Minnesota Office of Higher Education

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Student Loan Default Rates in Minnesota, 2009 Two- and Three-Year Rates

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About the Minnesota Office of Higher Education

The Minnesota Office of Higher Education is a cabinet-level state agency providing students with financial aid programs and information to help them gain access to postsecondary education. The agency also serves as the state's clearinghouse for data, research and analysis on postsecondary enrollment, financial aid, finance and trends.

The Minnesota State Grant Program is the largest financial aid program administered by the Office of Higher Education, awarding need-based grants to Minnesota residents attending eligible colleges, universities and career schools in Minnesota. The agency oversees other state scholarship programs, tuition reciprocity programs, a student loan program, Minnesota's 529 College Savings Plan, licensing and an early college awareness programs and initiatives for youth.

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Introduction

While Minnesota undergraduates are more likely to take out student loans, they are substantially less likely than their peers nationally to default on federal student loans.

Seventy-five percent of graduating seniors who attended public four-year universities in Minnesota had student loans in 2009, and the average amount borrowed by those with loans was $26,400. This compared to 56 percent with average debt of $20,400 nationally. (Source: Project on Student Debt)

Seventy-three percent of those graduating from private not-for-profit four-year institutions in Minnesota had student loans that year, and the average amount borrowed by those with loans was $31,500. This compared to 65 percent with average debt of $26,700 nationally.

Beginning with rates for 2009, the U.S. Department of Education began publishing two- and three-year default rates for postsecondary institutions that participate in the federal Stafford student loan programs. The Department is in the process of switching from a two-year cohort default rate to a three-year rate as required by the federal Higher Education Opportunity Act of 2008. For rates before 2009, two-year rates were used, on the theory that most students who default would do so in the first months after repayment was scheduled to begin. In 2008, Congress passed the requirement that three-year rates be published because “there are more borrowers who default beyond the two-year window, and the three-year rate captures a more accurate picture of how many borrowers ultimately default” on their loans. (U.S. Department of Education, 9/28/2012) Currently, institutions with rates of 25 percent or more may lose their eligibility to participate in federal student aid programs based on their two-year rates. Beginning in 2014, institutions will be subject to those sanctions based on the three-year rates.

Two-year rates

The federal two-year default rate for students attending institutions in Minnesota was 5.8 percent for 2009, compared to 8.80 percent nationally and 6.5 percent for the peer Midwestern states.[1] Compared to the 54 U.S. states and territories, Minnesota was among those with the low default rates – 10 states had lower default rates and 43 states and territories had higher default rates. The federal two-year cohort default rate for 2009 counts the borrowers who were due to begin repayment in federal fiscal year 2009 who defaulted in that year or the next federal fiscal year.

Three-year rates

The federal three-year default rate for students attending Minnesota institutions was 9.0 percent for 2009, compared to 13.4 percent nationally and 12.3 percent for the peer Midwestern states. Compared to the 54 U.S. states and territories, 10 states had lower default rates and 43 states had higher default rates – the same ranking as with the two-year rates. The three-year rate for 2009 is based on the borrowers who were scheduled to begin repayment in federal fiscal year 2009 who defaulted in that year or the next two fiscal years.

Type of institution

Looking at the rates by type of institution, students attending every type of public and private institution had lower default rates than their peers nationally.

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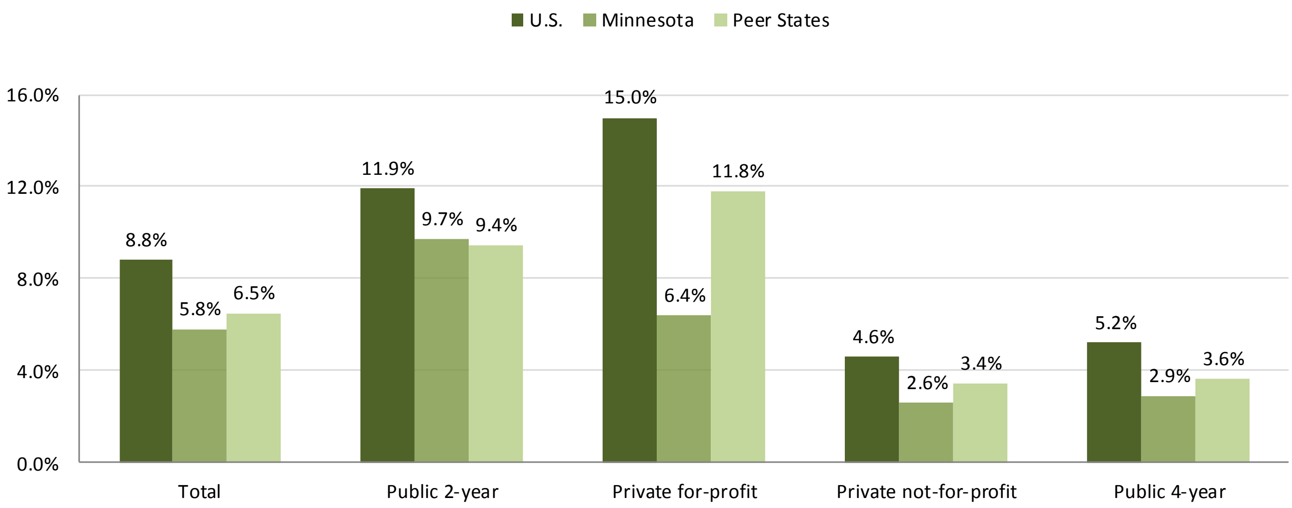
[1] The peer Midwestern states are Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

