

**Action Item*****California Student Aid Commission*****2006 Cohort Default Rate for the Student Loan Guarantee Program**

Each year the U. S. Department of Education issues a report on the Federal Family Education Loan (FFEL) program Cohort Default Rate (CDR). This CDR measures the percentage of borrowers who enter repayment in a fiscal year and default or meet other specified conditions by the end of the next fiscal year. This CDR is measured for the overall loan program, individual schools, lenders, guarantors, and states. The most recent CDR is for fiscal year 2006 ending September 30, 2007. According to the U.S. Department of Education, the California Student Aid Commission (CSAC) has the highest Cohort Default Rate (CDR) among the 35 guaranty agencies in the Federal Family Education (FFEL) Program. While CDR is but one of several ways to measure the performance of a guaranty agency, it is significant that the CSAC CDR of 10.6% is over twice the national CDR of 5.2% (Tab 9.a). It should also be noted that the overall 2006 CDR for the California schools is 4.8% (Tab 9.d).

It is important to understand that the CSAC CDR of 10.6% reflects the defaults for all CSAC loan guarantees throughout country and not merely guarantees for California schools or borrowers. Likewise, the California CDR of 4.8% is for all loans, not merely those loans guaranteed by CSAC – there are other guaranty agencies that guarantee loans at California schools. There are many factors affecting a guarantor's CDR. However, when the Commission finds that its Loan Program activities are resulting in default rates markedly different from the overall FFELP, it is incumbent upon the Commission to understand how default rate(s) are calculated, the underlying factors driving these rates, the fiscal and/or operational impacts of such a default rate, and the potential options available to the Commission to either accept or perhaps change these rates in the future.

As indicated in Tab 9.b, CSAC, the second largest guaranty agency in the nation, experienced a FY 2006 CDR that was the highest of all guaranty agencies. However, USA Services, the nation's largest guarantor, recorded a CDR that was 57% lower than the CSAC. Although it can be argued that this statistic is a direct factor of CSAC/EdFund's business decision to market its services based on an open access philosophy, federal regulation [34 CFR 682.404(h)] requires every guaranty agency to provide guarantee services to all lenders seeking such services based on the federal program requirement to guarantee loans requested by all eligible lenders.

Additionally, the data presented in Tab 9.c details the FY 2006 CDR distribution per school segment. As indicated, the proprietary schools had the highest CDR (9.7%) of all school segments. It is also important to note that CSAC's portfolio is primarily comprised of high default proprietary schools. Despite CSAC's portfolio composition primarily of proprietary schools, the CDR for proprietary schools in CSAC's portfolio is higher than the nation's CDR

for proprietary schools. Based on guarantee volume, it appears that there may be a failure in the ability to secure lower default loan volume.

In any consideration of defaults and default rates, there should be awareness of at least two other important points. First, defaults and claim payments provide a collection revenue opportunity for guarantors. While there are certainly costs associated with these collection efforts, they can and generally do provide net revenue to support the overall activities of the guarantor.

Default rates are but one aspect of an overall federal Loan Program. Other important aspects include:

- (a) promoting the availability of loans and other financial aid;
- (b) loan guarantee volume;
- (c) training and information services;
- (d) support for borrowers, schools, and lenders;
- (e) assisting in averting potential loan defaults, processing loan default claims;
- (f) conducting post-default collections; and
- (g) reporting to various state and federal agencies.

To carry out these responsibilities, CSAC utilizes the services of EdFund. Annually EdFund prepares a Loan Program business plan and associated budget for CSAC review and approval. The business plan and budget incorporate certain significant decisions regarding such matters as loan guarantee marketing plans, default aversion strategies, collections techniques and tools, and anticipated business outcomes. These business plans and budgets ultimately become significant drivers in services to borrowers, schools, and lenders, marketplace competitiveness, loan guarantee volume, claims payments, default rates, and expenses and revenues to the Commission and the State of California.

