# Higher Education Opportunity ^For Confusion Act Regulations

90-10 and Cohort Default Rates: What May we Expect?

Career Colleges and Schools of Texas

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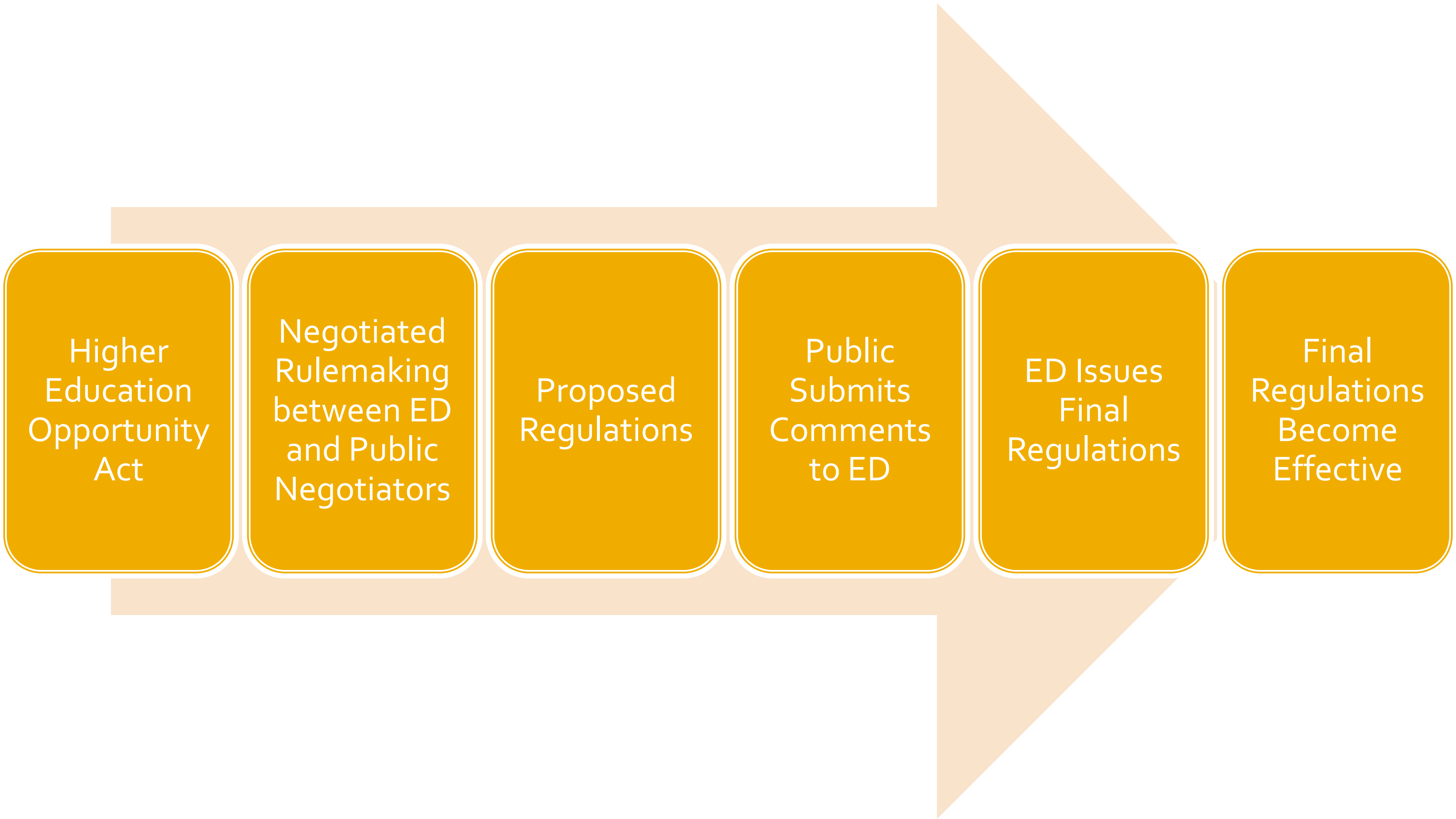
# HEOA: Regulatory Process



# 90-10 and Cohort Default Rate: The Good, the Bad, and the Ugly

# 90/10 CALCULATION:
# What's New

- New ways to reduce numerator (Title IV funds)
- New ways to increase denominator (all revenue received for tuition and fees)
- Opportunity to use different accounting method
- Some changes temporary; some permanent.

