The Real Price of Student Loan Defaults

SASFAA
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Financial Aid Overview

Current National Trends

Factors related to increased default rates:

- More borrowers
- Greater amounts borrowed
- Lower income-earning potential
- Higher default rates
- Shift to 3-year calculation of default rate
- Misunderstood repayment options

How big is the problem?

- $1.17 trillion in federal education loans*

- Student loan balance is now $870 billion**

- About 37 million hold outstanding student loan debt**

- People younger than forty owe $580 billion **

*Source: Mark Kantrowitz, FinAid.org
**Source: Federal Reserve Bank of New York, Household Debt and Credit Q3, 2011
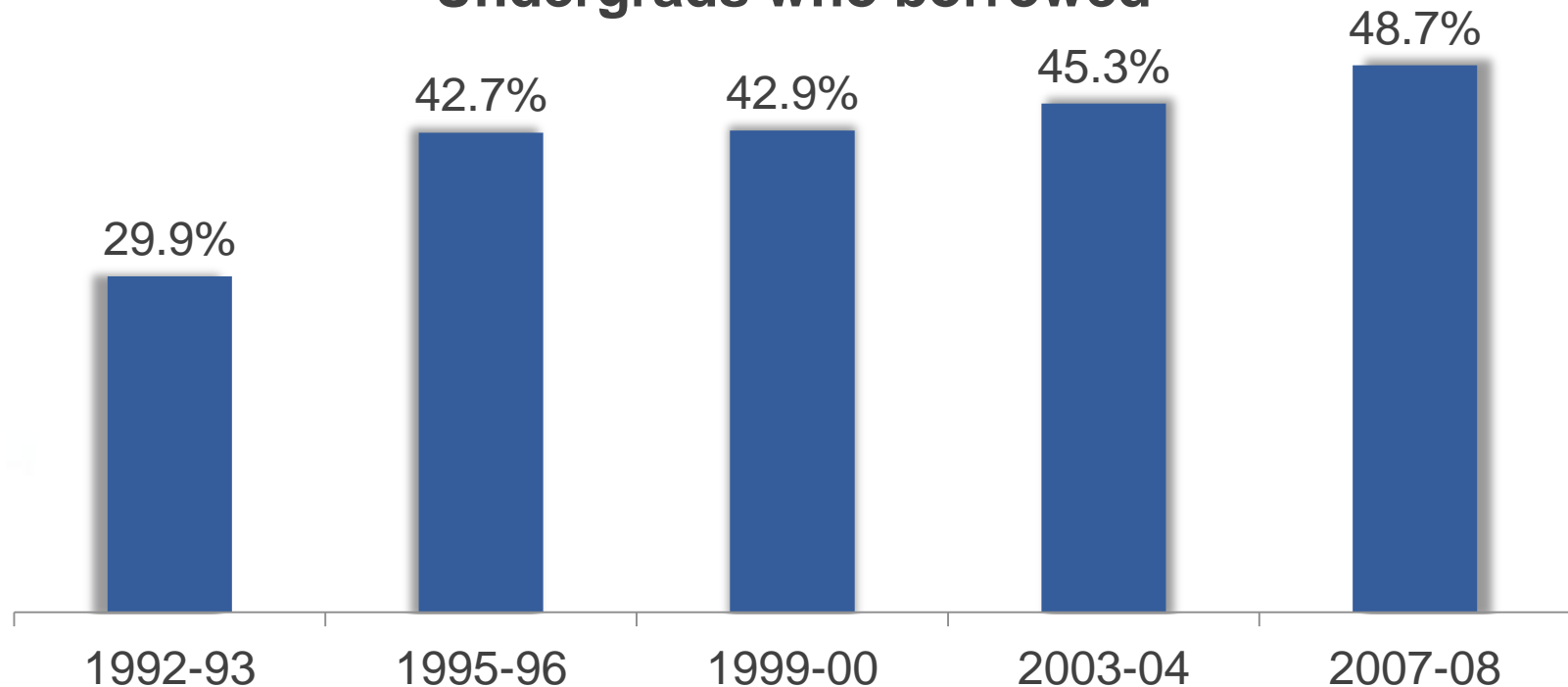
Student Loans in Default

How much money are we talking about?