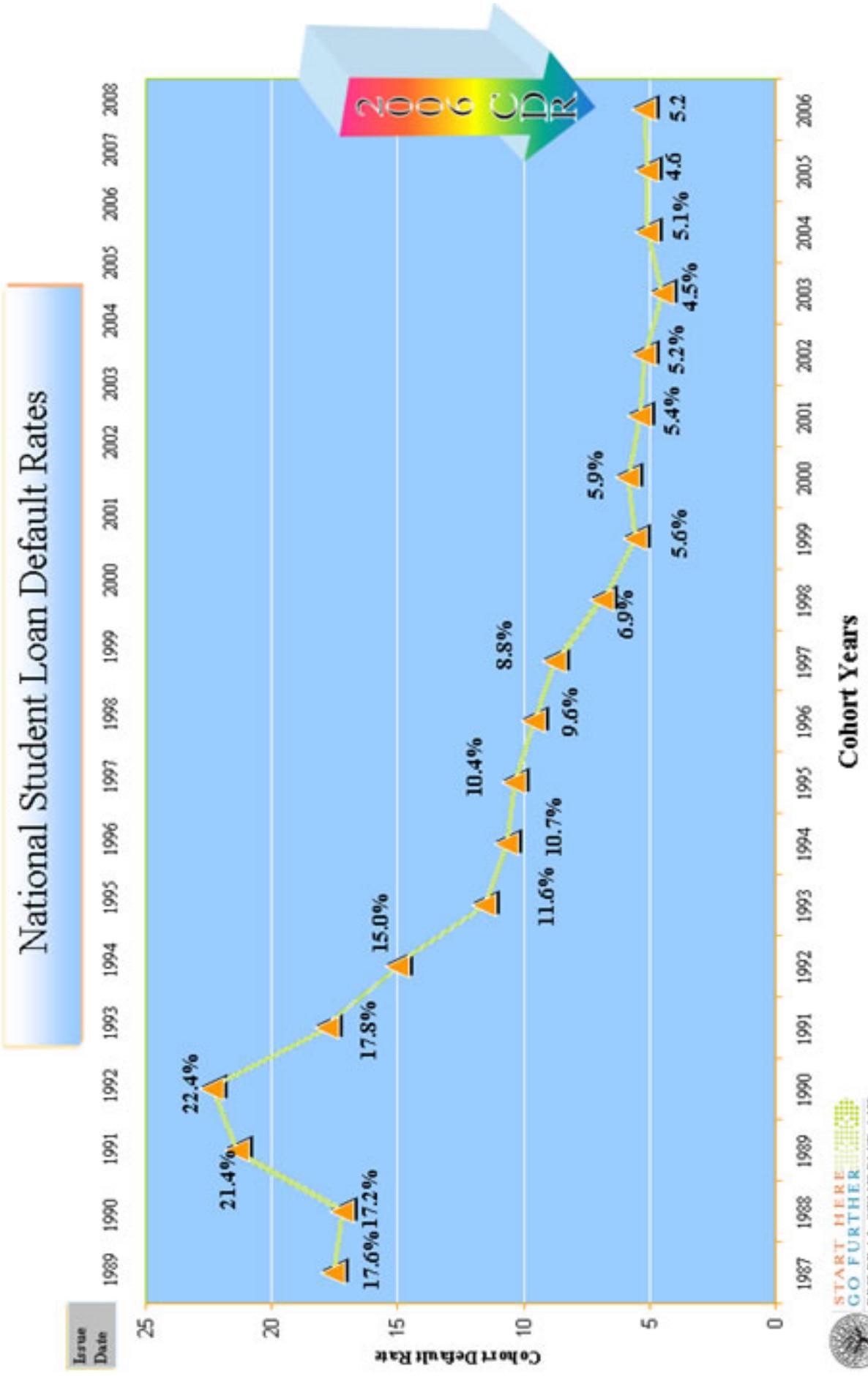
It is worthwhile to emphasize that the CDR is not the same default rate measurement utilized for guarantor default claims reinsurance payments from USDE. The reinsurance payments 'trigger rate' is a different calculation. As long as CSAC annually stays below the 5% trigger rate, CSAC receives the maximum default claims reinsurance payments. CSAC currently is below the 5% threshold (4.8%) and EdFund management is presently projecting it to remain below this threshold.

