



UNITED STATES DEPARTMENT OF EDUCATION

THE UNDER SECRETARY

December 29, 2015

Honorable John Kline
Chairman
Committee on Education and the Workforce
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter dated November 3, 2015, to Secretary Duncan concerning the collection and reporting of Cohort Default Rates (CDR) data as compiled and calculated by the U.S. Department of Education (Department). I am pleased to respond on behalf of the Secretary and appreciate your sharing your concerns regarding this matter. Identical responses have been sent to the cosigners of your letter.

CDRs are an integral factor in our assessment of institutional quality. Based on your inquiries, the Department is providing the following responses:

1. From what sources does the Department collect the data necessary to make CDR calculations?

Response: CDR calculations are made using enrollment and loan status data submitted to the National Student Loan Data System (NSLDS) by schools, lenders, guaranty agencies, and servicers.

2. How does the Department compute CDR calculations? Has the Department's methodology for computing and adjusting CDR calculations changed since 2009? If so, how?

Response: Beginning with CDRs for fiscal year 2009, the Department computed the CDR for an institution based on statutory requirements set forth in section 435(m) of the Higher Education Act of 1965, as amended (HEA). In addition, between enactment of the Higher Education Opportunity Act of 2008 (HEOA), P.L. 110-315, 122 Stat. 3078, and through the end of fiscal year 2011, the Department calculated a second set of CDRs, following the method of calculation prescribed in HEA § 435(m) as it stood on the day before enactment of the HEOA, as required by HEOA § 436(e)(2). Additional detail regarding the purpose, definition, and calculation can be found in 34 CFR §§ 668.200 and 668.202. Accordingly, the Department calculated a three-year CDR beginning with Fiscal Year (FY) 2009 and continuing in succeeding fiscal years; it also calculated a two-year CDR for FY 2009 through FY 2011.

3. How does the Department verify the accuracy of the data used to calculate CDRs and the calculations themselves?

Response: NSLDS has a specific set of detailed reporting instructions with which all data providers must comply. The NSLDS data transmittal process includes quality control edits to ensure submissions meet business rule and data standards. In addition, data accuracy is verified by Department and contractor staff.

In particular, Federal Student Aid consistently monitors incoming data through monthly benchmarking of the data quality, monthly dashboards, quarterly data quality reports, and other data monitoring tools. Data providers are given various reports and tools to identify and correct data that might not be accurate.

The CDR calculation is verified through adherence to a standard software life cycle development process which includes thorough testing of the programs used to perform the calculation with each change to the programs. In addition, comparative analysis is conducted with each calculation to identify any potential anomalies for resolution prior to release of the rates.

In addition, the Department provides the data to the institution in a Loan Record Detail Report (LRDR) for review, first in conjunction with sharing a “draft” rate and then in conjunction with providing the final rate. Institutions may identify what they believe to be data errors through an “incorrect data challenge” at the draft rate stage, see 34 CFR § 668.204(b); through an “uncorrected data adjustment” or “new data adjustment” following issuance of a final rate, see 34 CFR §§ 668.209, 668.210; and through an erroneous data appeal if the final rate will lead to loss of eligibility or provisional certification, see 34 CFR § 668.211.

4. What internal mechanisms are in place for the Department to audit the data gathered to calculate CDRs and the calculations themselves to ensure accuracy?

Response: We conduct periodic program reviews of all data providers. In addition, the Department continuously monitors the specific data points that support the CDR calculations throughout each year. Data anomalies are addressed through the tools described in the answer above.

5. How has the Department worked to ensure transparency when reporting this data?

Response: As mentioned above, we provide schools with an LRDR that allows them to independently calculate and verify the data used to calculate their CDR. This is done at both the draft rate and official rate stage. More broadly, extensive information regarding the CDR calculation and appeal process are posted publicly at:

<https://ifap.ed.gov/DefaultManagement/finalcdrg.html>

6. How does the Department ensure transparency in its calculations to determine which schools are under the eligibility threshold and which are above?

Response: The Department provides schools with complete backup data of all calculations so that, in addition to quality checks by Department and contractor staff, they can verify the data themselves. This includes data on all borrowers listed in the calculation.

7. How many schools have taken advantage of the CDR challenge and appeals process over the past five years, and for what specific reasons have they requested clarification or contested their CDRs? How many times has the Department altered CDRs for institutions as a result of these processes? Has the Department ever altered CDRs for institutions that did not submit an official challenge or appeal of their rate? If so, how many times and for what reasons?

Response: The following table provides information on challenges, adjustments, and appeals that impact calculation of three-year CDR rates or eligibility consequences of the rates. Appeals include all submitted, including those based on participation rates, economically disadvantaged students, insufficient number of borrowers, loan servicing, and average rate.

Year	Challenges	Adjustments	Appeals
2009	386	86	120
2010	398	31	146
2011	365	70	133
*2012	325	Pending	Pending

*The 2012 CDR Cycle is still in process and cases are still pending.

Specific reasons schools have requested clarifications or contested their CDRs include:

- Borrower incorrectly included or excluded on an LRDR because of an inaccurate "date entered repayment."
- Borrower incorrectly reported in default on an LRDR.
- Borrower incorrectly reported on an LRDR because of multiple loans.
- Borrower incorrectly included on an LRDR.

For the official FY 2011 CDR cycle, adjustments were made to the rates of institutions that are subject to CDR sanctions to account for the impact of "split statuses." A "split status" borrower refers to a borrower who has more than one federal student loan and loans in more than one status (e.g., one loan is in deferment, while a second loan is in default). Under these adjustments, borrowers who defaulted on a loan but who had one or more other Direct or Federal Family Education Loan Program loans in a repayment,

deferment, or forbearance status for at least 60 consecutive days that did not default during the applicable CDR monitoring period on the defaulted loan were excluded from the numerator for the CDR calculation. A borrower was only excluded from a CDR numerator if there were one or more nondefaulted loans that met the above criteria for each of a borrower's defaulted loans.

Split-status loans were excluded because the existence of nondefaulted loans on a borrower's account raises questions about whether the default is the result of a reporting or servicing anomaly. Beginning for the official FY 2012 CDR cycle and for future cycles, account-level records are reviewed for split-status borrowers prior to the calculation of final CDRs. This will eliminate the need to make adjustments at the institutional level.

If you have additional questions or concerns, please do not hesitate to have your staff contact the Office of Legislation and Congressional Affairs at (202) 401-0020.

Sincerely,

A handwritten signature in black ink, appearing to read "Ted Mitchell". The signature is written in a cursive style with a large, sweeping initial "T".

Ted Mitchell