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Louisiana student loan cohort default rate at all-time low

BATON ROUGE – The cohort default rate on student loans guaranteed by the Louisiana Student Financial Assistance Commission (LASFAC) dropped to an all-time low of 1.6% in Federal Fiscal Year (FFY) 2005, a sharp decrease from FFY 2004's rate of 6%, according to figures recently released by the United States Department of Education (USDE).

The Cohort Default Rate is defined by federal regulations as the percentage of borrowers who enter repayment in a certain year and default before the end of the following year. The recently released data represents the cohort of borrowers who entered into repayment during the period from October 1, 2004 through September 30, 2005, and who defaulted before September 30, 2006.

During the same period, the National Cohort Default rate dropped from 5.1% to 4.6%.

USDE Secretary Margaret Spellings tempered the announcement of the National Cohort Default rate in acknowledging that, "Another factor contributing to the lower default rate is loan relief and other assistance the Department was able to offer to college students and families impacted by hurricanes Katrina and Rita in the fall of 2005." Specifically, USDE offered six to nine months of student loan payment forbearance to federal student loan borrowers who were directly affected by the disaster.

"The aftermath of the hurricanes had an even greater impact on Louisiana's Cohort Default Rate," said Melanie Amrhein, executive director of the Louisiana Office of Student Financial Assistance (LOSFA). "While we are extremely proud of LOSFA's ongoing default prevention efforts and this historic low Cohort Default Rate," Amrhein continued, "We acknowledge the large number of hurricane forbearances granted during

the period covered. We will continue to work with borrowers and provide expanded default prevention services in an effort to keep the default rate from rebounding in coming years.”

LOSFA administers the loan guarantee function of LASFAC for the Federal Family Education Loan (FFEL) program.

A student loan made under the FFEL is considered to be in default when no payments are received for 270 days. When this occurs, the lender files a claim for payment from the guarantor of the loan. LASFAC is USDE’s designated guarantor for the state of Louisiana.

Following the hurricanes in 2005, USDE granted all FFEL program borrowers from affected parishes extended payment deferments of from six to nine months. Thus, the “270-day repayment clock” did not begin until up to nine months after the hurricanes (May 2006) and borrowers who failed to resume payments after that time did not reach default status until up to 18 months after the hurricanes (February 2007).

As a result of the number of borrowers affected by the hurricanes, LOSFA experienced a 166% increase in the number of claims and a 156% increase in the dollar amount of claims from October 1, 2006, to March 31, 2007, as compared to the same period during the previous year. This “bubble” of defaults will be reflected in the 2006 Cohort Default Rate that will be calculated and released by USDE in the fall of 2008.

“It is LOSFA’s goal,” Amrhein added, “to continue our focus on educating borrowers and preventing defaults thereby resulting in a low Cohort Default Rate as our state continues to recover from the 2005 disasters.”

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