the institute for
college access & success

2054 University Ave.
Suite 500
Berkeley, CA 94704
510.559.9509 phone
510.845.4112 fax
www.ticas.org

August 21, 2008

The Honorable Margaret Spellings
Secretary of Education
U.S. Department of Education
400 Maryland Avenue, Southwest
Washington, DC 20202

Dear Secretary Spellings:

We are writing to you out of concern that all students have access to federal loans (either through the Direct or Federal Family Education Loan Program), and to bring your attention to a critical issue that threatens that access. Our research has shown that ten percent of community and technical college students nationwide – over one million students in total – lack access to federal loans because the institution they attend has chosen not to participate in the federal loan program.[1]

One problem that causes these colleges to deny access to loans is easy to fix. When the Department releases cohort default rates next month and in future years, simply denote those colleges that have low proportions of students who borrow. This could be accomplished by marking the default rates of these colleges with an asterisk, or by publishing a separate list of rates for colleges that fall below the participation rate threshold as defined by statute. The regulations already acknowledge the potential distortions in cohort default rates that can occur when relatively few of an institution's eligible students borrow.

Acknowledging and clarifying that an institution's participation rate falls below the threshold at which default rates are considered indicative of the college's performance does not require any change in regulations or formulas for how default rates are determined. However, a very simple change in the way default rates are presented would help to address an unnecessary yet powerful disincentive to loan program participation: the fear of bad headlines and reprisals based on misinterpretations of default rate data.

We urge you to make this change when 2006 cohort default rates are announced next month. This short term approach, as well as the longer-term approach detailed below, would help to protect colleges with low participation rates from unwarranted negative attention, and would encourage all colleges to give their students access to the full range of federal aid options.

---

[1] Our usage of the term "community and technical colleges" refers to public two-year colleges in all 50 states.

Cohort Default Rates (CDR)

For institutions participating in the federal loan program, cohort default rates are calculated and used as a method of accountability. They are supposed to encourage institutions to act as good stewards of federal loan funds and to take steps to ensure that the loans are repaid by students. Institutions with very high cohort default rates in one year (40 percent) lose eligibility to participate in the federal loan program; those with high rates for three consecutive years (25 percent) can no longer participate in the Pell grant program, either. The inability to provide Pell grants to students would have a devastating effect on institutions that educate low-income students, so colleges are appropriately concerned about keeping their default rates low. This is a particular concern for community and technical colleges because they serve a larger proportion of low-income students. Cohort default rates at levels far below those requiring sanctions are often interpreted more broadly by the media, trustees, and policymakers as indicators of an institution's quality, administrative capacity, and fiscal solvency.

How Undifferentiated Cohort Default Rates Limit Loan Access for Community and Technical College Students

Because of the risk of bad headlines related to default rates, many community and technical colleges are wary of telling all students about loan eligibility, or they deny loans to all students by not participating in the federal loan program at all. Many students at community colleges that do participate are not aware that they can get loans, and one in ten students nationally lacks any access to federal loans. In two states – Georgia and Alabama – the majority of community and technical college students have no federal student loan access. There is also a disturbing ethnic disparity in access to federal loans, with African-American students more than twice as likely as White students to attend non-participating community and technical colleges.

The U.S. Department of Education allows colleges to appeal sanctions based on cohort default rates that, for a variety of reasons, are not considered to be indicative of the quality of an institution's academic programs or administrative operations. For example, an institution with ten borrowers in repayment would see a 10 percentage point increase in its cohort default rate with just one additional student defaulting.

Depending on the circumstances, institutions may be able to appeal sanctions due to high cohort default rates if they meet certain criteria, as outlined by Congress and implemented by the Department, that suggest that the rate does not fairly represent the nature or degree of default. Outside of the institution's financial aid office, however, no one – whether a parent considering college options or a local journalist – would be able to determine that the published rate carries less than the apparent level of risk. Institutions with circumstances that would enable them to appeal sanctions, and that are not actually subject to sanction, have no way of communicating to their constituents and the broader community that their rate is not a cause for concern.

How the Department of Education Can Help

We have spoken with community and technical college financial aid directors about their reasons for not participating in the federal loan program. Concerns about cohort default rates and the potential loss of Pell grants were cited most frequently. As no institution has recently faced sanctions, or is currently at risk of sanctions, resulting in loss of Pell grant eligibility, this fear may be unwarranted. However, there is real potential for local news media or political leaders to misinterpret a rate that may be high compared to other local colleges but actually represents a very small proportion of the student body.