Federal two-year cohort default rates, 2009, by type of institution attended



Source: U.S. Department of Education, 2009 Cohort Default Rate Database

Borrowers who attended Minnesota public four-year universities had default rates of 2.9 percent, compared to 5.2 percent nationally and 3.6 percent in the peer states. Borrowers who attended Minnesota private nonprofit colleges and universities had default rates of 2.6 percent, compared to 4.6 percent nationally and 3.4 percent in the peer states. Minnesota borrowers who attended public community and technical colleges had a default rate of 9.7 percent compared to 11.9 percent nationally and 9.4% in the peer states. Minnesota borrowers who attended private for-profit career schools had a default rate of 6.4 percent, substantially lower than the national rate of 15 percent and the 11.8 percent rate in peer states.

Nationally borrowers who attended for-profit institutions had a higher default rate than those who attended public two-year institutions, but in Minnesota borrowers who attended for-profit institutions had a lower rate (6.4%) than those who attended public two-year institutions (9.7%).

The federal government uses the default rates as a measure of institutional performance. Postsecondary institutions with very high two-year default rates (25 percent or more) for three consecutive years may lose eligibility to have their students received federal student aid. Beginning in 2014, the federal government will use the three-year cohort default rates as the basis for institutions to retain the ability to have their students received federal student financial aid.

No Minnesota institutions had two-year default rates of 25 percent or more. However, four Minnesota institutions had three-year rates of 25 percent or more. If those four institutions were to continue to have rates of 25 percent or more for three years, they may lose eligibility for federal student aid. The institutions are two public two-year institutions (Hibbing Community College had a 25.3 percent three-year rate, Mesabi Range Community and Technical College had a 25 percent three-year rate) and two for-profit institutions (Cosmetology Careers Unlimited-Duluth had a 31.2 percent three-year rate, and Duluth Business University had a 26.7 percent three-year rate).

Research indicates students who default on their federal student loans are likely to have dropped out of their postsecondary programs or they have low earnings after leaving postsecondary education or both. Borrowers who drop out of their programs of study for occupational certificates or diplomas, associate degrees, bachelor’s degrees or graduate degrees are more likely to work in jobs that pay less than the jobs held by those with the postsecondary credentials. Borrowers with low earnings after leaving school are also more likely to struggle with loan repayment.[2]

About Default Rates

The federal government uses cohort default rates as a measure of institutional performance. Postsecondary institutions with very high two-year default rates (25 percent or more) may lose eligibility to have their students receive federal student aid. No Minnesota institutions had two-year default rates for 2009 of 25 percent or more. Four Minnesota institutions had three year default rates for 2009 of 25 percent or more. The institutions are two public two-year institutions (Hibbing Community College had a 25.3 percent three-year rate, Mesabi Range Community and Technical College had a 25 percent three-year rate) and two for-profit institutions (Cosmetology Careers Unlimited-Duluth had a 31.2 percent three-year rate, and Duluth Business University had a 26.7 percent three-year rate).

The federal two-year cohort default rate for 2009 is a snapshot in time, measuring the rate for the cohort of borrowers whose first loan repayments were scheduled to begin in federal fiscal year 2009 and who defaulted before September 30, 2010. In this time period, more than 3.7 million borrowers started repayment and more than 329,000 nationally defaulted on their loans, In Minnesota during that time period 104,000 borrowers entered repayment and 6,000 defaulted.

National Two-Year Cohort Default Rate

The national federal student loan cohort default rate for 2009 was 8.8 percent, as compared to 7.0 percent for 2008 and 6.7 percent for 2007. US Secretary of Education Arne Duncan said: ““These hard economic times have made it even more difficult for student borrowers to repay their loans.” (U.S. Department of Education press release, September 12, 2011). With unemployment high and economic activity low, borrowers were likely to have experienced unemployment, reduced work hours or reduced wages, which make default more likely.

Minnesota Two-Year Cohort Default Rate

Borrowers who attended Minnesota institutions had a cohort default rate of 5.8 percent for 2009, as compared to 3.7 percent for 2008 and 3.3 percent for 2007. The rate for Minnesota was substantially lower than the rate for most states. Among the 54 states and territories of the United States, 43 states and territories had higher default rates and 10 had lower default rates. Minnesota’s rate of 5.8 percent was also lower than the 6.5 percent rate for a group of Midwestern states - Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

Three-Year Default Rates

In 2009, Congress approved the Higher Education Opportunity Act which will require the U.S. Department of Education to begin counting borrowers who default within three years of their scheduled repayment. Congress adopted the three-year rate in response to concerns that some institutions and lenders were avoiding declaring a borrower in default until just after the two-year measuring period for defaults had passed. (*Higher Education Chronicle*, December 14, 2009)

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[2] National Center for Education Statistics and Mark Kantrowitz and Finaid.org

The requirement for three-year rates begins until federal Fiscal Year 2012 and sanctions for institutions with rates over 25% will begin in 2014, once three years of the official three-year rates have been published. The three-year rates are for the cohort who were due to begin repayment in federal fiscal year 2009 and defaulted before September 2011.

