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Student Loan Default Rates in Minnesota, 2011 Two-Year Rates and 2010 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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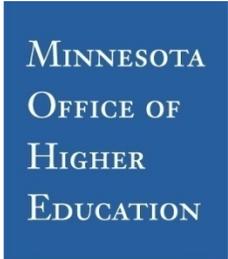
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Introduction

A key measure of the financial stability of an institution's graduates is that institution's cohort default rate. Default rates represent the percentage of students that enter into default on their federal student loans within two or three years of entering repayment. The 2011 two-year default rates (represents students due to begin repaying in fiscal year 2011 and defaulted that year or the next year) increased from the previous year in Minnesota, mirroring a nation-wide trend of higher levels of default. Similarly, the 2010 three-year default rates (represents students due to begin repaying in fiscal year 2010 and defaulted that year or the next two years) increased both in Minnesota and nationwide.

The U.S. Department of Education has been publishing two-year default rates since 1987 for postsecondary institutions that participate in the federal Stafford student loan programs. Beginning with rates for 2009, the Department also began publishing three-year default rates. . The federal Higher Education Opportunity Act of 2008 requires the Department to phase-in the three-year rate. 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 default¹" on their loans.

Currently, institutions with two-year default rates of 25 percent or more for three consecutive years will lose their eligibility to participate in the federal Pell Grant program and federal loan programs. Institutions with three-year default rates of 30 percent or more for three years will also lose eligibility for these programs. In addition, an institution with either a two-year or three-year default rate above 40 percent in any single year will lose eligibility for these programs. No Minnesota institutions have had default rates above these thresholds for three consecutive years and no Minnesota institution has a default rate above 40 percent.

Two-year rates

The federal two-year default rate for students attending institutions in Minnesota was 8.6 percent for 2011, compared to 10.0 percent nationally and 10.1 percent for the peer Midwestern states.² Compared to the 54 U.S. states and territories, Minnesota was in the middle of the rankings – 20 states had lower default rates and 33 states and territories had higher default rates. The federal two-year cohort default rate for 2011 counts the borrowers who were due to begin repayment in federal fiscal year 2011 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 11.0 percent for 2009, compared to 14.7 percent nationally and 14.7 percent for the peer Midwestern states. Compared to the 54 U.S. states and territories, 9 states had lower default rates and 44 states had higher default rates. The three-year rate for 2010 is based on the borrowers who were scheduled to begin repayment in federal fiscal year 2010 who defaulted in that year or the next two federal fiscal years.

¹ United States Department of Education. (September, 28,2012) *First Official Three-year Student Loan Default Rates Published*. Retrieved from: <http://www.ed.gov/news/press-releases/first-official-three-year-student-loan-default-rates-published>

² The peer Midwestern states are Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

Default Rate Trends

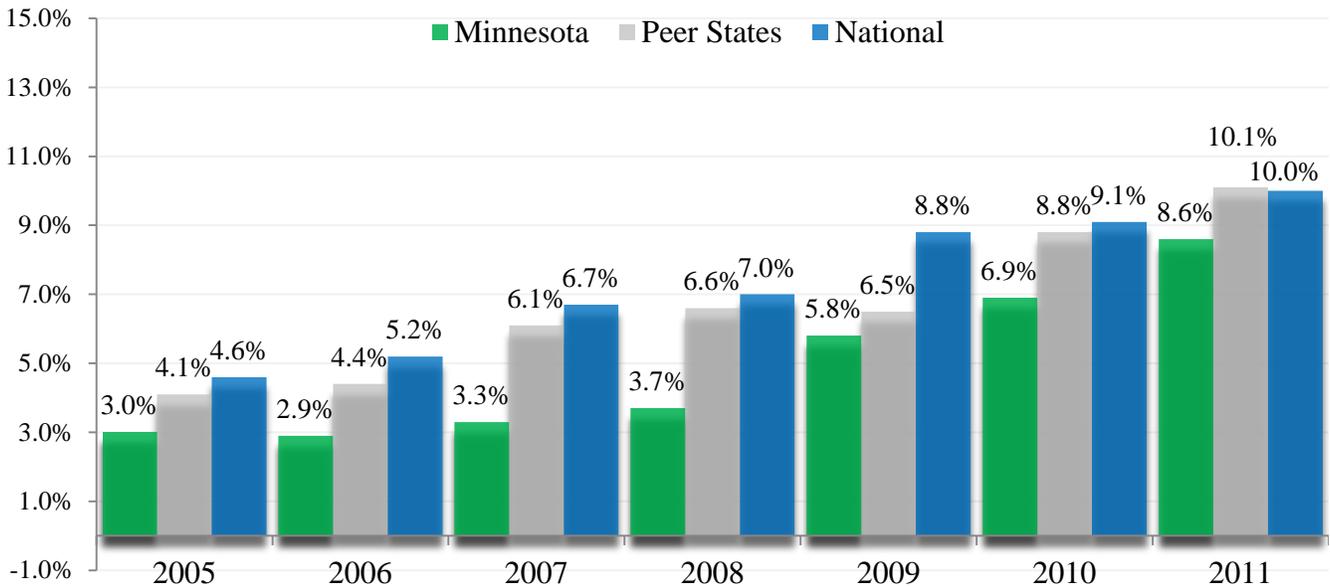
The federal government uses the default rates as a measure of institutional performance. Postsecondary institutions with two-year default rates of 25 percent or more for three consecutive years may lose eligibility to have their students receive federal student aid. For three-year rates, the threshold is 30 percent for three or more consecutive years for termination from federal state aid programs.