$870+ billion outstanding student loans

$47.4 billion in default*

*Source: FinAid, Mark Kantrowitz, www.finaid.org

Trends in Student Borrowing

Percent of First-Time/Full-Time Undergrads who borrowed

1992-93	1995-96	1999-00	2003-04	2007-08
29.9%	42.7%	42.9%	45.3%	48.7%

Trends in National Default Rates

National 2-Year Cohort Default Rate*

Year	Rate
2005	4.6%
2006	5.2%
2007	6.7%
2008	7.0%
2009	8.8%
2010	9.1%

Borrowing increases → **Student loan default increases**
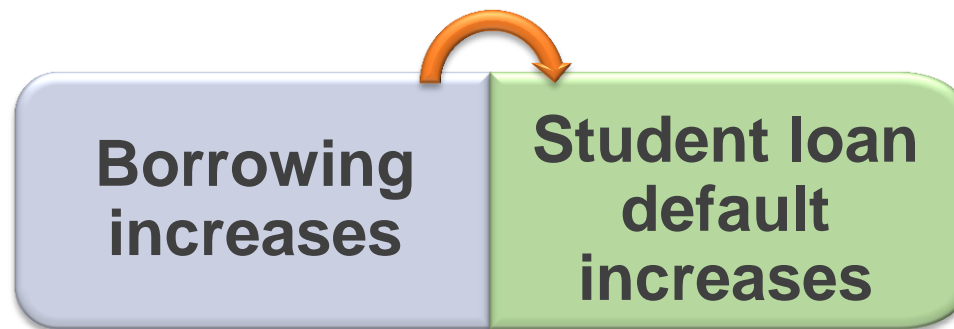
*Includes US, foreign and US Territories

2010 Default Data by School Type

Type of Postsecondary School	Defaulters	Total in Repayment	Avg. Default Rate
All Two-Year Schools	145,410	1,146,492	12.7%
All Four-Year Schools	229,252	2,944,782	7.8%
Public Postsecondary Schools	161,815	1,928,054	8.3%
Private Postsecondary Schools	46,481	882,005	5.2%
For Profit Postsecondary Schools	166,364	1,281,215	12.9%

Impact of Loan Default

The impact of student loan default is widespread.

- National
- Region
- State
- Community
- Schools
- Individual Programs

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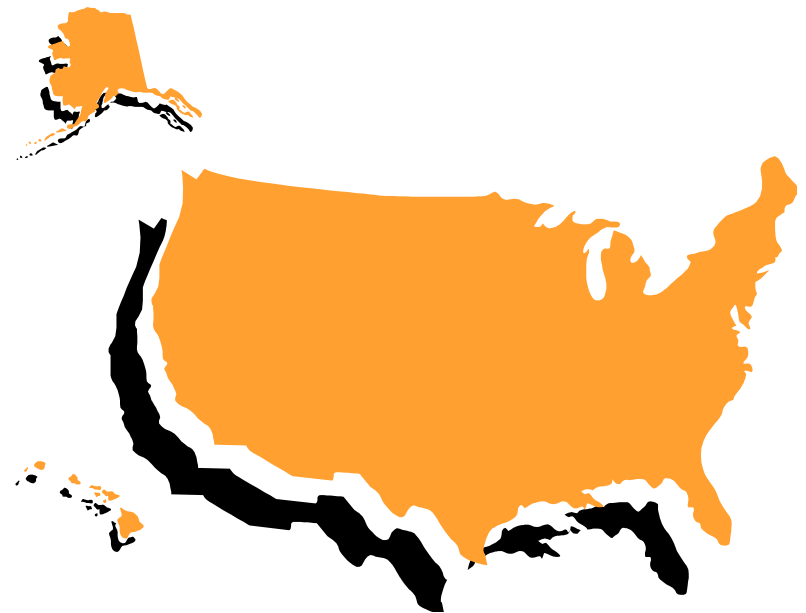
Impact on Students

- Unmanageable amount of long term debt
  - Fees
  - Interest
  - Collection cost
- Not eligible for Title IV aid
  - Loss of Pell Grant, Loans
- Degree completion on hold
- Credit Rating
- Decreased ability to buy homes, cars, etc.