The three-year rates for the 2009 cohort are higher overall.

The U.S. Department of Education is in the process of switching from a two-year cohort default rate to a three-year rate as required by the federal Higher Education Opportunity Act of 2008. For rates before 2009, two-year rates were used, on the theory that most students who default would do so in the first months after repayment was scheduled to begin. In 2008, Congress passed the requirement that three-year rates be published because "there are more borrowers who default beyond the two-year window, and the three-year rate captures a more accurate picture of how many borrowers ultimately default" on their loans. (U.S. Department of Education, 9/28/2012) Currently, institutions with rates of 25 percent or more may lose their eligibility to participate in federal student aid programs based on their two-year rates. Beginning in 2014, institutions will be subject to those sanctions based on the three-year rates.

Default Rates for Institutions in Minnesota

The U.S. Departments of Education's 2009 two-year default rates included 98 institutions in Minnesota. Default rates changed by more than half of one percent or stayed the same as follows:

- 76 Minnesota institutions had 2009 default rates that were higher than their default rates in 2008.
- 5 Minnesota institutions had 2009 default rates that were lower than their default rates in 208.
- 15 Minnesota institutions had 2009 default rates that were the same as their rates in 2008.
- 5 Minnesota institutions had 2009 default rates of zero – no borrowers defaulted.

Minnesota Default Rates are Low, but Borrowing Rates Are High

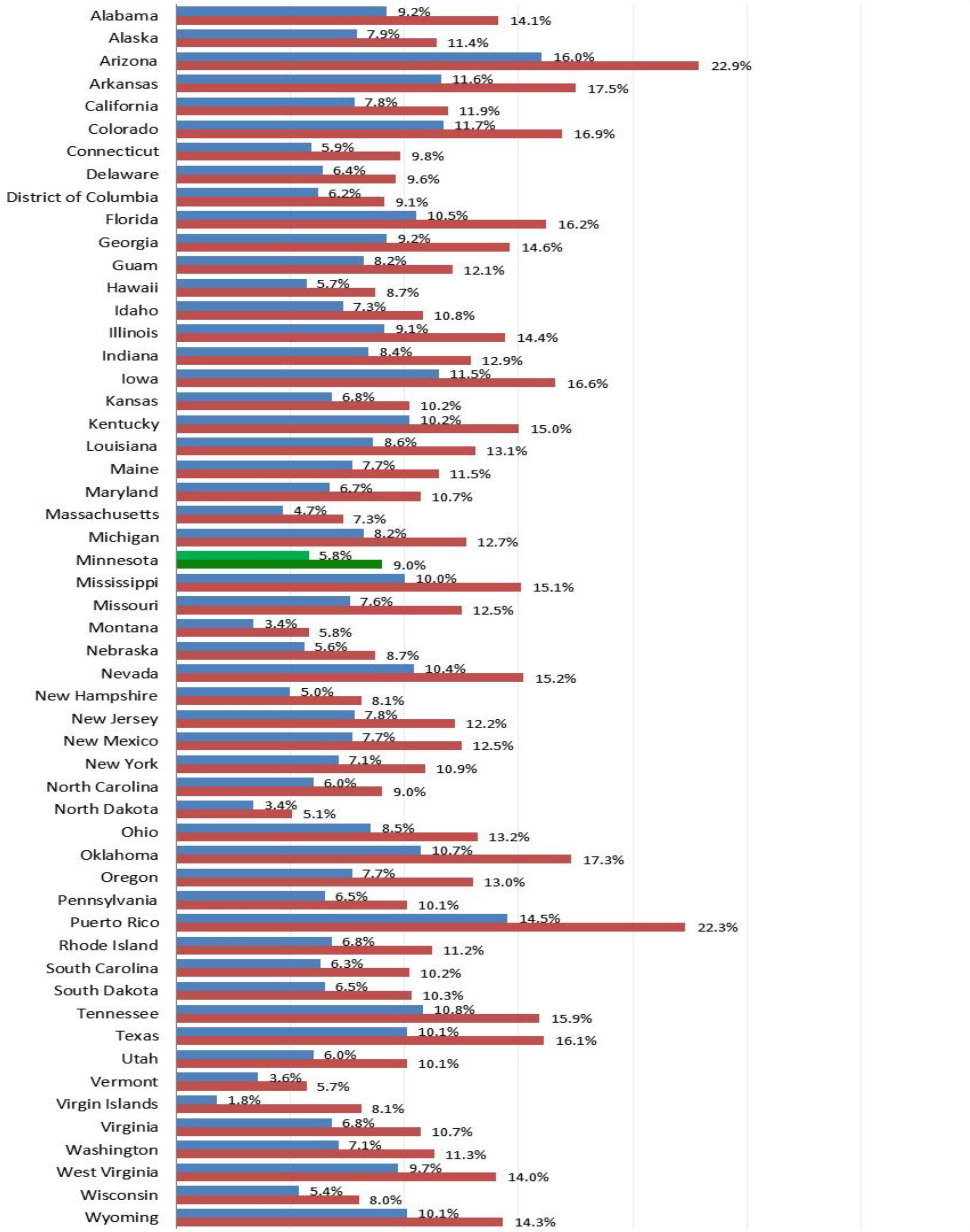
While default rates for Minnesota borrowers of student loans are low relative to the nation and to most other states, Minnesota undergraduates are more likely to borrow than students nationally Seventy-five percent of graduating seniors who attended public four-year universities in Minnesota had student loans in 2009, and the average amount borrowed by those with loans was $26,400. This compared to 56 percent with average debt of $20,400 nationally. (Source: Project on Student Debt)

