Shedding LIGHT on Cohort Default Rates

HIGH RISK at Institutional Level for Cohort Default Rates

TARGETED RISK at Program Level for Gainful Employment Accountability
The Perfect Storm

- Higher loan balances
- Transition from FFELP to Direct Loans
  - Multiple loan programs, lenders, and servicers
  - Multiple payments that are hard to manage
  - Multiple forms needed to cure delinquencies
  - Decline in the quality of loan servicing
- Skip borrowers not located through traditional methods of skip tracing
- Pending Gainful Employment rules are contradictory to CDR’s servicing

_Bad economic times and the unstable lending environment intensify the headwinds of the storm._

Proprietary
ADVERSE conditions are IMPACTING your student loans

- Borrowers Who Historically Became Delinquent
- Borrowers Who Historically Paid BUT Are Currently Becoming Delinquent
- Borrowers Who Historically Are Never Delinquent
If any ONE thing goes WRONG...

Student

MULTIPLE loan programs
servicers
loan payments
delinquent loans
forms to cure loans

1. FFELP Servicers
2. PUT Ed-serve Servicers
3. Direct Servicers
4. Perkins Servicers
5. Private Servicers

Everyone LOSES...

Students Schools Taxpayers
The U.S. Department of Education anticipates that Cohort Default Rates will **double** with the new 3-year definition.

### Official 2008 Trial 3-year CDR Rates

<table>
<thead>
<tr>
<th></th>
<th>2-year CDR</th>
<th>3-year CDR</th>
<th>Absolute Change</th>
<th>% of Change</th>
<th>Increase Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proprietary Less than 2-year</td>
<td>12.4%</td>
<td>27.6%</td>
<td>15.2%</td>
<td>122.6%</td>
<td>1</td>
</tr>
<tr>
<td>Proprietary 2- to 3-year</td>
<td>12.6%</td>
<td>27.9%</td>
<td>15.3%</td>
<td>121.4%</td>
<td>2</td>
</tr>
<tr>
<td>Public Less than 2-year</td>
<td>6.7%</td>
<td>14.7%</td>
<td>8.0%</td>
<td>119.4%</td>
<td>3</td>
</tr>
<tr>
<td>Proprietary 4-year or more</td>
<td>10.9%</td>
<td>22.7%</td>
<td>11.8%</td>
<td>108.3%</td>
<td>4</td>
</tr>
<tr>
<td>Private 2- to 3-year</td>
<td>8.2%</td>
<td>16.7%</td>
<td>8.5%</td>
<td>103.7%</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL ALL INSTITUTIONS</td>
<td>6.7%</td>
<td>13.8%</td>
<td>7.1%</td>
<td>106.0%</td>
<td></td>
</tr>
</tbody>
</table>
### Cohort Default Rate Definitions

**Effective with the Higher Education Opportunity Act (H.R. 4137 for the HEA of 2008)**

<table>
<thead>
<tr>
<th>Cohort Year</th>
<th>LDA Range</th>
<th>Entering Repayment Dates</th>
<th>2-year CDR Default Dates</th>
<th>3-year CDR Default Dates</th>
<th>CDR Draft &amp; Official Release Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td>Official: September 2011</td>
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<td>Official: September 2012</td>
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<td>Official: September 2014</td>
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<td>Official: September 2015</td>
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</tbody>
</table>
Eligibility for Title IV funding, including federal loan and grant programs, is dependent upon the institution’s cohort default rate (CDR).

Based on the HEOA (Higher Education Opportunity Act) passed on August 14, 2008, the current 2-year definition will be used until there are 3 consecutive CDR rates under the new 3-year definition.