Costs To An Institution

- Lost revenue

- Regulatory sanctions
  - Title IV eligibility
  - Single-term disbursements
  - First-time borrower disbursement delay

- Reputation

- Decreased Alumni giving

Default Rate Impact

Sanctions	
30% CDR for one year	Submission of mandatory default aversion plan
30% CDR for second consecutive year	Submission on an additional mandatory default aversion plan
30% CDR for third year or 40% for any one year	Sanctions and possible loss of eligibility to disburse federal funds

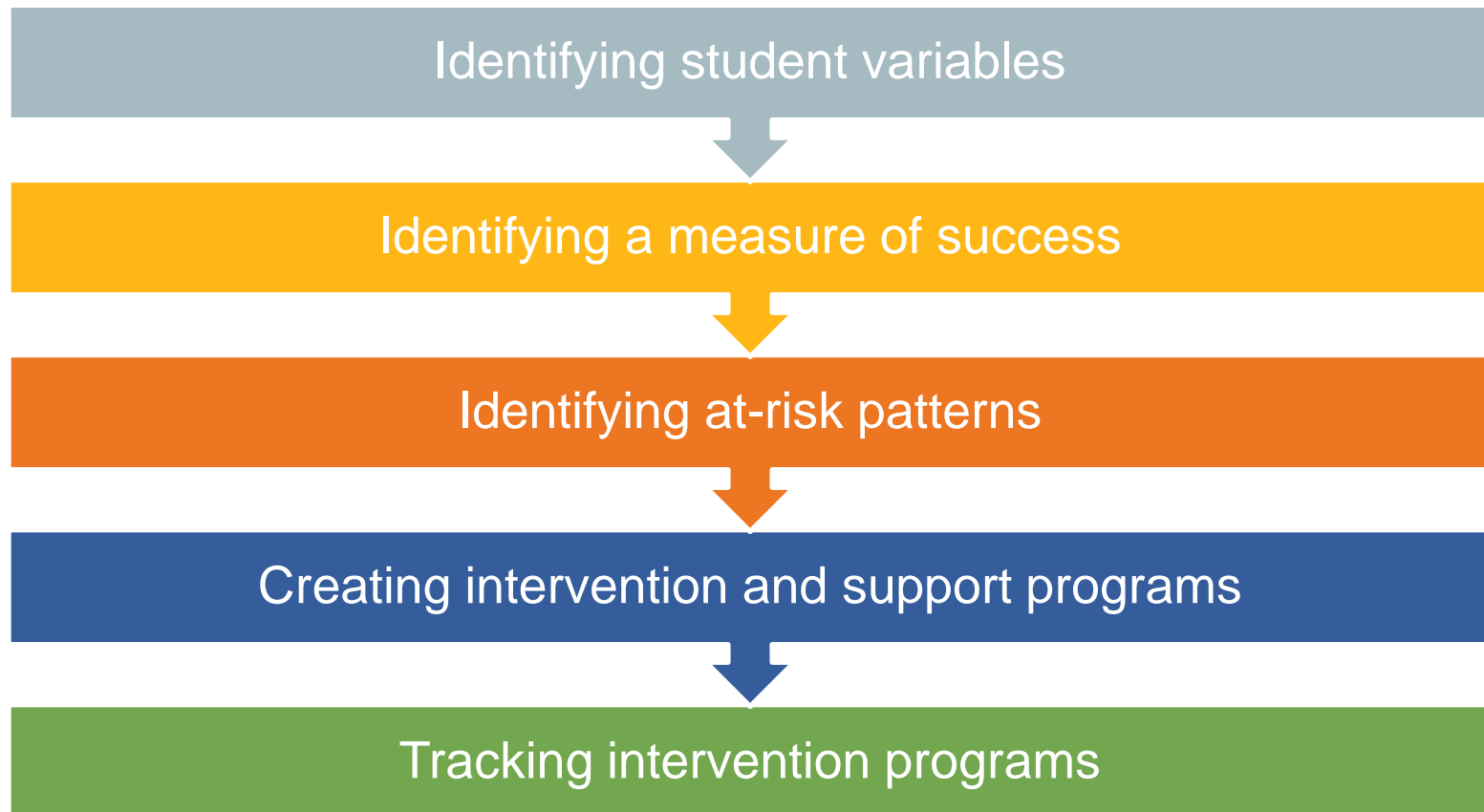| Incentives	
15% CDR for three years	Ability to disburse loan funds without 30 day waiting period