Seventy-three percent of those graduating from private not-for-profit four-year institutions in Minnesota had student loans that year, and the average amount borrowed by those with loans was $31,500. This compared to 65 percent with average debt of $26,700 nationally.

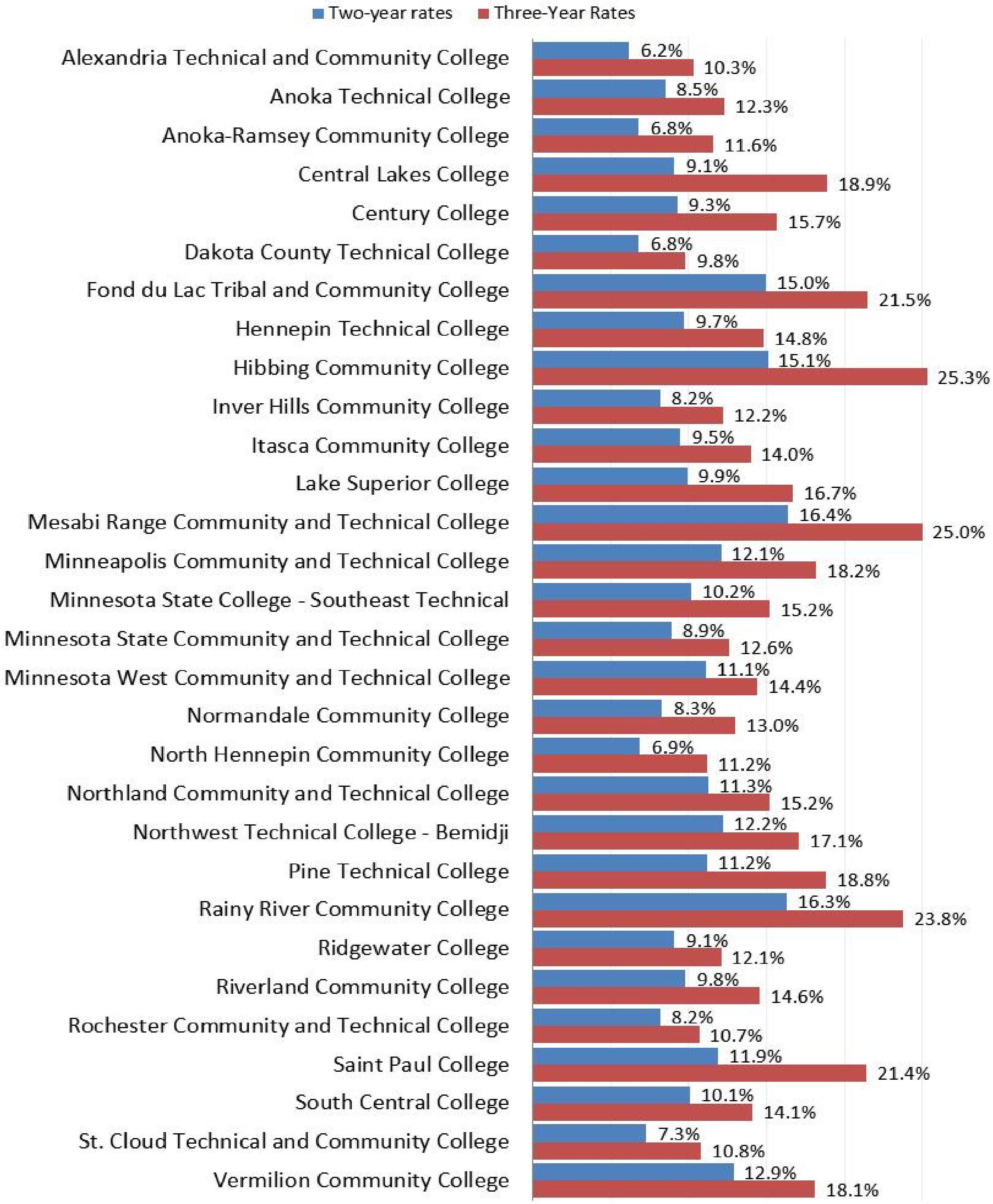
Source of Data

The source of data for the federal two- and three-year cohort default rates is the U.S. Department of Education. The data is available online at http://www2.ed.gov/offices/OSFAP/defaultmanagement/index.html. The source of data for the percentage of undergraduates with student loans and average cumulative amount borrowed is the Project on Student Debt http://projectonstudentdebt.org/.