FY 2009 CDR through 9/30/2011 will be the first cohort default rate period measured under the new 3-year definition.
### Timing is Everything

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<tbody>
<tr>
<td>2009 CDR</td>
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<tr>
<td></td>
<td>Servicing Period</td>
<td>Data Released</td>
<td>Draft</td>
<td>Official</td>
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<tr>
<td>2010 CDR</td>
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<td>2011 CDR</td>
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</tbody>
</table>

- The first time the 3-year CDR will be publicly released and used as criteria for Title IV eligibility will be in September 2012. This will be the FY 2009 CDR data.
- The servicing period for the FY 2010 CDR will also end in September 2012.
- There will be one year left in the servicing period for the FY 2011 CDR. By the time you write, get approval, and implement your default management plan, it will be too late to make a difference in your third 3-year CDR.
### Potential Risk

<table>
<thead>
<tr>
<th>CDR Definition</th>
<th>Loss of Eligibility</th>
<th>Disbursement Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2-Year CDR</strong></td>
<td>3 Consecutive Years Over 25%</td>
<td>1 Year Over 40%</td>
</tr>
<tr>
<td><strong>3-Year CDR</strong></td>
<td>3 Consecutive Years Over 30%</td>
<td>1 Year Over 40%</td>
</tr>
</tbody>
</table>

The thresholds for eligibility and participation changes are not consistent with real increases.

Accrediting agencies have been asked by the U.S. Department of Education to place additional restrictions and oversight on those institutions they identify for at-risk of high CDR’s.
34 C.F.R. § 600.4 Institution of higher education.

(a) * * *
(4) * * *
(iii) That is at least a one academic year training program that leads to a certificate, or other nondegree recognized credential, and prepares students for gainful employment in a recognized occupation; and
Eligible Program for Gainful Employment

34 C.F.R. 668.7(a)(3)(i) A program refers to any educational program offered by the institution under 668.8(c)(3) or (d).

Who?

All Proprietary Institutions
except those with a Baccalaureate Degree in Liberal Arts
that have been regionally accredited since October 1, 2007

Non-Profit, Public, and Private Institutions
with programs at least one-academic year
and less than a degree.
How GE Will Happen Is Still Unclear

**The “How Holes”**

1) Program vs. School based eligibility
2) No access to necessary data
3) 6-7 years retroactive data
4) ED to require direct loan servicers to manage repayment and debt/income data
5) No plan to manage GE data for FFELP loans
6) No appeals process for GE
7) No benefit to schools for:
   a) In-school Deferment when payments are made
   b) Military Deferment when payments are made
   c) Natural Disaster Deferments prohibit income abilities and payments
8) No credits for payments on defaulted loans
9) Payment schedules (entitlement) encourage interest only payments not recognized as credible “repayment”
10) Annual Loan Payment Is based on a 10-year Repayment Schedule when a longer schedule is commonly used
11) Inefficient tracking for public service
12) Student’s choice for part-time employment is not considered
**Loan Repayment Rate Calculations**

*Including FFELP Loans, Direct Loans, and relevant FFELP & Direct Loans included in a Federal Consolidation Loan*

<table>
<thead>
<tr>
<th>FFY Included</th>
<th>LDA’s Included</th>
<th>RPMT Dates Included</th>
<th>Principal Reduction Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td>FFY1</td>
<td>3/30/Year1-1 - 3/29/Year1</td>
<td>10/1/Year1-1 - 9/30/Year1</td>
<td>10/1/Year4 - 9/30/Year5</td>
</tr>
<tr>
<td>FFY2</td>
<td>3/30/Year1 - 3/29/Year2</td>
<td>10/1/Year1 - 9/30/Year2</td>
<td>10/1/Year4 - 9/30/Year5</td>
</tr>
<tr>
<td>FFY3</td>
<td>3/30/Year2 - 3/29/Year3</td>
<td>10/1/Year2 - 9/30/Year3</td>
<td>10/1/Year4 - 9/30/Year5</td>
</tr>
<tr>
<td>FFY4 - to 3/31 1st 6 Months</td>
<td>3/30/Year3 - 9/30/Year3</td>
<td>10/1/Year3 - 3/31/Year4</td>
<td>10/1/Year4 - 9/30/Year5</td>
</tr>
</tbody>
</table>

Determination for *inclusion or exclusion* is made on a borrower-by-borrower basis.

Calculation of the REPAYMENT RATE is based on the dollar amounts associated with each CIP code at each institution for their loans associated with the borrowers.

