**Changes to Cohort Default Rate Metric Can Avoid Forbearance Abuse, Fact Sheet Claims**

By Hunter B. Martin, NASFAA Staff Reporter

Defaulting on student loans is often considered the worst outcome for borrowers by higher education advocates. While the federal cohort default rate (CDR) has been successful in lowering student loan default rates by holding institutions accountable for student outcomes, some institutions have found a way around the metric through "abuse" of forbearance options, which "harms borrowers and undermines the meaningfulness of the CDR metric," according to a new fact sheet released this month by the Institute for College Access and Success (TICAS).

The fact sheet highlighted the importance of CDR as an accountability metric, the ways some schools use forbearance options to evade CDR accountability, and recommendations for the Department of Education (ED) on how to fix this issue.

CDR was created to push colleges to take meaningful steps to improve student success and lower the default rate while still granting students access to federal financial aid, whereas forbearance is meant to allow borrowers temporary, short-term postponement on their loan payments, which keeps them out of default during times of financial hardship. However, when forbearance is misused to avoid high default rates, it can cause further harm to struggling borrowers.

"A related problem of loan servicers allegedly overusing forbearance demonstrates that the cost of forbearance can add up," TICAS wrote in the fact sheet.

CDR attempts to hold colleges accountable when borrowers default on their student loans within the first three years after entering repayment. According to the fact sheet, "it is widely documented" that some institutions hire default management firms to direct borrowers at risk of defaulting within the first three years into long periods of forbearance instead of steering borrowers into income-driven repayment (IDR).

"Although default rates among a group of students can be expected to increase over time, a particularly large spike shortly after the three-year CDR window may indicate troubling patterns of forbearance abuse, as attempts to place borrowers in forbearance are abandoned after the measurement period ends," TICAS wrote.

To lower CDR and hold institutions accountable for student success outcomes, ED must work to ensure forbearance options benefit borrowers and not institutions, according to TICAS. The fact sheet recommended ED strengthen regulations to require schools and loan servicers to provide documentation on why long-term or continuous forbearance is the best solution for individual borrowers.

"This rule modification recognizes the importance of forbearance as short-term relief but prioritizes solutions better suited for longer-term periods of financial hardship," TICAS wrote.

TICAS also recommended ED publish five-year CDRs in addition to the current three-year rates and conduct program reviews on schools with significant increases in default rates once the three-year period ends. This ensures ED is not only tracking high-risk borrowers who default shortly after entering repayment, but is also monitoring long-term default rates, which can highlight forbearance abuse.

Lawmakers have also taken note of the misuse of the CDR metric. The College Affordability Act (CAA), introduced by House Democrats as a comprehensive bill to reauthorize the Higher Education Act (HEA), seeks to replace CDR with an adjusted cohort default rate. The adjusted rate would multiply the result of dividing a school's number of loans in default by its number of loans in repayment by the percentage of students who borrower at that institution, excluding loans in non-mandatory forbearance for 18 to 36 from the number-in-repayment count. However, those loans would be included in the adjusted rate after 36 months.

In the last Congress, Republicans — then in control of the House — introduced the Promoting Real Opportunity, Success and Prosperity Through Education Reform (PROSPER) Act, which proposed phasing out the CDR metric, in favor of a program-level repayment rate. Under the bill, programs would be penalized if their three-year repayment rates fell below 45%, and would become ineligible for federal grants and loans. The PROSPER Act has not been reintroduced in the current Congress.

"Holding colleges accountable for unacceptably high default rates through the cohort default rate (CDR) has successfully driven down student loan defaults," TICAS wrote. "However, evasion of CDR accountability through abuse of forbearance options ... harms borrowers and undermines the meaningfulness of the CDR metric. Policymakers must take action to strengthen the CDR against forbearance abuse."

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