The federal two-year cohort default rate for 2011 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 2011 and who defaulted before September 30, 2012. In this time period, more than 4.7 million borrowers started repayment and more than 475,000 nationally defaulted on their loans, In Minnesota during that time period 145,974 borrowers entered repayment and 12,605 borrowers defaulted.

The federal three-year cohort default rate for 2010 measures the rate for the cohort of borrowers who were scheduled to begin repayment in federal fiscal year 2010 and who defaulted before September 30, 2012. Nationally, more than four million borrowers started repayment and more than 600,000 defaulted within three years. In Minnesota, 118,658 borrowers entered repayment and 13,605 borrowers defaulted.

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.³

Figure One: Minnesota, National and Peer State Two-Year Federal Cohort Student Loan Default Rates 2005-2011



Source: U.S. Department of Education, Federal Student Aid Two-Year Cohort Default Rates

³ National Center for Education Statistics and Mark Kantrowitz, Finaid.org

National Two-Year Cohort Default Rate

The national federal student loan cohort two-year default rate for 2011 was 10.0 percent, as compared to 9.1 percent for 2010 and 8.8 percent for 2009 (Figure One). The collection period for these rates was in a period of higher unemployment; Julie Lundgren found that unemployment rates had a statistically significant relationship with cohort default rates.⁴

Minnesota Two-Year Cohort Default Rate

Borrowers who attended Minnesota institutions had a two-year cohort default rate of 8.6 percent for 2011, as compared to 6.9 percent for 2010 and 5.8 percent for 2009. . Starting with the state with the lowest default rate, Minnesota's ranking for two-year default rates is 21st among the 54 states and territories (includes the District of Columbia, Guam, Puerto Rico, and the Virgin Islands). Minnesota's rate of 8.6 percent was also lower than the 10.1 percent rate for the peer states.⁵

National Three-Year Cohort Default Rate

The national federal student loan cohort three-year default rate for 2010 was 14.7 percent, as compared to 13.1 percent for 2009. Three-year default rates are usually higher than two-year default rates because there is an additional year in which students may experience problems repaying their loans.

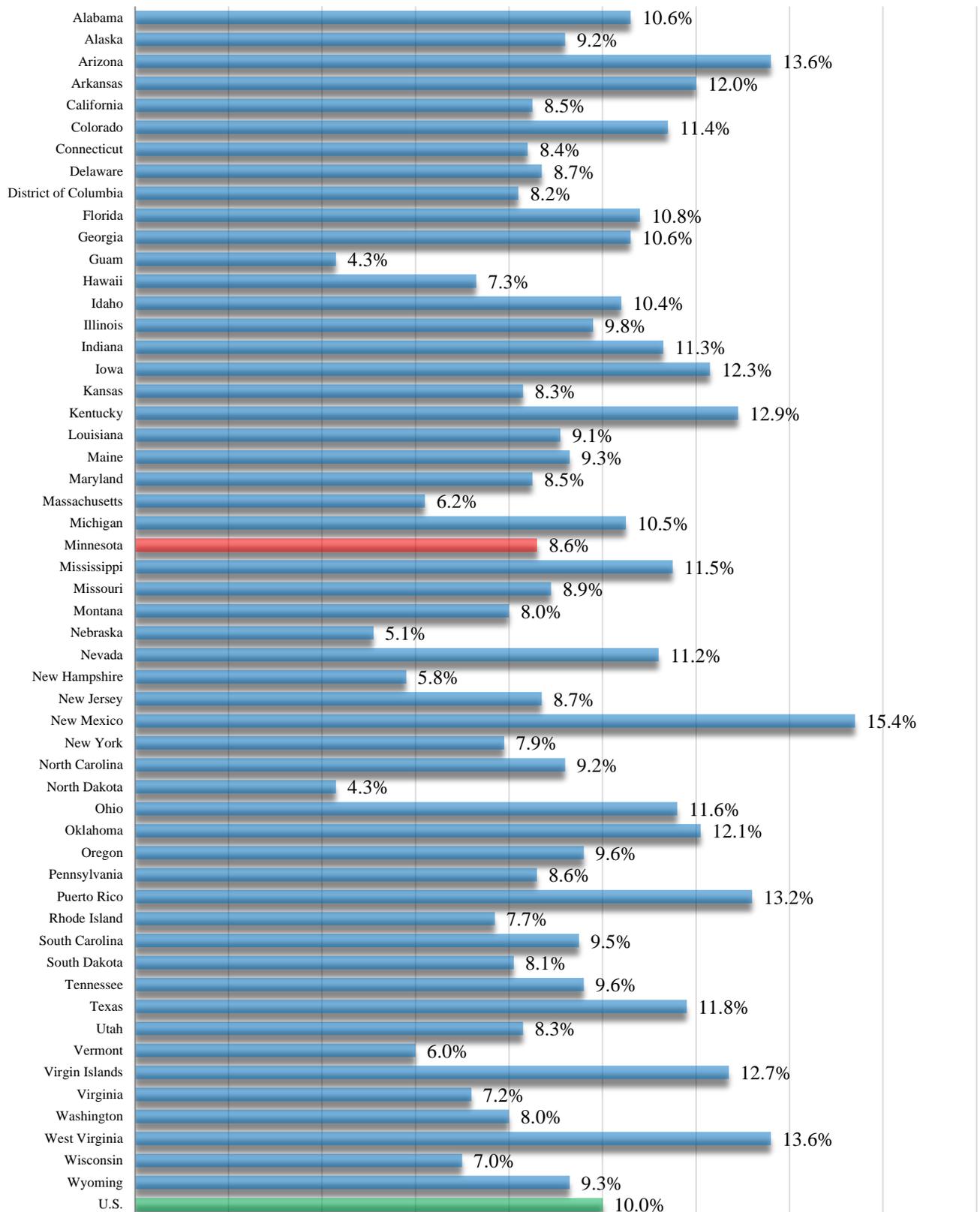
Minnesota Three-Year Cohort Default Rate