We found that, even if cohort default rates at all community and technical colleges were to rise to the level of potential sanctions, 70 percent of them would be able to appeal based on one particular type of appeal: the participation rate index.[2] This option allows institutions with fewer than 15 percent of eligible students borrowing to have an adjusted cohort default rate, relative to the proportion of students borrowing. For 2007-08, if the proportion of eligible students borrowing multiplied by the institution's calculated cohort default rate is less than 0.0375, the institution may appeal sanctions.

The 2008 Higher Education Opportunity Act includes important changes to both sanction-level cohort default rates and the participation rate index appeal. Beginning in 2011, cohort default rates of 30% for three consecutive years may trigger sanctions, and the participation rate index will be increased from 0.0375 to 0.0625. This will allow institutions with slightly more than 20 percent of eligible students borrowing to appeal sanctions using the participation rate index.

	Percentage of Eligible Students	(times)	CDR	(equals)	Participation Rate Index
Current:	0.15	X	0.25	=	0.0375
2008 HEA:	0.208	X	0.30	=	0.0625

At 2004-05 borrowing rates, we estimate that 80 percent of community and technical colleges would be able to appeal sanctions at the new, higher index level.

Again, none of these institutions are facing sanctions or have the need to appeal. But many of them shape their institutional policies and practices to avoid the perception of high rates. This excessive caution is both unnecessary and detrimental to student access to important financial aid options.

Concerns around community and technical college cohort default rates are not based on realistic assessments of current rates and sanction risks. Instead, they are based on fears about the perceived risk of sanctions. These fears could be significantly mitigated by a clear acknowledgement of the Department, signified by an asterisk, separate list, or other means, that there is no cause for alarm.

The Department already captures enough information to make an initial judgment of an institution's likely eligibility for the participation rate index appeal. The index used in

[2] Our analysis is based on 2004-05 borrowing rates. Our analysis included the 782 public two-year institutions that offered federal loans in 2004-05. We estimate that 549 of these institutions have eligible student participation rates below the 2004-05 threshold of 15% (to meet the index of 0.0375). For our complete analysis of this issue, please see the enclosed issue brief, "Denied: Community College Students Lack Access to Affordable Loans."

the appeal process prescribed by the HEA uses the number of students at the college who are eligible to borrow, a figure that the institution has to determine in order to appeal. But a conservative proxy for that figure would be full-time enrollment of U.S. residents, a figure already reported to the Department.[3] Eligible institutions that would be missed in this calculation could submit the necessary figures.

For a longer term solution, the Department should explore the most appropriate way to collect the two additional pieces of information that need to be captured from institutions to calculate an accurate participation rate: the number of unduplicated borrowers, and the number of students who are eligible to borrow. This could be done using the FISAP or other survey-based method, and would help the Department calculate accurate participation rates and save the colleges unnecessary difficulties arising from confusion and misperceptions.

Meanwhile, the short-term solution is simple, effective, and can be implemented by the time 2006 CDRs are published next month. This practical effort will encourage the widespread loan access intended by the Department, and send an encouraging signal to public two-year colleges that are trying to do the right thing but are at unfair risk of mischaracterization. Similar cohort default rate treatment may be justified for other categories of appeal eligibility, and we would encourage the Department to explore them. However, the participation rate index appeal eligibility category is best suited to addressing the concerns of the majority of community and technical colleges, and is an ideal place to start.

Please find enclosed a copy of our recent report documenting the issue of loan access for community and technical college students. If you have questions about our work or this request, please contact me at (510) 559-9509.

Sincerely,

Robert Shireman, President
The Institute for College Access & Success

Enclosure: "Denied: Community College Students Lack Access to Affordable Loans"

cc: Cheryl Oldham, Assistant Secretary for Postsecondary Education
Dan Madzelan, Director of Forecasting and Policy Analysis, Office of Postsecondary Education

[3] Using IPEDS full-time domestic enrollment in place of our estimate of eligible students would be a more conservative estimate of eligibility, yet would capture 404 (74 percent of those we have designated as likely eligible) of the institutions.