.9	22.8	24.0	
68.			19,150	DF:				128	114	102	Provisional
				RP:				506	506	476	
				CDR:				25.3	22.5	21.4	
69.			59,535	DF:				114	91	74	
				RP:				395	395	444	
				CDR:				28.9	23.0	16.7	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
70.			5,250	DF:				48	46	29	Provisional
				RP:				187	187	122	
				CDR:				25.7	24.6	23.8	
71.			1,750	DF:				19	18	14	
				RP:				74	74	92	
				CDR:				25.7	24.3	15.2	
72.			26,250	DF:				168	158	100	Provisional
				RP:				656	656	481	
				CDR:				25.6	24.1	20.8	
73.			28,875	DF:				97	86	96	Provisional
				RP:				388	388	418	
				CDR:				25.0	22.2	23.0	
74.			8,548	DF:				49	44	30	
				RP:				187	187	122	
				CDR:				26.2	23.5	24.6	
75.			11,764	DF:				14	9	1	Withdrew from FFEL Program
				RP:				43	43	7	
				CDR:				32.6	20.9	19.7	
76.			6,073	DF:				22	19	12	
				RP:				86	86	49	
				CDR:				25.6	22.1	24.5	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
77.		3,425	DF:				12	10	6	
			RP:				47	47	49	
			CDR:				25.5	21.3	12.2	
78.		7,875	DF:				14	11	13	
			RP:				48	48	61	
			CDR:				29.2	22.9	21.3	
79.		4,374	DF:				30	26	21	Provisional
			RP:				106	106	103	
			CDR:				28.3	24.5	20.4	
80.		22,475	DF:				92	83	80	
			RP:				336	336	368	
			CDR:				27.4	24.7	21.7	
81.		17,602	DF:				34	26	39	Provisional
			RP:				129	129	188	
			CDR:				26.4	20.2	20.7	
82.		16,713	DF:				71	62	63	
			RP:				268	268	330	
			CDR:				26.5	23.1	19.1	
83.		18,765	DF:				48	39	30	
			RP:				165	165	181	
			CDR:				29.1	23.6	16.6	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
84.			7,252	DF:				30	26	11	
				RP:				114	114	94	
				CDR:				26.3	22.8	11.7	
85.			26,715	DF:				114	97	58	Provisional
				RP:				456	456	334	
				CDR:				25.0	21.3	17.4	
86.			39,755	DF:				132	116	103	
				RP:				524	524	415	
				CDR:				25.2	22.1	24.8	
87.			19,282	DF:				190	178	149	
				RP:				737	737	698	
				CDR:				25.8	24.2	21.3	
88.			28,168	DF:				154	140	128	
				RP:				612	612	544	
				CDR:				25.2	22.9	23.5	
89.			7,875	DF:				54	51	41	
				RP:				212	212	213	
				CDR:				25.5	24.1	19.2	
90.			92,727	DF:				245	207	213	
				RP:				876	876	867	
				CDR:				28.0	23.6	24.6	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

	OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
91.			3,247	DF:				17	15	7	
				RP:				66	66	63	
				CDR:				25.8	22.7	11.1	
92.			25,616	DF:				117	105	49	
				RP:				435	435	280	
				CDR:				26.9	24.1	17.5	
93.			16,578	DF:				84	75	45	
				RP:				331	345	361	
				CDR:				25.4	22.7	12.5	
94.			5,117	DF:				27	22	23	
				RP:				98	98	133	
				CDR:				27.6	22.4	17.3	
95.			3,937	DF:				9	7	4	
				RP:				31	31	21	
				CDR:				29.0	22.6	11.9	
96.			8,650	DF:				64	59	35	
				RP:				246	246	266	
				CDR:				26.0	24.0	13.2	
97.			7,120	DF:				30	26	15	
				RP:				114	114	84	
				CDR:				26.3	22.8	17.9	

APPENDIX III- REVISED COHORT DEFAULT RATE DATA

OPE ID	SCHOOL	NEW DEFAULT DOLLARS		96 CDR	95 CDR	REV 94 CDR	REC 94 CDR	DEPT. 94 CDR	DEPT. 93 CDR	COMMENTS
98.		59,144	DF:				360	335	137	Provisional
			RP:				1,360	1,360	774	
			CDR:				26.3	24.6	17.7	
99.		29,593	DF:				192	175	184	Provisional
			RP:				764	764	817	
			CDR:				25.1	22.9	22.5	

OSFA's Data Analysis

- 35 (over 1/3 of the schools) are currently provisionally certified under the Department's current policies and procedures
- 1 school closed and 1 school withdrew from the FFEL program

DISTRIBUTION SCHEDULE

Control Number ED-OIG/A06-70006

	Copies
<u>Action Officials</u>	
Greg Woods, Chief Operating Officer Student Financial Assistance Department of Education ROB-3, Room 4004 7th and D Streets, SW Washington, DC 20202-5132	1
Lee Fritschler, Assistant Secretary Office of Postsecondary Education Department of Education Room 7113 1990 K Street, NW Washington, DC 20006	1
<u>Other ED Offices</u>	
General Manager for Schools Channel, Student Financial Assistance	1
Chief Financial Officer, Student Financial Assistance	1
Director, Default Management, Schools Student Financial Assistance	1
General Counsel, Office of the General Counsel	1
Assistant General Counsel, Postsecondary Education Office of the General Counsel	1
<u>OIG</u>	
Inspector General	1
Deputy Inspector General	1
Assistant Inspector General for Investigation (A)	1
Assistant Inspector General for Audit (A)	1
Deputy Assistant Inspector General for Audit	1
Director, Student Financial Assistance	1
Regional Audit Offices	6
Dallas Regional Office	6