Borrowers who attended Minnesota institutions had a three-year cohort default rate of 11.0 percent for 2010, as compared to 9.0 percent for 2009. Minnesota ranks better than other states for its three-year rates than it does for its two-year default rates. Starting with the state with the lowest default rate, Minnesota ranks 10th among the 54 states and territories for three-year default rates. Minnesota's rate of 11.0 percent was also lower than the 14.7 percent rate for the peer states.

⁴ Lundgren, J. M. (2013). *The Effect of Changing Unemployment Rates on Student Loan Cohort Default Rates* (Doctoral dissertation, Georgetown University).

⁵ The peer Midwestern states are Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

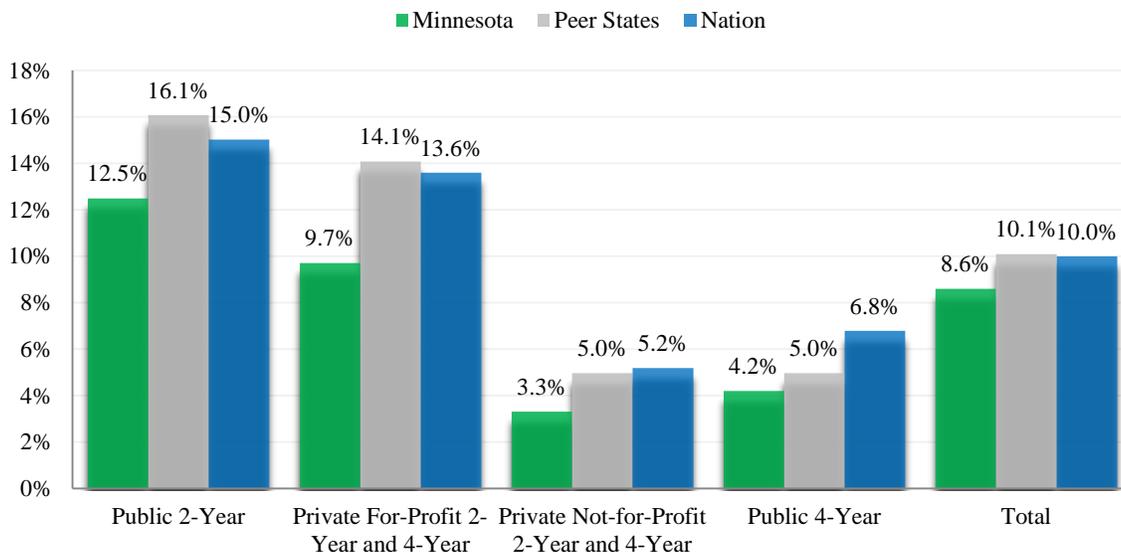
Figure Two: 2011 Federal Student Loan Two-Year Default Rates, by State