**Example: FFY 2009**

<table>
<thead>
<tr>
<th>FFY Included</th>
<th>LDA’s Included</th>
<th>RPMT Dates Included</th>
<th>Principal Reduction Dates</th>
</tr>
</thead>
</table>

The intended definition expands over a 5 ½ year period of time and includes 5 Federal Fiscal Years (FFY’s).
### Debt Threshold & Measures Calculations

Includes ALL education debts for federal and non-federal loans.

#### How?

**3YP: 3-Year Period Calculation**

<table>
<thead>
<tr>
<th>Denominator** (Average Actual Annual Earnings)</th>
<th>Numerator *</th>
<th>EARNINGS YEAR for all included in STUDENT DETERMINATION</th>
<th>ANNUAL LOAN PAYMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>STUDENT DETERMINATION (including Title IV and non-Title IV recipients) Last Date of Attendance for COMPLETERS during Applicable Award Years</td>
<td></td>
<td>EARNINGS YEAR for all included in STUDENT DETERMINATION</td>
<td>ANNUAL LOAN PAYMENT</td>
</tr>
<tr>
<td>AY1 7/1/AY2 - 6/30/AY1</td>
<td>1/1/Yr1+1 - 12/31/Yr1+1</td>
<td>Annual loan payment for the MEDIAN loan debt.</td>
<td></td>
</tr>
<tr>
<td>AY2 7/1/AY3 - 6/30/AY2</td>
<td>1/1/Yr1+1 - 12/31/Yr1+1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AY3 7/1/AY4 - 6/30/AY3</td>
<td>1/1/Yr1+1 - 12/31/Yr1+1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Determination for inclusion is made on a borrower-by-borrower basis by Last Date of Attendance. Calculation of the debt threshold and measures are based on the dollar amounts.

#### 3-Year Period Calculation: Example 2009

<table>
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<tr>
<th>Denominator** (Average Actual Annual Earnings)</th>
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</tr>
<tr>
<td>AY1 7/1/2007 - 6/30/2008</td>
<td>1/1/2009 - 12/31/2009</td>
<td>The annual payment for a 10-year amortization of the MEDIAN total debt.</td>
<td></td>
</tr>
</tbody>
</table>

The intended definition expands over a 4 ½ year period of time.

**Numerator** Uses the 10-year amortization annual payment for the MEDIAN debt amount for the applicable CIP Code, including the total federal and non-federal debt for all students included in the STUDENT DETERMINATION. The loan amounts include only those loans taken out (debt incurred) under each school’s OPE ID# (not loans from any other institution.)

**Denominator** The Secretary determines annually for each program whether the annual loan payment is less than the discretionary income and earnings thresholds using the following formulas:

1. Annual loan payment < Discretionary threshold percentage * (Average Annual Earnings – (1.5 * Poverty Guideline)).
2. Annual loan payment < Earnings threshold percentage * Average Annual Earnings.

Proprietary and Based on NPRM Regulatory Proposed Language
P3YP: Prior 3-Year Period Calculation

<table>
<thead>
<tr>
<th>Prior 3-Year Period Calculation</th>
<th>Denominator** (Average Actual Annual Earnings)</th>
<th>Numerator *</th>
</tr>
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<tr>
<td>STUDENT DETERMINATION (included Title IV and non-Title IV recipients) Last Date of Attendance for COMPLETERS during Applicable Award Years</td>
<td>EARNINGS YEAR for all included in STUDENT DETERMINATION</td>
<td>ANNUAL LOAN PAYMENT</td>
</tr>
<tr>
<td>AY4</td>
<td>7/1/AY2 - 6/30/AY1</td>
<td>1/1/Yr1+1 - 12/31/Yr1+1</td>
</tr>
<tr>
<td>AY5</td>
<td>7/1/AY3 - 6/30/AY2</td>
<td>1/1/Yr1+1 - 12/31/Yr1+1</td>
</tr>
<tr>
<td>AY6</td>
<td>7/1/AY4 - 6/30/AY3</td>
<td>1/1/Yr1+1 - 12/31/Yr1+1</td>
</tr>
</tbody>
</table>

Determination for inclusion is made on a borrower-by-borrower basis by Last Date of Attendance. Calculation of the debt threshold and measures are based on the dollar amounts.