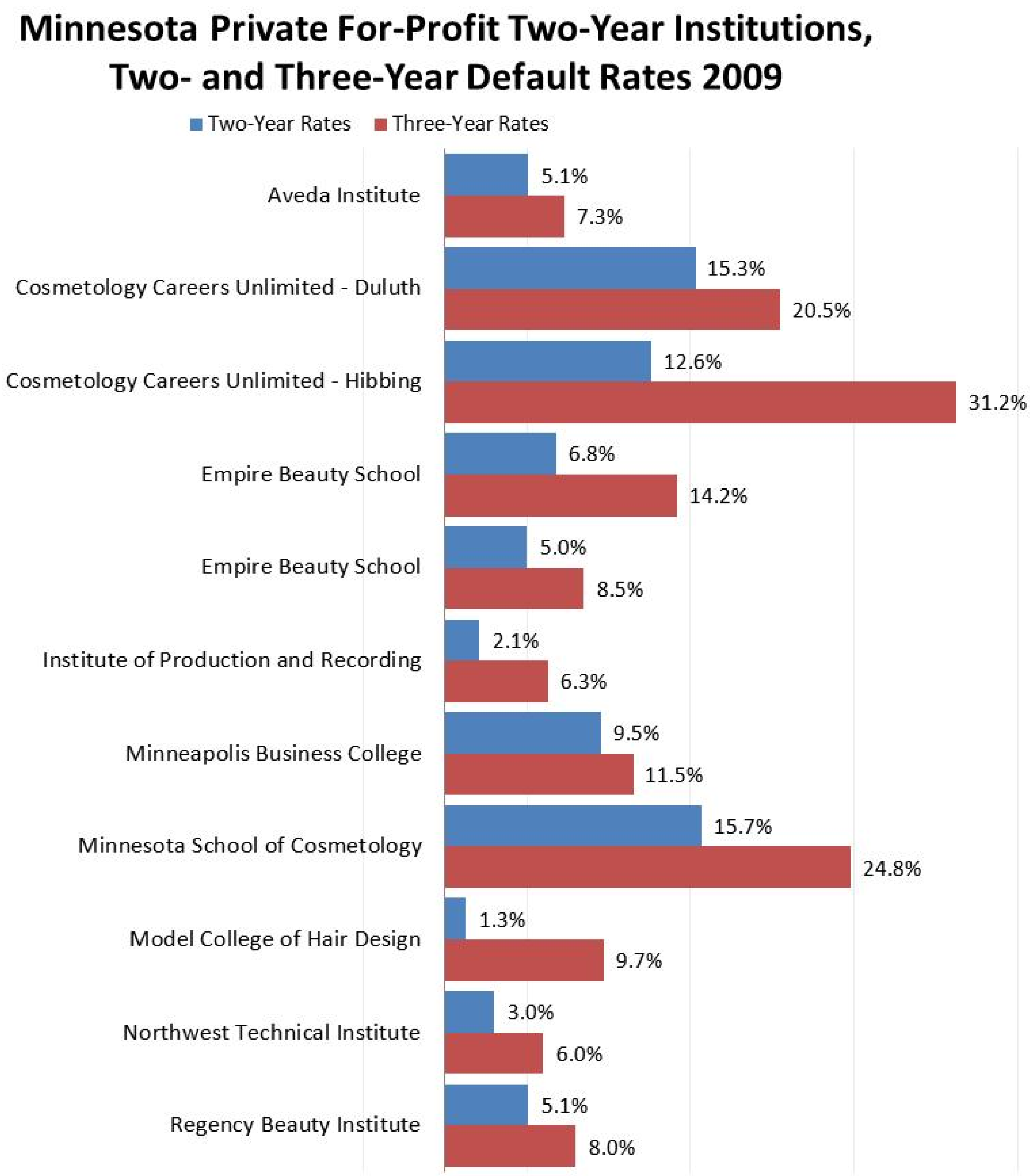
U.S. States and Territories, Two- and Three-Year Default Rates 2009



Minnesota Public Community and Technical Colleges, Two- and Three-Year Default Rates 2009