ATTACKING
THE PROBLEM

Solutions

Default Prevention Plan

Basic Elements:

I. Periodic review of data

    a. Analyze defaulted loan data to identify defaulter characteristics

II. Early stages of enrollment

    a. Early identification and counseling for students at risk

    b. Financial literacy education for borrowers

III. Late stages of enrollment

    a. Exit counseling

IV. After students leave school

    a. Early Stage Delinquency Assistance (ESDA)

    b. Late Stage Delinquency Assistance (LSDA)

Creating a Process

We study the past to predict the future.

Identifying student variables

Identifying a measure of success

Identifying at-risk patterns

Creating intervention and support programs

Tracking intervention programs

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How can you help the student?

- Analysis of data
- Provide Financial Education Programming
- Monitor student progress in school
- Watch the warning signs
- Loan repayment counseling
- Build a plan to measure results

Questions An Analysis Can Answer

- What is your current Cohort Default Rate? Is it trending up or down?

- How do you compare with peer institutions?

- Which majors or academic programs have the most defaulters?

- Do in-state or out-of-state students default at a higher rate?

- How does student age relate to defaulting?

- Does financial aid packaging correlate to defaulting?

- How does retention relate to default rate? Are retention programs working?

- If you have limited resources, which students should be targeted to lower the default rate?

- What is the impact of your default prevention efforts and how can you track the effectiveness of these programs?

Sample Summary of Key Findings

- The number one issue in student loan default is **Retention of Students.** Students who do not graduate are over **twice** as likely to default on student loans.

- A critical point for retaining students is **24 credit hours.** If a student persists beyond this point they are significantly less likely to default.

- Defaulters **cannot** be characterized as the lowest income students. A lower percentage of students with Expected Family Contributions (EFCs) of $0 were defaulters (15%) compared to repayers (23%).

Three-Year Rates:
Test University vs. Peers

As Test University's three-year CDRs have been rising, so have the rates of other institutions. Though the advantage is shrinking, Test University's three-year rate still compares favorably to the five peer schools (all within Test State) the college identified. Expanding to the national sector data, Test University compares even more favorably. Default data for each of the five can be found in Appendix 1.
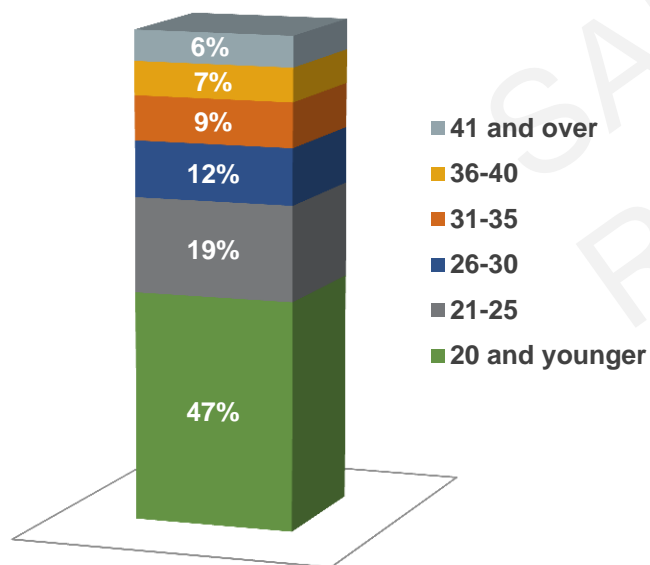
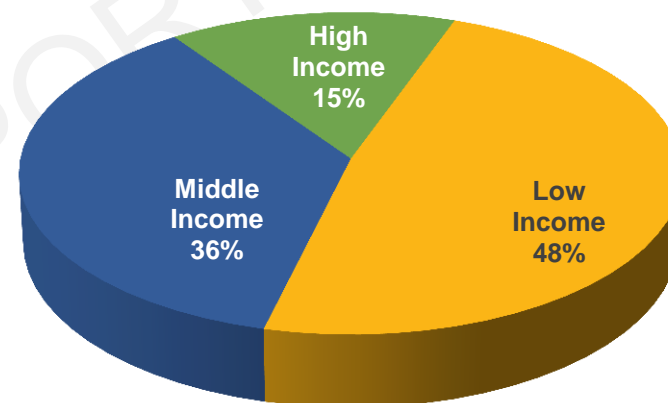| Schools	FY09	FY08*	FY07*
Test University	5.4%	4.5%	1.2%
5 Peers	8.3%	6.2%	6.6%
National Public 2- to 3-year	11.9%	10.1%	9.9%