Prior 3-Year Period Calculation: Example 2009

<table>
<thead>
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</table>

The intended definition expands over a 7 ½ year period of time.
New GE Requirements
Provide New Challenges

Data Sources & Data Slices

Processes

CDRs

GE

Data Execution Gap

Process Execution Gap

Proprietary
Gainful Employment multiplies the measures and processes required for compliance due to SCHOOL vs. PROGRAM focus.
Upcoming Milestones

**2010**

- 6/18: NPRM I
  - Reporting
  - Disclosure
  - Eligible Programs
  - Other Program Integrity Rules

- 7/26: NPRM II
  - GE Definitions
  - GE Calculation Metrics

- 8/2: 6/18 NPRM I Comments Due
- 9/9: 7/26 NPRM II Comments Due
- 9/30: LAST DAY for payment towards 2009 2-Yr CDRs & 2010 GE
- 11/1: FINAL Program Integrity / GE I Regulation Published

**2011**

- Feb: Draft 2009 2-Yr CDR
- July: Effective Date for GE

**2012**

- Sept: 2009 Official 2-Yr CDRs
  - LAST DAY for payment towards 2009 3-Yr CDRs & 2010 2-Yr CDRs and 2011 GE
- Feb: Draft 2009 3-Yr CDRs
  - Draft 2010 2-Yr CDR
  - 2nd year of the 3 Yr CDRs
- July: Enforcement Date for GE

Note: The image contains proprietary information.
Do you know your POTENTIAL Title IV Eligibility RISK?

- Proactive
  - Investment
  - Intensity Affects Results
    - Costly Processes and Standards Possibilities
  - Accreditation Standards
    - Appeals
      - Department of Education Sanctions
  - Significant Increased Overhead for Audits, Oversight, Administration and Reduced Cash Flow

- Reactive
  - Low Risk
    - Predictable Costs
  - High Yield
    - Low Yield
    - Unpredictable High Costs
  - High Risk

Potential CDR Risk 

- Loss of Disbursement Benefits
- Provisional Certification
- Letter of Credit
- Reimbursement
- Loss of Title IV Eligibility

Proprietary
What do you have to GAIN?

Everything

What do you have to LOSE?

Everything

Enrollments

Employer Confidence

Student Satisfaction

School Value

30-50% Variation

Loss of Eligibility

$0.00

Proprietary
What are the BENEFITS of CUSTOM Surveys?

**Who**
- Dropped Students
- Graduated Students
- Employers

**Why**
- Reason for Dropping
- Potential for Re-enrollment
- Potential Problems within the School Can Be Identified & Corrected
- Student Satisfaction Evaluated
- Appropriate Job Placement Services Improves Placement Rates
- Verified Employment Information for Annual Reporting of Placement Rates
- Employer Satisfaction Evaluated
- Potential Issues with Training Can Be Identified & Adjusted to Fit Employer’s Needs
- Potential for Future Employment Opportunities Improves Placement Rates

**What**
- Institutional Effectiveness
- Improved Satisfaction
- Positive Relationships

Proprietary
PROACTIVE default management is an INVESTMENT

There is no one MIRACLE for SUCCESSFUL default PREVENTION

REACTIVE default management is a CONSEQUENCE
Make Borrowers Responsible for Their Own Realities

What Can The Institution Do?

Improving Borrower Responsibility
Make Borrowers Responsible for Their Own Realities

- Master promissory notes and electronic processes have had unintended consequences by taking the responsibilities out of the borrowers’ hands.

- Get the students involved in the responsibilities:
  - Individual Entrance Interviews
  - Check Disbursement Acknowledgements
  - Individual Exit Interviews
  - Address and enrollment updates

- Use every opportunity you can during and after enrollment to encourage interest payments during deferments and forbearances.

- Encourage payments first. If the borrower can’t make full payments, encourage them to pay the accruing interest at a minimum. You can not require them to do so, but you can encourage the payments.

- Repeat the basics MANY times.

- Put complicated details in writing.
Make Borrowers Responsible for Their Own Realities

- Have every borrower with prior loans bring the loans current before starting school.