Default Rates by Institution Sector

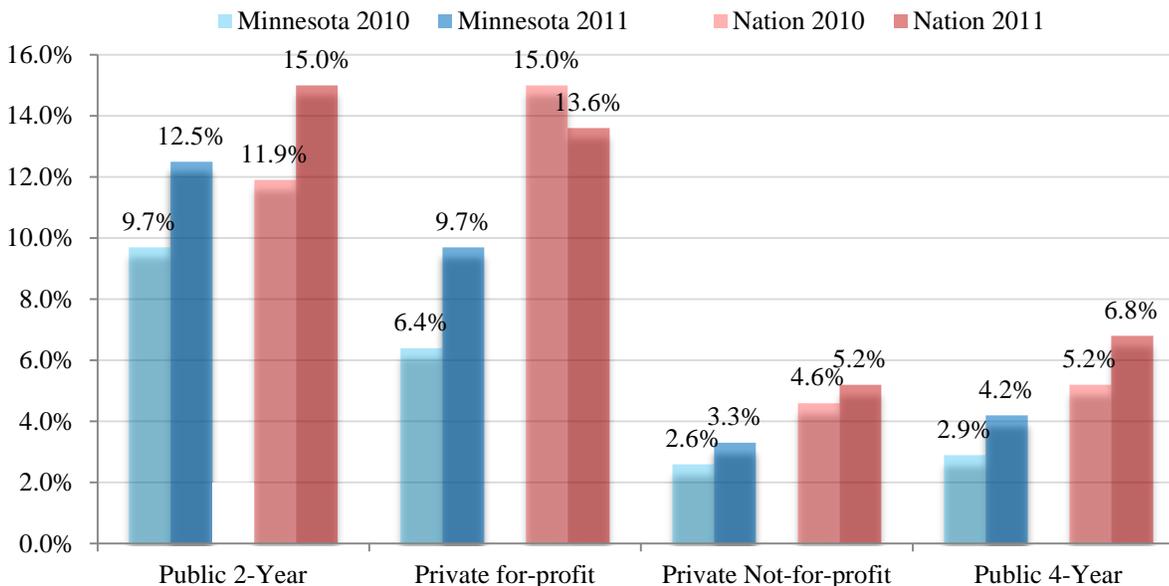
Two-Year Rates

Figure Three: Federal Two-Year Cohort Default Rates, 2011, by Type of Institution Attended



Across all institution sectors, Minnesota students had lower cohort default rates than the peer Midwestern states⁶ and the national average.

Figure Four: Federal Two-Year Cohort Default Rates, 2010 and 2011, by Type of Institution Attended



⁶ The peer Midwestern states are Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin

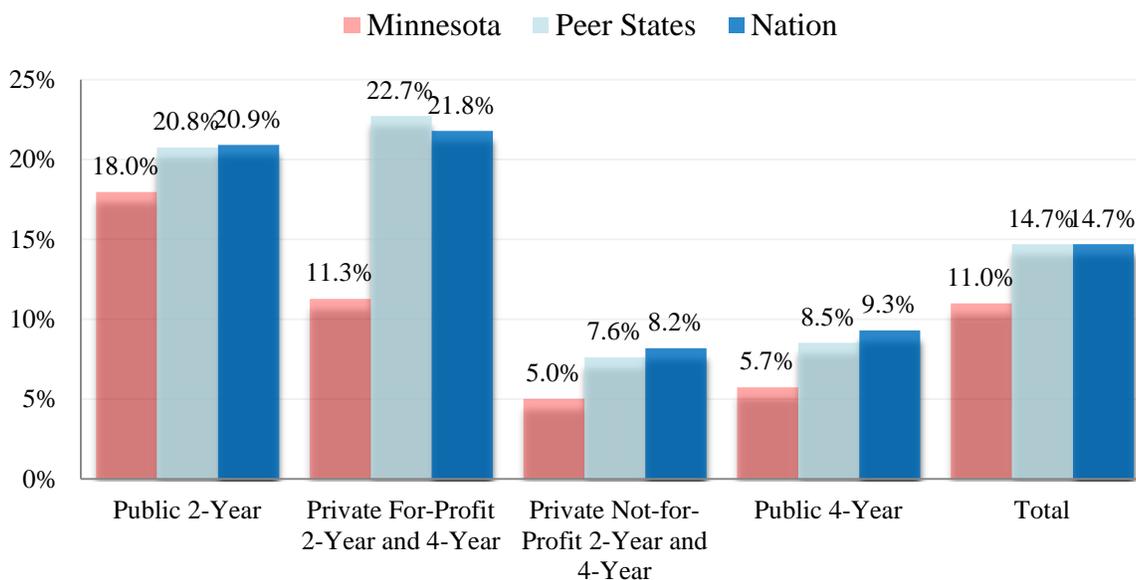
Each Minnesota sector's 2011 two-year default rate was higher when compared with its 2010 two-year default rate. Public two-year institutions in Minnesota continue to have the highest default rate compared with other sectors in Minnesota. Nationally, two-year default rates were higher across all sectors from 2010 to 2011, except for the private for-profit sector. Nationally, the private for-profit sector has been subject to increased scrutiny from the federal government; perhaps this heightened scrutiny has resulted in changes at for-profit institutions nation-wide that are aimed at lowering their cohort default rates. Historically, the for-profit sector has had the highest default rates when compared with other sectors; however, with the release of 2011 rates, the public two-year sector now has the highest two-year default rate nation-wide. Minnesota for-profit institutions continue to have lower default rates when compared with Minnesota public two-year institutions.

The federal government uses the default rates as a measure of institutional performance. Postsecondary institutions with two-year default rates of 25 percent or more for three consecutive years may lose eligibility to have their students receive federal student aid.

No Minnesota institutions have two-year default rates of 25 percent or more, meaning that Minnesota institutions are not currently at risk of losing eligibility to participate in federal student aid programs due to high default rates.