As the Commission considers the 2008-09 business plan and budget, there should be recognition and consideration of the means and degree to which the Commission's business plan and budget impact are impacted by the defaults and default rates. The Commission needs to understand the business, financial, and policy implications of its business plan for 2008-09. Since the 2008-09 business plan and budget are on the agenda for this meeting as a separate agenda item, the Commission might elect to ask about and discuss the degree to which the proposed plan(s) can or would impact the Commission's future CDR results.

Commission staff's concerns regarding the FY 2006 CDR raises a number of issues which would have to be addressed in closed session due to the proprietary nature of the subject matter in question.

**Responsible Person:** Ed Emerson, Chief  
Federal Policy and Programs  
Division

National CDR Graph Showing Decline Over Years



GUARANTOR NAME	STATE	CDR RATES	REPAYMENT		
			DEFAULT	REPAYMENT	REPAYMENT AMOUNT
USA Services	IN	4.6	28,014	607,972	\$1,814,256,171.00
California Student Aid Commission/EDFund	CA	10.6	35,585	332,980	\$1,346,917,125.00
Texas Guaranteed Student Loan Corporation	TX	9.1	15,565	170,349	\$701,219,900.00
Great Lakes Higher Education Corporation	WI	2.4	5,730	230,807	\$606,730,826.00
National Student Loan Program	NE	8.7	9,405	106,997	\$455,764,984.00
American Education Services/PHEAA	PA	3.4	12,596	367,383	\$432,006,034.00
New York State Higher Education Services Corporation	NY	5.6	7,521	132,025	\$366,863,946.00
Higher Education Assistance Authority	KY	9.2	4,171	45,182	\$206,516,610.00
Illinois Student Assistant Commission	IL	6.7	3,750	55,312	\$187,504,457.00

Direct Loan and Federal Family Education Loan Programs

Institutional Default Rate Comparison of  
FY 2004, 2005, and 2006 Cohort Default Rates

Note: These rates are accurate only as of September 15, 2008.

Institution Type	FY 2004					FY 2005					FY 2006					
	# of Schools	Borrower Default Rate	# of Borrowers Defaulted	# of Borrowers Entered Repayment	# of Schools	Borrower Default Rate	# of Borrowers Defaulted	# of Borrowers Entered Repayment	# of Schools	Borrower Default Rate	# of Borrowers Defaulted	# of Borrowers Entered Repayment	# of Schools	Borrower Default Rate	# of Borrowers Defaulted	# of Borrowers Entered Repayment
<b>Public</b>	1,647	4.7%	70,864	1,488,978	1,622	4.3%	78,040	1,803,195	1,646	4.7%	94,627	1,988,185				
Less than 2 yrs	153	5.7%	390	6,808	145	5.2%	398	7,567	153	6.4%	529	8,178				
2-3 yrs	889	8.1%	31,476	386,474	869	7.9%	36,717	463,007	878	8.4%	44,439	523,749				
4yrs(+)	605	3.5%	38,998	1,095,696	608	3.0%	40,925	1,332,621	615	3.4%	49,659	1,456,258				
<b>Private</b>	1,790	3.0%	22,434	741,372	1,771	2.4%	23,411	950,819	1,748	2.5%	26,735	1,055,567				
Less than 2 yrs	55	9.0%	353	3,881	52	9.0%	401	4,434	56	10.0%	359	3,589				
2-3 yrs	233	7.4%	1,526	20,539	220	6.7%	1,467	21,819	190	6.1%	1,122	18,278				
4yrs(+)	1,502	2.8%	20,555	716,952	1,499	2.3%	21,543	924,566	1,502	2.4%	25,254	1,033,700				
<b>Proprietary</b>	1,963	8.6%	50,729	588,432	1,906	8.2%	60,379	730,385	1,988	9.7%	82,995	855,523				
Less than 2 yrs	1,046	8.9%	11,755	130,810	974	8.9%	12,737	141,953	1,008	10.9%	15,426	140,302				
2-3 yrs	697	9.9%	20,346	205,000	690	9.3%	22,500	240,545	728	11.1%	29,976	267,869				
4 yrs(+)	220	7.3%	18,628	252,622	242	7.2%	25,142	347,887	252	8.4%	37,593	447,352				
<b>Foreign</b>	434	1.5%	100	6,662	457	1.0%	121	11,156	466	1.2%	150	12,359				
<b>Unclassified</b>	2	5.5%	1	18	1	0.0%	0	29	1	0.0%	0	6				
<b>Total</b>	5,836	5.1%	144,128	2,825,462	5,757	4.6%	161,951	3,495,584	5,849	5.2%	204,507	3,911,640				