Source: Federal Student Aid Default Rate Database



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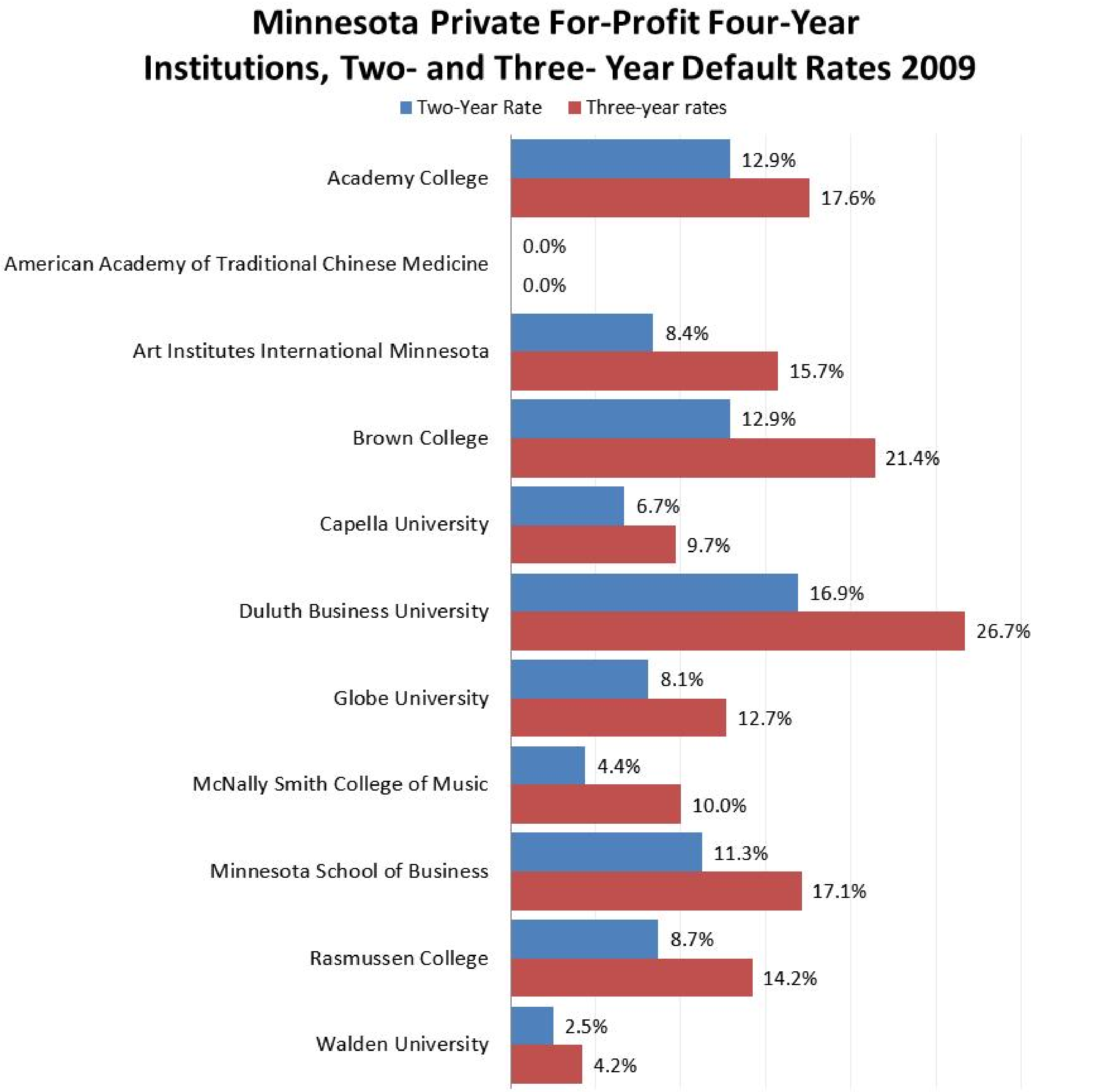
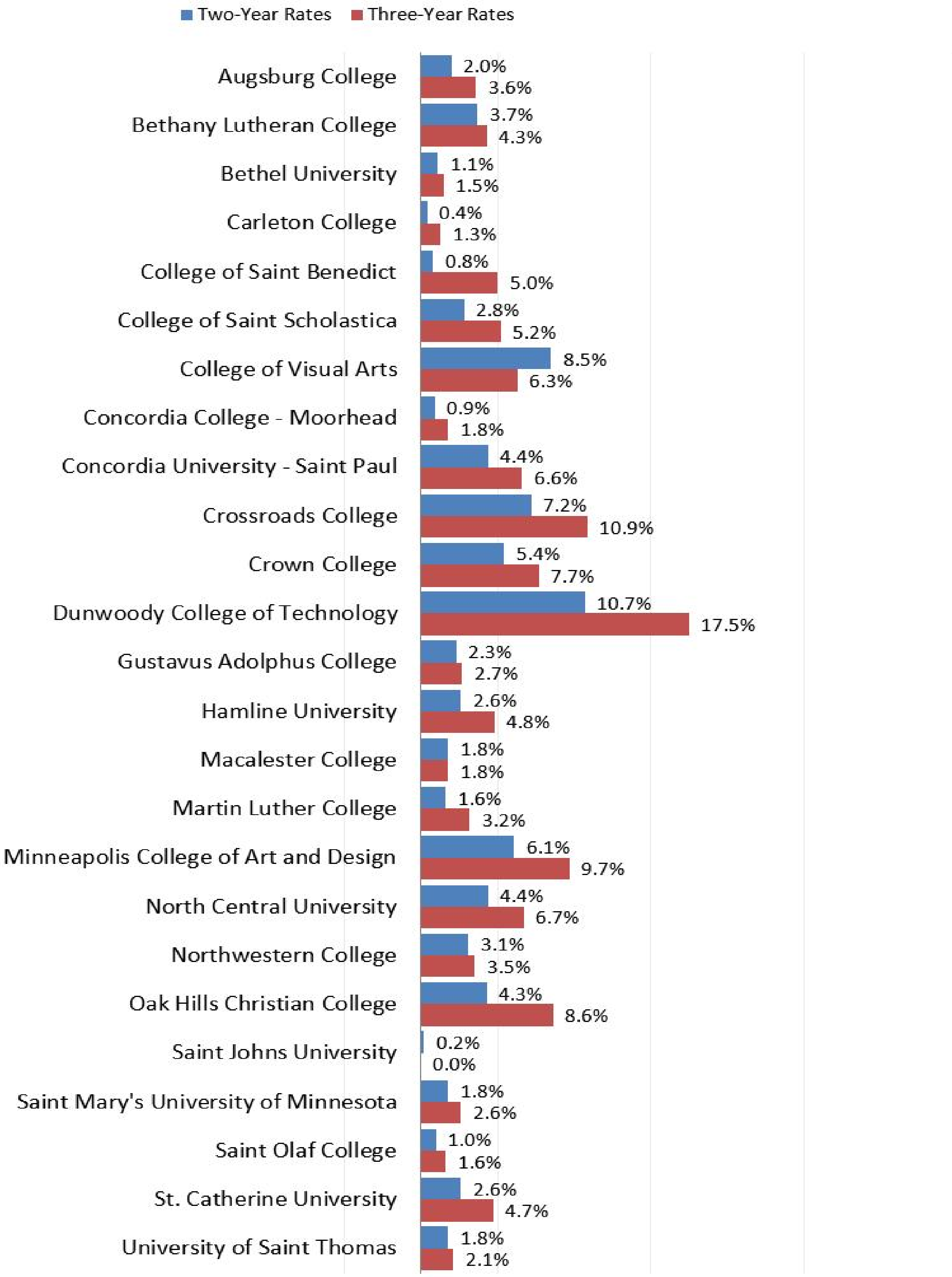
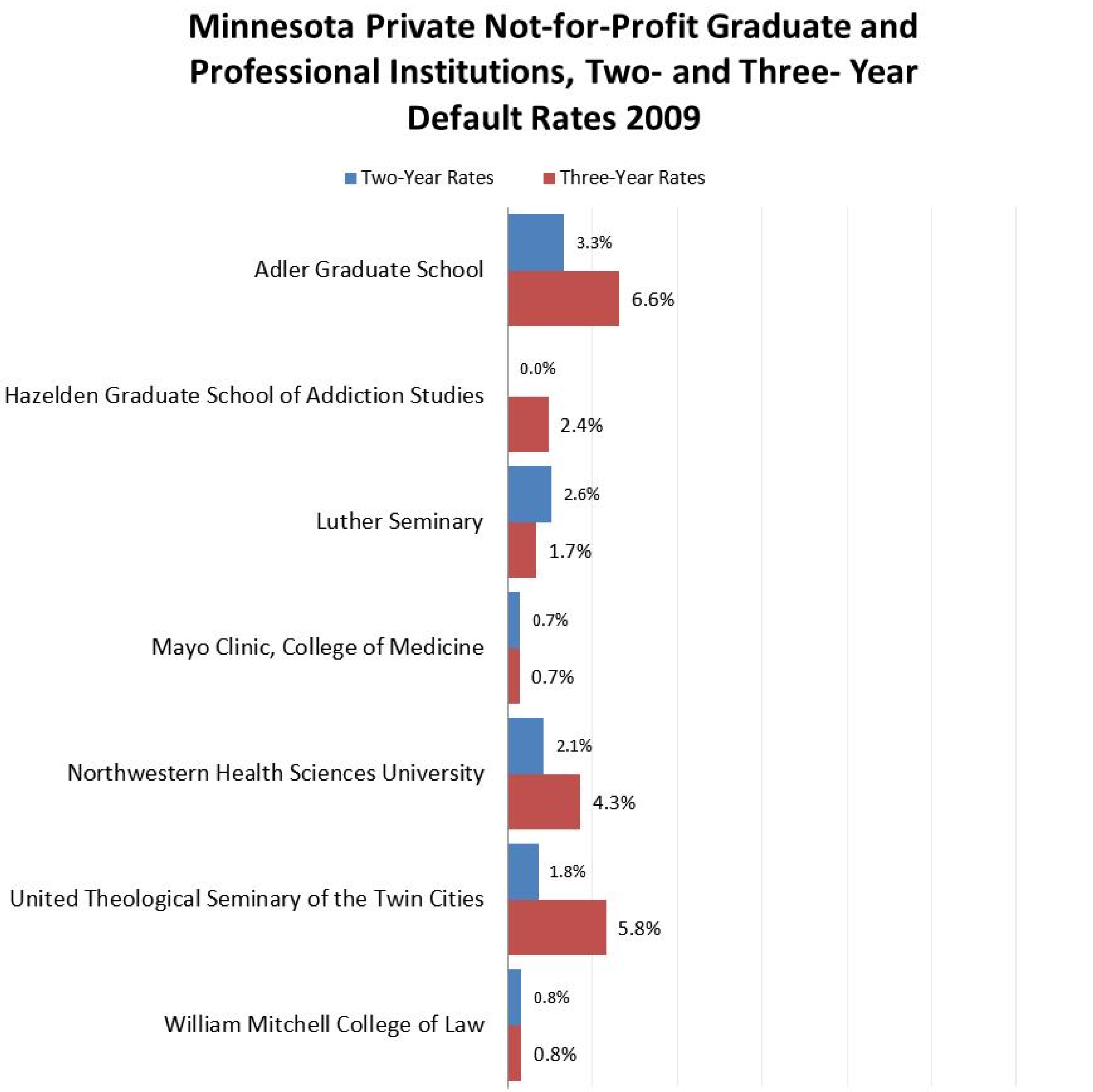