# 90/10:
# New Calculation Methodology

**Title IV funds for tuition, fees, & charges (minus unsub loans in excess of pre-ECASLA limits)**


**All revenue from:**

- **Tuition, fees, & charges for Title IV students;**
- **Revenue from activities necessary for training students in Title IV programs & non-Title IV programs;**
- **Non-Title IV program revenue; and**
- **Unsub loan amount in excess of pre-ECASLA limits (with conditions)**

***New HEOA items in red.**

# 90-10: Revenue from Non-Title IV Program Counted as Revenue in Calculation

- Paid for by student or on behalf of student by third-party;

  **AND**

- State agency-approved or licensed;
- Accredited by ED-recognized accrediting agency; (or)
- Provides industry-recognized credential or certification **or prepares students to take certification examination issued by an independent third party.**
- **Provides State licensing training; or**
- **Provides training needed for additional licensing requirements for specialized training for practitioners that already meet general licensing requirements in that field.**

***Red =proposed regulations only**

# 90-10
# Recording Pre-ECASLA Funds



- ED proposes that funds be allocated on payment period basis.
- Implications for cases where student withdraws and funds are refunded.

# 90-10:
## Student Aid and Fiscal Responsibility Act of 2009

SAFRA would:

- Expand pre-ECASLA fund provision through 2012 rather than through 2011.
- Allow funds from the proposed Direct Perkins Loan program to be treated as non-Title IV revenue until July 1, 2012;
- Give proprietary schools <u>three years</u> (as opposed to two) to come into compliance with 90/10 provisions; and
- Give schools two years (as opposed to one) of noncompliance before they would be moved into provisional eligibility status.

# 90-10:
# Institutional Loans
# Accrual Method-Temporary

- To be able to account for as revenue, loans must be:
  - **Bona fide as evidenced by standalone repayment agreements that are** enforceable prom notes;
  - Issued at intervals related to enrollment periods; repayments
  - Subject to regular loan and collections **by the institution;**

**AND**

  - **Separate from the enrollment contract.**

- **Includes funds advanced to students under installment sales contracts.**

- **Proposed Preamble states that:**
  - **Loans purchased by institution or sold by institution to third party excluded;**
  - **Funds would have to be credited in full to the students' account.**



*July 1, 2008 to July 1, 2012*

**Red** =Proposed regulations only

# 90/10
# Proposed Regulations: Institutional Loans
# Alternate to NPV

**Alternative to Net Present Value Formula:**

- 50 % of the total amount of loans that the institution made during the relevant fiscal year.
- Two-year prohibition on selling loans.

# Changes to Cohort Default Rate Calculation Methodology

Effective for 3-year period
ending FY 2011

# Cohort Default Rates: Threshold Rates Changed

**OLD LAW**

- Statutory threshold set at 25% for FYs after 1993

**HEOA**

- Statutory threshold increased to 30% for FY 2012 and thereafter

# Cohort Default Rate: Expansion of Time Period Included in CDR

**OLD LAW**

- Counted loans that defaulted before end of fiscal year following FY in which students entered repayment (2-yr period).

**HEOA**

- Counts loans that default before end of second FY following FY in which students entered repayment (3-yr period).

# Cohort Default Rate: Impact of Adding Year to CDR Period

| Institution Type | Projected 4-Year Rate | Projected 3-Year Rate | Current 2-Year Rate |
|---|---|---|---|
| Public | 9.5% | 7.2% | 4.7% |
| Private (non-profit) | 6.5 | 4.7 | 3.0 |
| Proprietary | 23.3 | 16.7 | 8.6 |
| Less than 2-year | 26.6 | 18.5 | 8.9 |
| 2-to 3-year | 27.2 | 19.5 | 9.9 |
| 4-year or more | 19.2 | 13.7 | 7.3 |

# Cohort Default Rate: When will impact of new methodology be felt?

When CDR for FY 2009, 2010, and 2011 are all issued.

# Cohort Default Rate: Transition Chart

| FY Student Entered Repayment | No. of Yrs. Considered In CDR | Yr. CDR Released | Threshold Percentage |
|---|---|---|---|
| 2007 | 2 | 2009 | 25 |
| 2008 | 2 | 2010 | 25 |
| 2009 | 2 | 2011 | 25 |
| 2009 | 3 | 2012 | 25 |
| 2010 | 2 | 2012 | 25 |
| 2010 | 3 | 2013 | 25 |
| 2011 | 2 | 2013 | 25 |
| **2011*** | **3** | **2014** | **30** |
| 2012 | 3 | 2015 | 30 |
| 2013 | 3 | 2016 | 30 |

# Cohort Default Rate: Triggers for provisional certification

- **Failure to meet administrative capability requirement due to:**
  - One 2-year CDR at 25% or more; or
  - On or after 2014, two 3-year CDRs at 30% or more.
- **ED may not place such schools on provisional if :**
  - Pending or successful request for adjustment (data, new data, erroneous data), of two 3-year 30+ CDRs;
  - Pending or successful mitigating circumstances appeal of two 3-year 30+ CDRs;
  - Pending or successful loan servicing appeal;
  - Pending or successful participation rate index appeal;
  - 30 or less borrowers; or
  - CDR calculated as average rate.

# END

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