This table reflects all borrowers who entered repayment during the given fiscal year as reported to the National Student Loan Data System (NSLDS). Some of these borrowers attended schools that are no longer eligible for Title IV program participation. The information provided in the downloadable or searchable reports on this website is limited to schools that, at the time of the most recent calculation, were eligible for participation in the Title IV programs. Therefore, since this table is based on a larger population, totals derived from the downloadable or searchable reports will not fully reconcile with the figures above.

## FY 2006 Official Cohort Default Rates by State/Territory

State	Number of Schools	Number of Borrowers in Default	Number of Borrowers Entered Repayment	Borrower Default Rate (%)
Alabama	55	3,668	59,031	6.2%
Alaska	8	319	4,448	7.1%
Arizona	87	19,280	208,249	9.2%
Arkansas	57	2,504	32,857	7.6%
California	536	14,455	295,494	4.8%
Colorado	99	5,657	79,797	7.0%
Connecticut	68	1,603	36,783	4.3%
Delaware	14	462	8,971	5.1%
District of Columbia	21	813	32,818	2.4%
Florida	274	11,630	199,002	5.8%
Georgia	118	7,134	114,097	6.2%
Guam	1	68	691	9.8%
Hawaii	23	310	7,613	4.0%
Idaho	22	1,175	19,311	6.0%
Illinois	232	8,235	175,488	4.6%
Indiana	108	4,617	104,465	4.4%
Iowa	88	4,240	77,232	5.4%
Kansas	80	2,235	49,474	4.5%
Kentucky	95	5,224	53,639	9.7%
Louisiana	80	3,814	65,377	5.8%
Maine	38	811	17,296	4.6%
Maryland	83	2,844	51,239	5.5%
Massachusetts	165	2,506	89,569	2.7%
Michigan	124	5,563	129,601	4.2%
Minnesota	113	2,871	99,035	2.8%
Mississippi	39	2,593	38,575	6.7%
Missouri	167	4,125	93,886	4.3%
Montana	27	375	15,612	2.4%
Nebraska	49	978	30,314	3.2%
Nevada	20	767	10,359	7.4%
New Hampshire	41	640	19,643	3.2%
New Jersey	131	3,709	66,991	5.5%
New Mexico	31	893	21,531	4.1%
New York	395	11,980	272,610	4.3%
North Carolina	123	2,579	73,736	3.4%
North Dakota	23	394	16,481	2.3%
Ohio	242	7,460	166,231	4.4%

FY 2006 Official Cohort Default Rates by State/Territory				
Oklahoma	86	3,248	54,373	5.9%
Oregon	84	2,946	51,192	5.7%
Pennsylvania	348	9,093	233,531	3.8%
Puerto Rico	39	2,535	26,785	9.4%
Rhode Island	25	1,226	21,331	5.7%
South Carolina	69	1,966	48,913	4.0%
South Dakota	27	590	18,445	3.1%
Tennessee	115	4,548	74,300	6.1%
Texas	278	17,165	236,270	7.2%
Utah	41	1,478	38,031	3.8%
Vermont	28	327	13,361	2.4%
Virgin Islands	1	4	229	1.7%
Virginia	124	3,191	77,526	4.1%
Washington	95	3,083	58,080	5.3%
West Virginia	54	2,220	25,228	8.7%
Wisconsin	81	1,724	74,934	2.3%
Wyoming	10	482	9,200	5.2%