

## CDR: WHAT IS IT GOOD FOR? ABSOLUTELY SOMETHING.

A PRIMER ON THE VALUE OF THE COHORT DEFAULT RATE, ITS SHORTCOMINGS, AND SOLUTIONS

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The cohort default rate (CDR) is critical for understanding the scope and scale of the most devastating repayment outcome a borrower can face: default. Through its use as an accountability metric for Title IV eligibility, it also plays a key role in preventing default by keeping schools focused on the rate at which their borrowers face that very worst outcome. Strengthening the CDR metric as well enhancing colleges' accountability for their students' borrowing outcomes are necessary and achievable goals for federal policymakers. However, we must be cautious about simply trading out the CDR for a different metric when serious questions about unintended consequences remain.

### The CDR is a well-established metric that measures a distinct outcome: default.

The cohort default rate (CDR) represents the share of each school's federal student loan borrowers who default before the end of the third fiscal year after they entered repayment. For example, the 2014 CDR measures the percentage of students who entered repayment during fiscal year 2014 and defaulted before the end of fiscal year 2016. Calculated and made public<sup>1</sup> by the Department of Education every year, the CDR is a *specific metric that captures the single worst outcome for a federal student loan borrower: default.*

Borrowers default on their student loans if they do not make payments for at least 270 days, at which point the entire outstanding balance becomes immediately due. Defaulting on a student loan carries severe consequences, including adding significant costs to the loan, possible garnishment of wages, other federal benefits and tax refunds, ruining a borrower's credit score (which can take years — or a lifetime — to recover from), limiting job prospects, and making it hard — if not impossible — to buy a car or rent an apartment. Defaulted loans can also carry significant costs to taxpayers.

The Department of Education uses CDRs to determine colleges' continued eligibility for federal financial aid. If a school's CDR reaches 30% in any single year, it must develop a default prevention plan. A school with a CDR of 30% or more for three years in a row (or 40% or more in a single year) risks losing the ability to offer federal student loans and Pell Grants to their students. Tying schools' federal aid eligibility to their CDRs provides colleges with a strong incentive to remain focused on helping their student borrowers avoid default.

Holding colleges accountable for CDRs has worked to reduce default: Since its introduction as an accountability metric in 1990, default rates have significantly declined such that only a handful of schools have failing CDRs each year. Through meaningful and strategic focus on default prevention, schools can and do reduce student default rates,<sup>2</sup> and can do so without reducing access to federal student loans.<sup>3</sup>

### Congress and the Administration should strengthen the CDR measure.

Shortcomings of the CDR should be understood and addressed, not overstated. One weakness of the CDR is that students who cannot afford their loans and postpone payments through forbearance or deferment get counted as successes for schools. There is abundant evidence<sup>4</sup> that some for-profit colleges lower their CDRs by abusing forbearance and deferments to delay default, rather than prevent it. Such manipulation does not call for eliminating the CDR, but rather strengthening it through regulatory and administrative actions,<sup>5</sup> such as ensuring that forbearances are granted in the interests of the borrower and targeting program reviews based upon evidence of possible CDR manipulation.

Some have also pointed to increased enrollment in income-driven repayment (IDR) plans as evidence of the declining utility of CDRs. IDR plans provide struggling borrowers with more manageable monthly payments, and may lead to declines in default rates without any change in institutional behavior. These changes to a school's CDR reflect a real decline in the share of borrowers who default, not a failure of the metric itself. Yet CDR declines driven by successful efforts to enroll struggling borrowers in IDR plans do call attention to the need for additional accountability for schools — such as repayment rates — to ensure that students' debt loads are not unreasonable.

### Repayment rates are a promising complement to CDRs, but not a substitute for them.

Repayment rates can measure borrowers' progress in paying down their debt, or the degree of progress made after a certain period of time. There is not yet a single, widely agreed-upon definition of repayment rate, and key questions remain about how it should be calculated. The College Scorecard currently provides the only repayment rates available to the public, calculated as the share of borrowers who have reduced their principal amount by at least one dollar over the course of one, three, five and seven years. Meanwhile, valid questions remain about what represents the most reasonable time after entering repayment at which to measure progress, whether a calculation should measure a school's share of borrowers who are paying down their loans or its share of loan dollars being paid down, and whether a one dollar reduction<sup>6</sup> in principal represents meaningful progress.

Just as default rates ignore distinctions between borrowers who are consistently paying down their debt and those making sporadic or interest-only payments, repayment rates gloss over meaningful differences between default and non-repayment. Yet the severe consequences of being in default require that we not lose sight of the importance of preventing default. While accountability could be strengthened to include a wider range of borrower outcomes, shifting away from default entirely risks turning a blind eye to default.

Still, using repayment rates alongside other metrics can illuminate where debt problems are particularly severe. For example, pairing repayment rate and borrowing rate together lets us identify schools where a majority of students borrow and a minority of borrowers make progress in repayment,<sup>7</sup> or quantify the share of students who are neither in default nor repaying their loans<sup>8</sup> — a particularly

useful analysis for ferreting out CDR manipulation.

### Swapping out the CDR for a repayment rate is not a solution to the shortcomings of the broader system of accountability for which that metric is used.

Just as the CDR metric itself is imperfect, so too is the way the metric is currently used. For instance, the current all-or-nothing eligibility thresholds provide little incentive for passing schools to improve, and schools with failing rates remain eligible for multiple years without sanction. Legitimate and solvable criticisms of the CDR metric should not be used as pretext for calling to replace the CDR with a different metric within an accountability system that itself has limitations that can and should be addressed. TICAS has developed a system of graduated sanctions and rewards<sup>9</sup> to encourage improvement at all colleges, including financial penalties for high-default colleges and rewards for those that successfully serve low-income students.

### Citations

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8. TICAS. 2016. The Missing Middle: Borrowers Who Aren't Either Defaulting or Repaying. <http://bit.ly/2mLpMu8>.
9. TICAS. 2017. A New Approach to College Risk Sharing: Enhancing Accountability to Improve Student Outcomes. <http://bit.ly/2fkN9qN>.