Three-year Rates

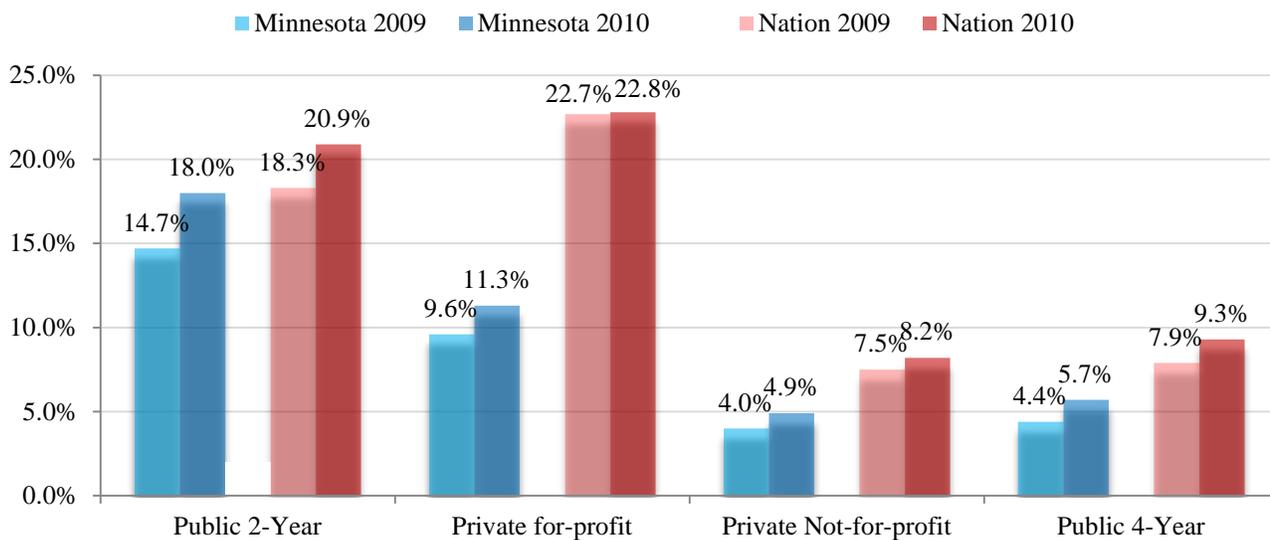
Figure Five: Federal Three-Year Cohort Default Rates, 2010, by Type of Institution Attended



Three-year default rates are usually higher than two-year default rates because there is an additional year in which students may experience problems repaying their loans. Trends for three-year default rates across institution types are similar to those trends for two-year rates. Minnesota institutions across all sectors have default rates lower than the peer states⁷ and the nation.

⁷ The peer Midwestern states are Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

Figure Six: Federal Three-year cohort default rates, 2010 and 2011, by Type of Institution Attended



Similar to the pattern for two-year default rates, each Minnesota sector’s 2010 three-year default rate was higher when compared with its 2009 three-year default rate. Public two-year institutions in Minnesota have the highest three-year default rates when compared with other sectors. However, nation-wide, for-profit institutions have higher three-year default rates when compared with public two-year institutions nationally.

The federal government uses the default rates as a measure of institutional performance. Postsecondary institutions with three-year default rates of 30 percent or more for three consecutive years may lose eligibility to have their students receive federal student aid.

Mesabi Range Community and Technical College has a 2010 Three-year default rate of 30.2 percent. If Mesabi Range Community and Technical College maintained this level of default for two more years, it would lose eligibility to participate in federal student aid programs such as the Pell Grant program and the Stafford Loan program. Because of this high default rate, Mesabi Range Community and Technical College must establish a default prevention task force that prepares a plan to identify the factors causing cohort default rate to exceed 30 percent and submit this plan to the United States Department of Education for review. All other institutions in Minnesota had three-year default rates below 30 percent in both the 2009 and 2010 collection periods.

Default Rates for Institutions in Minnesota

Two-Year Rates

The U.S. Department of Education's 2011 two-year default rates included 99 institutions in Minnesota. Default rates changed by more than half of one percent or stayed the same as follows:

- 40 Minnesota institutions (40%) had 2011 default rates that were higher than their default rates in 2010.
- 28 Minnesota institutions (28%) had 2011 default rates that were lower than their default rates in 2010.
- 26 Minnesota institutions (26%) had 2011 default rates that were the same as their rates in 2010.
- 5 Minnesota institutions (5%) had 2011 default rates of zero – no borrowers defaulted.

Three-Year Rates

The U.S. Department of Education's 2010 three-year default rates included 100 institutions in Minnesota. Default rates changed by more than half of one percent or stayed the same as follows:

- 66 Minnesota institutions (66%) had 2010 default rates that were higher than their default rates in 2009
- 23 Minnesota institutions (23%) had 2010 default rates that were lower than their default rates in 2009.
- 7 Minnesota institutions (7%) had 2010 default rates that were the same as their rates in 2009.
- 4 Minnesota institutions (4%) had 2010 default rates of zero – no borrowers defaulted.

Minnesota Default Rates are Below-Average, 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-one percent of graduating seniors in Minnesota had student loans in 2011 and the average amount borrowed by those with loans was \$29,800. Minnesota has the third highest average debt in the nation.⁸