Source: Federal Student Aid Default Rate Database

Minnesota Private Nonprofit Colleges and Universities, Two- and Three-Year Default Rates 2009





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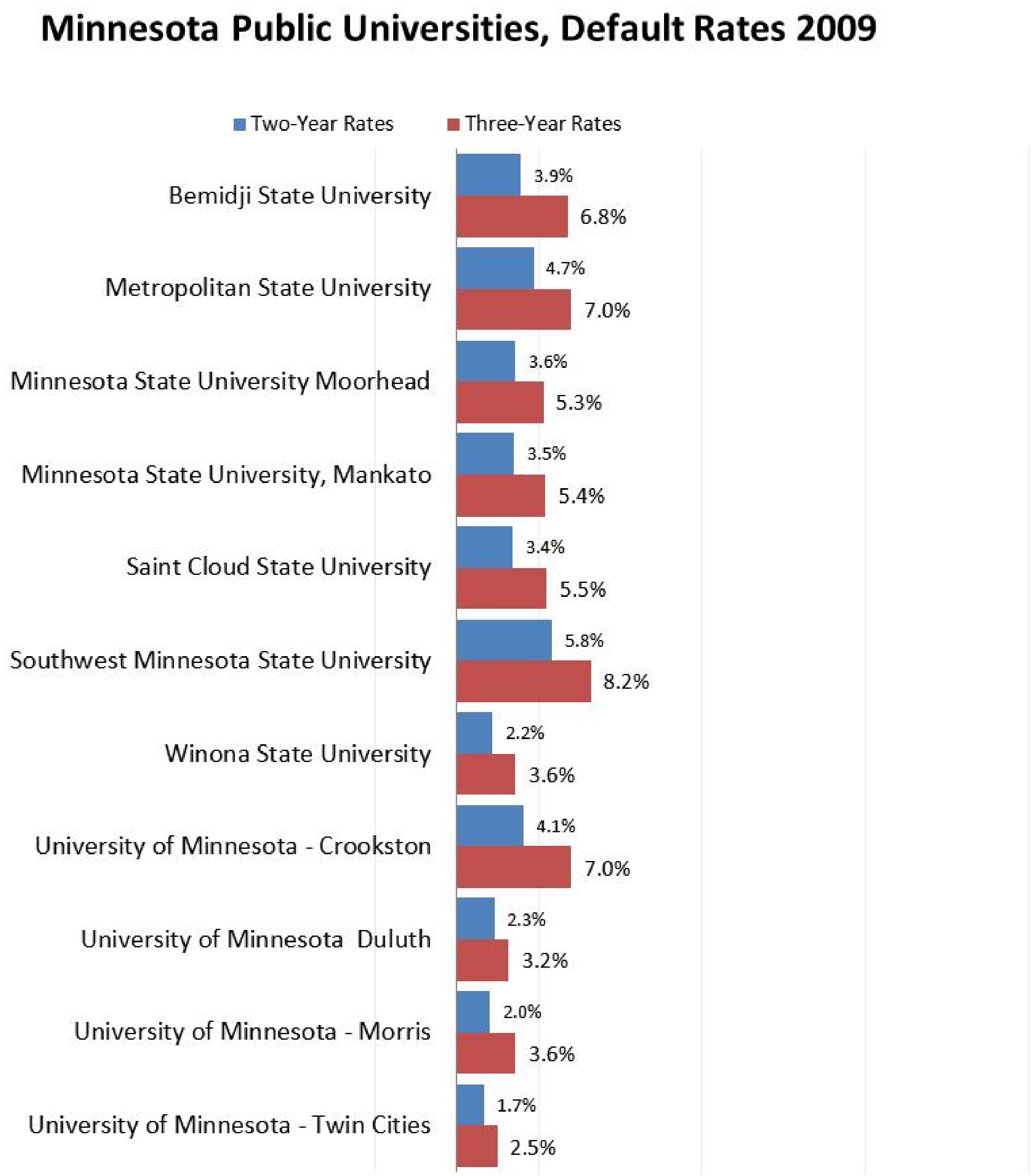

Source: Federal Student Aid Default Rate Database