*FY 07 and FY 08 were Trial years

Descriptive Data

Nearly half of the cohort borrowers were 20 or younger when they first enrolled, resulting in a median age for all borrowers of 21.0 and a mean of 25.0. Just under 50 percent of the cohort were low income ($30,000 or lower). The mean family income was $42,640 while the median was $30,982.
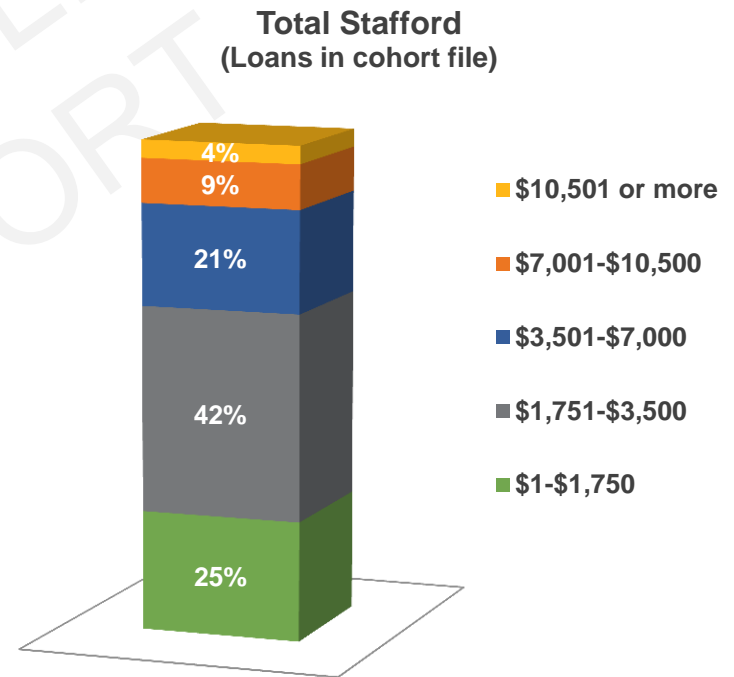
Age at First Enrollment
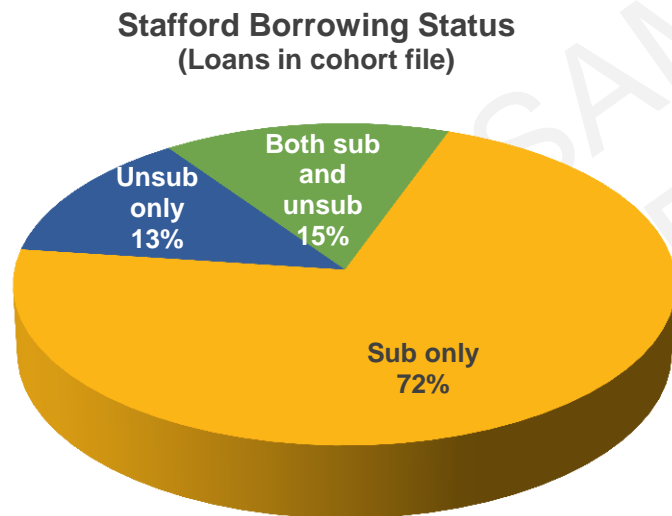
■	41 and over
■	36-40
■	31-35
■	26-30
■	21-25
■	20 and younger