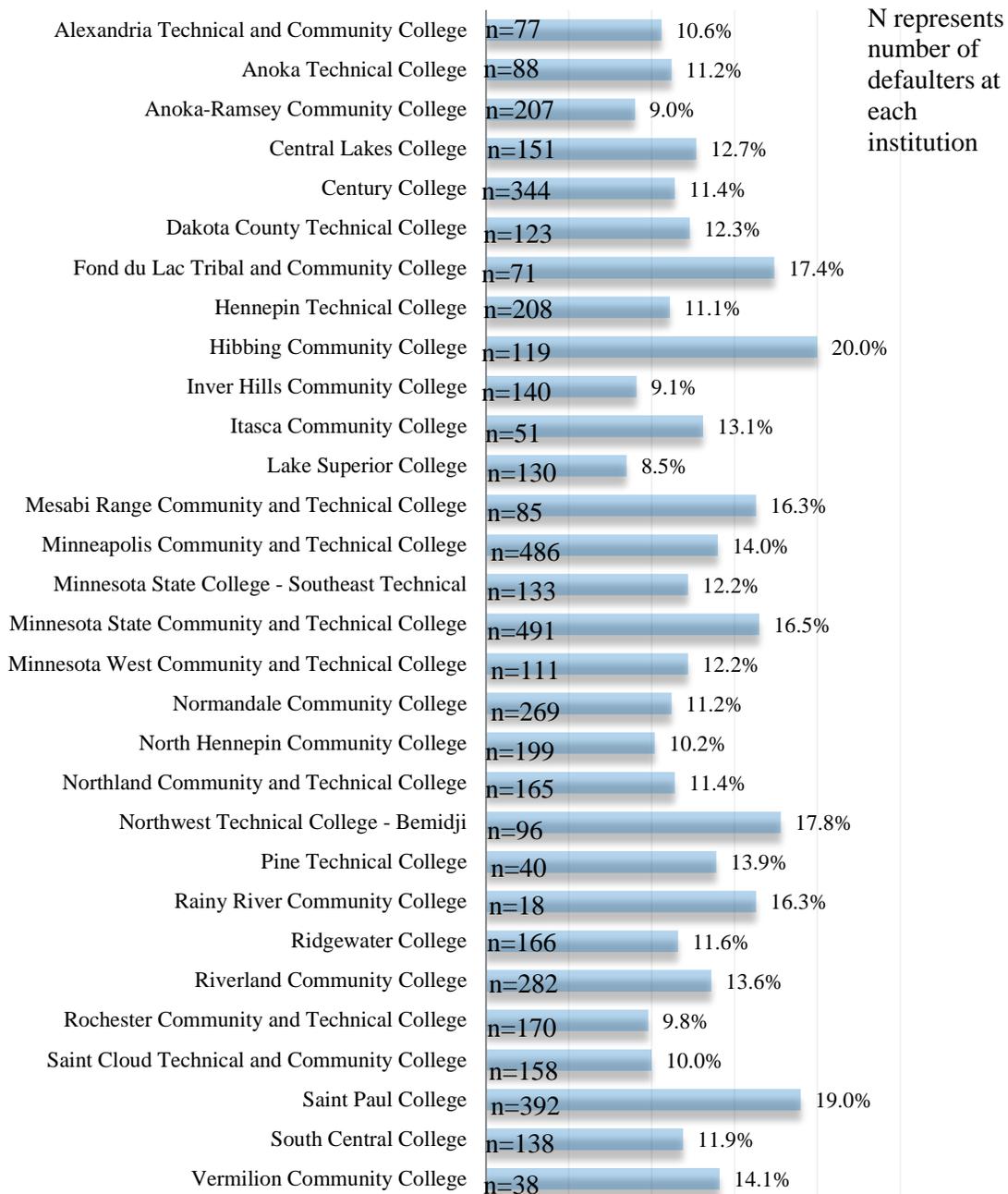
Source of Data

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/>.

⁸ Source: Project on Student Debt. Available at: <http://projectonstudentdebt.org/files/pub/classof2011.pdf>