- If the borrower is in default, have them fully rehabilitate the loan before starting school.
  - 9 on-time payments within 10 months
  - Paid-in-Full
  - Rehabilitated through Consolidation
  - *Getting a new loan after 6 on-time payments does not rehabilitate the loans for the student or for the school!*

- Have every borrower sign an In-school Deferment when starting school and when there is a change in their anticipated graduation date.

- Have students sign Change of Address Forms for the lenders, servicers, and guarantors.
You Can’t Help Borrowers Who You Can’t Find

*Skip tracing has become a manual process.*

- Collect at least 6 different references
- Verify the references before disbursing funds
- Mail grades and other pertinent information
- Send out graduation announcements to “references” collected before graduation
- Collect the graduation announcement information through your teachers or student services, not through financial aid
Make Borrowers Responsible for Their Own Realities

Borrower Education and Accountability

Improving Borrower Responsibility
Both poverty and RICHES begin with a THOUGHT

You have a CHOICE to DETERMINE your DESTINY
EDUCATION is a means for making DREAMS come TRUE

PAYING student loans is a MEANS for making FINANCIAL FREEDOM come TRUE

Live WELL
Be EXTRAVAGANT with your DETERMINATION

Be CONSERVATIVE with your FINANCES

CREDIT is an ILLUSION of having MONEY that you DON’T really have
No matter HOW you look at it...

It’s ALL about EARLY and ACCURATE Answers

Proprietary and Based on Champion College Services, Inc. Recovery History
EARLY and ACCURATE

All Clients’ Default Rate Average by Servicing Tenure

High Rate Clients’ Default Rate Average by Servicing Tenure

Proven SUCCESS

Proprietary
Champion LIGHTS
The Way
Through A
Perfect STORM

There is No One Miracle for Protecting Your Title IV Eligibility

A combination of many unique and proven-effective practices,
Each representing its own percent of decrease,
Produces remarkable results and provides peace of mind.

When your partner to success offers unrivaled results...
You know you are getting a Champion!

Thank you!

800.761.7376        4600 S Mill Avenue, Ste 180, Tempe, Arizona 85282        info@ChampionCollegeServices.com

Proprietary
Ms. Mary Lyn Hammer’s belief that education is the vehicle for making dreams come true has led her in a passionate fight, that began in 1987, rectifying problems in the higher education industry to insure future participation for all students. Her innovative “Hands On” Default Management Program is recognized by the Department of Education for its remarkable results. Ms. Hammer is the Owner, Founder, President and CEO of Champion College Services, an international company offering default prevention for Federal and private student loans, job placement verification, skip tracing, consulting services, and custom surveys for students, alumni, and employers.

She specializes in staff training, program development, and default prevention operations. She has participated in training sessions and workshops for numerous state, provincial, regional, national, and private associations in both the U.S. and Canada in a continued effort to share experiences and knowledge.

Ms. Hammer was active in aiding the Department of Education in drafting language for default management that was in effect from 1989 until 1996 (now known as “Subpart M”); she has served three times on negotiated rulemaking committees and was instrumental in working with the Department on regulatory language for cohort default rate appeals, school-based loan issues, and the Cohort Default Rate Guide; and she has worked closely with Congressional Representatives and key staff at the U.S. Department of Education on many issues over her 20 year career in the higher education industry to insure program integrity and access to low income students.

Her accomplishments include the 1989 nomination for the Member of the Year for the National Association of Trade and Technical Schools, the 1998 Outstanding Associate Member for the Arizona Private School Association, the 2000 Best Associate Member Participation for the Arizona Private School Association, the Millennium (2000) and 2006 editions of Who’s Who in Executives and Professionals for both the U.S. and Canada, the 2000 Wall Street Journal’s Businessman of the Year Award for Arizona, the 2005 CCA National Achievement Award for the Allied Member of the Year, and the 2007-2008 Best Associate Member Participation for the Arizona Private School Association. She has been elected four times to the Board of Directors for the Career College Association (CCA). Additionally, she serves on the Board of Directors for the Northwest Career College Federation (NWCCF) and is the Charter Member and former Chairwoman for the Higher Education Allied Health Leaders (HEAL) Coalition.