6%
7%
9%
12%
19%
47%

Family Income
(Last Term)

High Income 15%

Low Income 48%

Middle Income 36%

Descriptive Data

According to the cohort file, nearly three-fourths borrowed only subsidized Stafford loans (left graph). The right graph shows 67 percent accumulated total Stafford debt of $3,500 or lower, registering a median of $3,500 for all borrowers and a range of $400 to $15,971.

Stafford Borrowing Status
(Loans in cohort file)

- Both sub and unsub 15%
- Unsub only 13%
- Sub only 72%

Total Stafford
(Loans in cohort file)

- 4%
- 9%
- 21%
- 42%
- 25%

Legend:
- $10,501 or more
- $7,001-$10,500
- $3,501-$7,000
- $1,751-$3,500
- $1-$1,750

A Positive Note

During our analysis, we identified borrower groups with the largest positive default contribution margins (shown on the right).

Variable Category	FY10		
	Total	Defaulters	Default Contrib. Margin
Overall Cohort	**612** / *100%*	**48** / *100%*	
Enrolled both full-time and part-time	361 / 59%	22 / 46%	**22.2**
Sophomore at last term	201 / 33%	8 / 17%	**20.7**
Completed a program	168 / 28%	5 / 10%	**20.6**
Female	407 / 67%	28 / 58%	**18.8**
2.0 – 2.99 Cumulative GPA	243 / 40%	13 / 27%	**18.5**
No SAP status at first term	399 / 66%	28 / 58%	**17.3**
Health Professions and Related Clinical Sciences	257 / 42%	15 / 31%	**17.1**
Did not formally withdraw	313 / 52%	21 / 44%	**15.5**
3.0 – 3.99 Cumulative GPA	153 / 25%	7 / 15%	**14.0**
Test County residency	434 / 71%	33 / 69%	**13.9**

SAMPLE VARIABLES

Borrower Background Variables

First-generation status	ACT score
SAT scores	Other placement tests
Remedial courses needed/completed	Entry date
Age at entry	Type of student – first-time freshman, transfer
Full time/part time	Gender
Ethnicity	Marital status

Financial Aid Variables

- Financial aid awarded
  - Types of aid
  - Amount of aid
- Expected family contribution
- Family income
- Dependency status

Student Experience Variables

|	
Academic major	Academic minor
Credits attempted	Credit completed
Cumulative GPA	Core GPA
Graduation status	Highest grade level completed
Number of terms completed	Living arrangement
Last day of attendance	Student loan repayment/default

Questions?

The Real Price of Student Loan Defaults

Evaluation System APP or Web

Enter Poll ID   102670

Enter Password   sasfaa

https://answerqwik.com/login.html
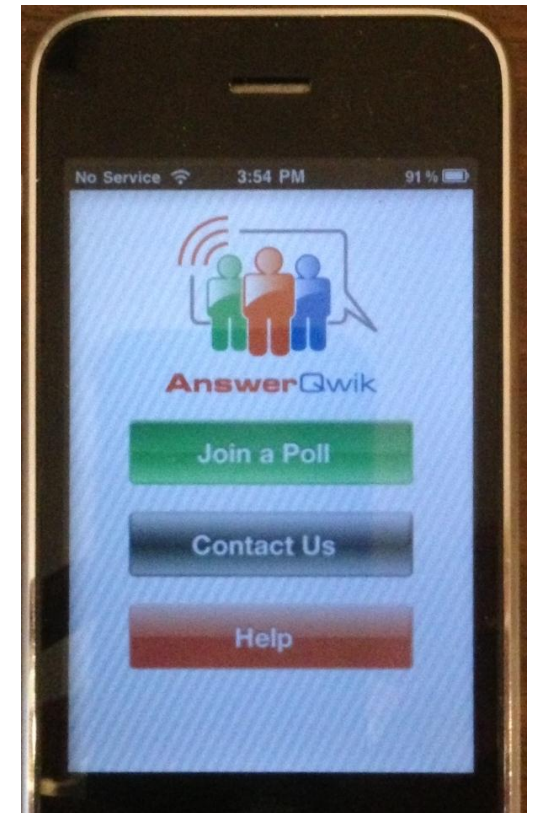
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Cohort Default Rates

What is a cohort?