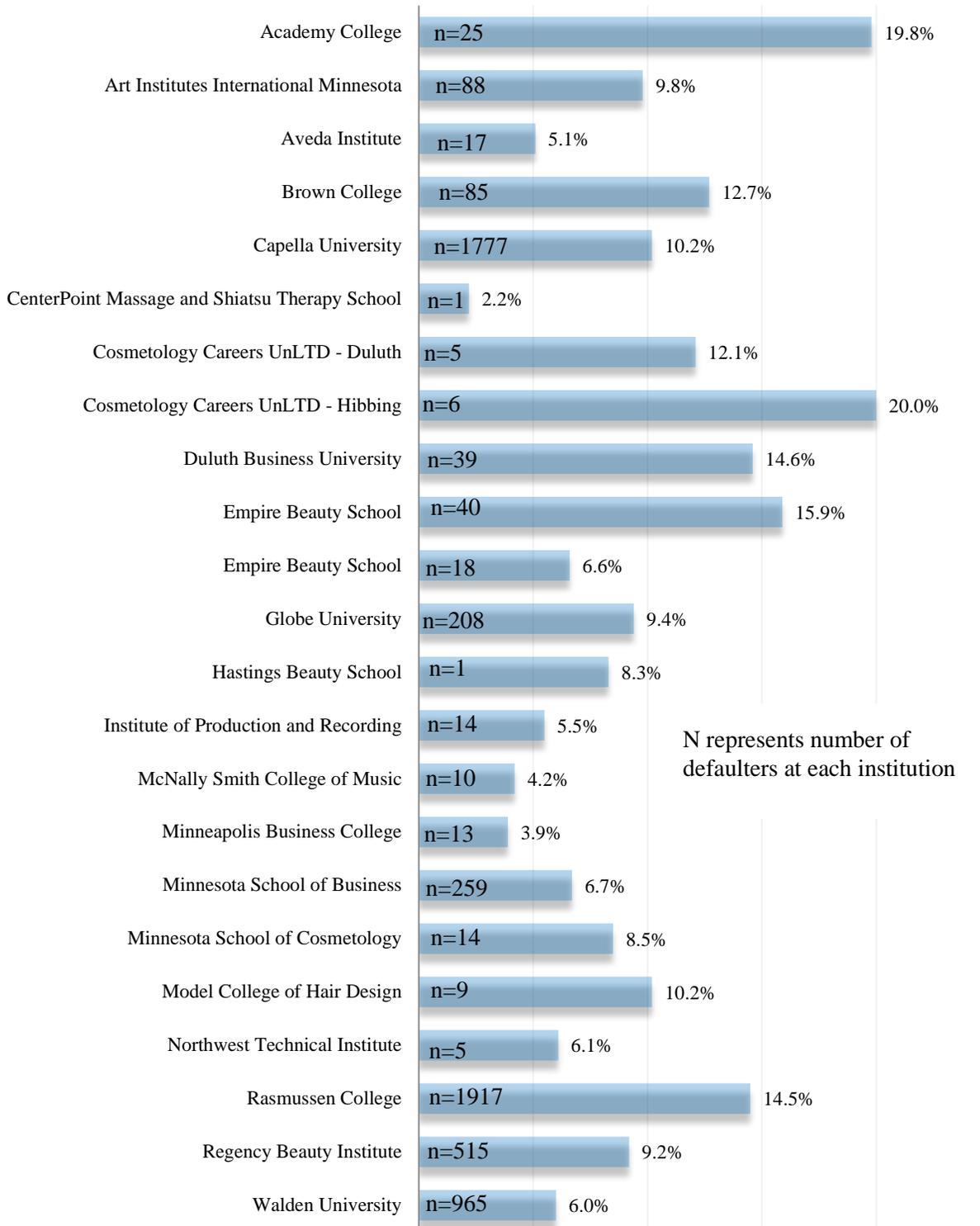
Appendix A: 2011 Two-Year Default Rates by Institution

Minnesota Public Community and Technical Colleges, Two-Year Default Rates, 2011



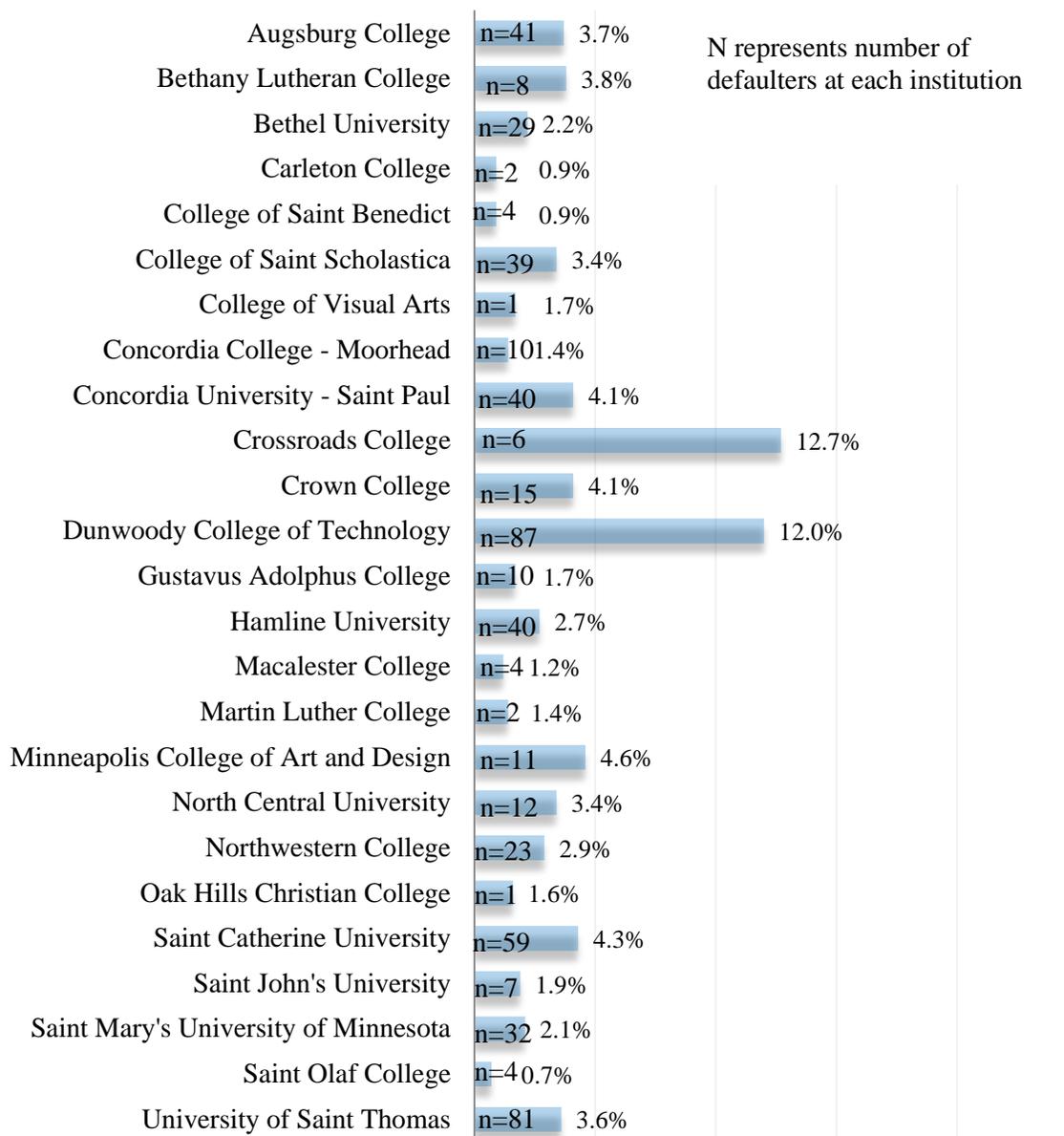
Source: U.S. Department of Education , Federal Student Aid Two-Year Cohort Default Rates, 2011