- Group of borrowers who entered repayment in a Fiscal Year*

How is the default rate calculated?

- Borrowers entering repayment in a Fiscal Year are tracked over three years to determine if they meet their loan repayment obligations or not.

* Federal Fiscal Year: Oct. 1 – Sept. 30

What is a Cohort?

- A group, similar set of characteristics
- Included loans: Stafford
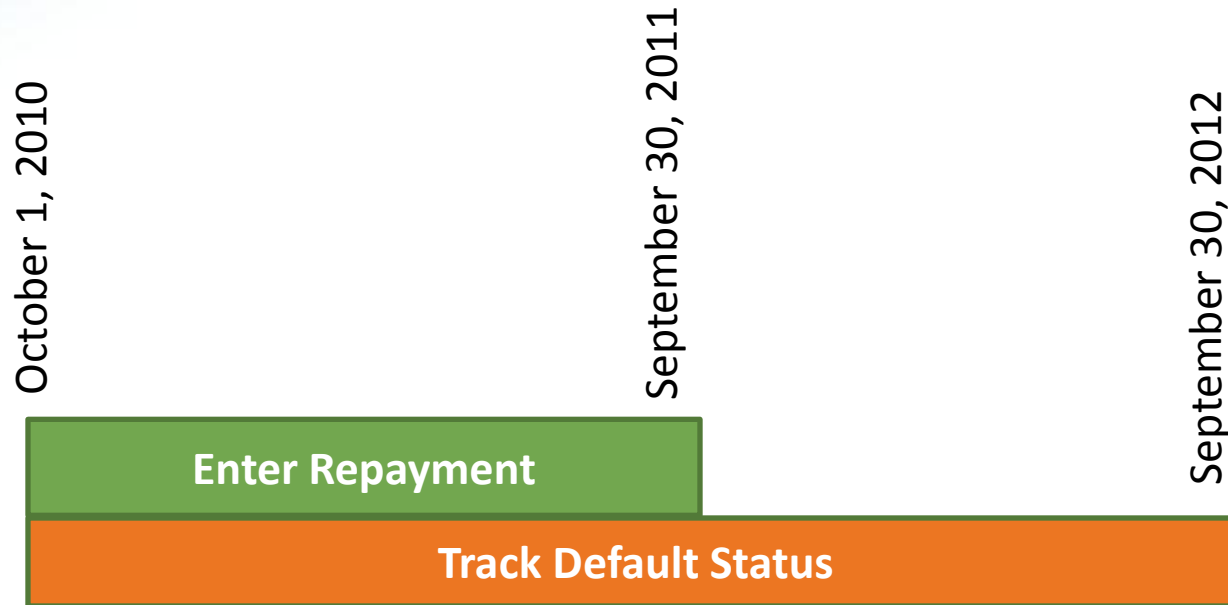
Subsidized

Unsubsidized

The Equation

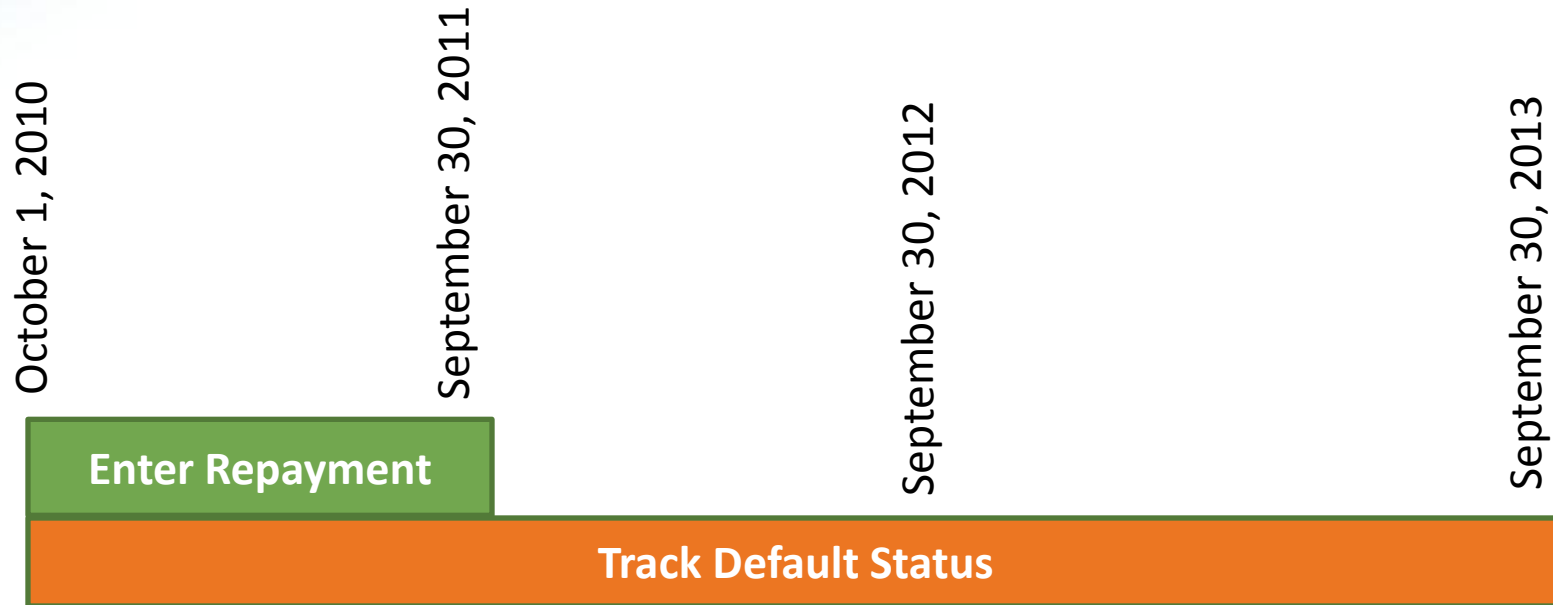**Borrowers in the cohort who default within cohort default 3 year period (Numerator)**

_____ **X 100 =** CDR

Cohort of federal student loan borrowers who enter repayment during cohort fiscal year (Denominator)

2-year rate formula

October 1, 2010 — September 30, 2011 — September 30, 2012

Enter Repayment

Track Default Status

This is an example of what Cohort year?

3-year rate formula

October 1, 2010 | September 30, 2011 | September 30, 2012 | September 30, 2013

Enter Repayment

Track Default Status

3-Year Cohort Default Rate Schedule

	Cohort Year	2010	2011	2012	2013	2014	2015	2016
Repayment	Start Date	10/1/2009	10/1/2010	10/1/2011	10/1/2012	10/1/2013	10/1/2014	10/1/2015
	End Date	9/30/2010	9/30/2011	9/30/2012	9/30/2013	9/30/2014	9/30/2015	9/30/2016
Default	Start Date	10/1/2009	10/1/2010	10/1/2011	10/1/2012	10/1/2013	10/1/2014	10/1/2015
	End Date	9/30/2012	9/30/2013	9/30/2014	9/30/2015	9/30/2016	9/30/2017	9/30/2018
Note 1*	Default Prev. Deadline	12/5/2011	12/4/2012	12/4/2013	12/4/2014	12/5/2015	12/4/2016	12/4/2017
Note 2*	Rehabilitation Deadline	1/1/2012	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017	1/1/2018
Cohort Rate Release	Draft Rate	Feb 2013	Feb 2014	Feb 2015	Feb 2016	Feb 2017	Feb 2018	Feb 2019
	Final Rate	Sep 2013	Sep 2014	Sep 2015	Sep 2016	Sep 2017	Sep 2018	Sep 2019