Minnesota Private For-Profit Postsecondary Institutions, Two-Year Default Rates, 2011



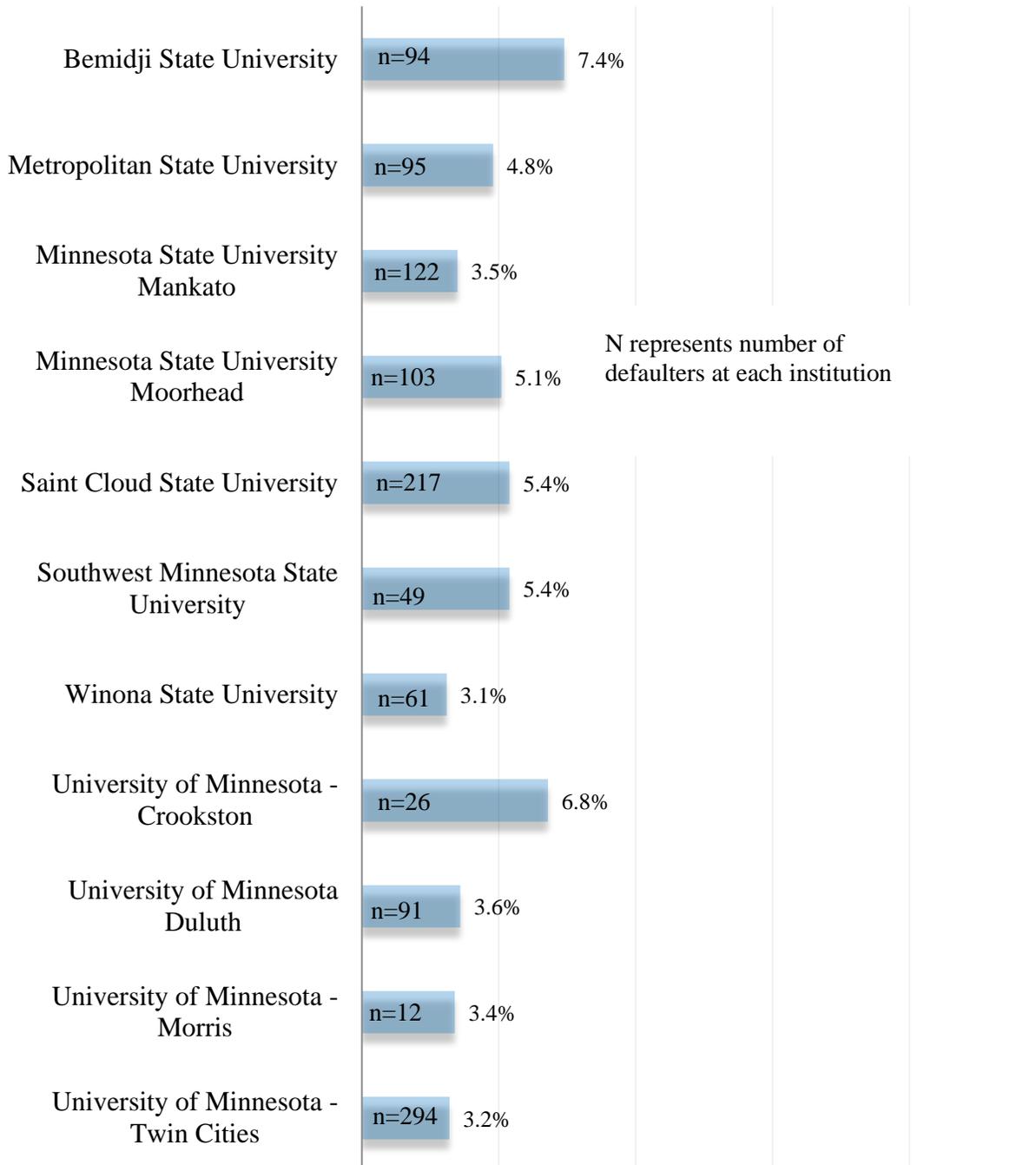
Source: U.S. Department of Education , Federal Student Aid Two-Year Cohort Default Rates, 2011

Minnesota Private Nonprofit Postsecondary Institutions, Two-Year Default Rates, 2011



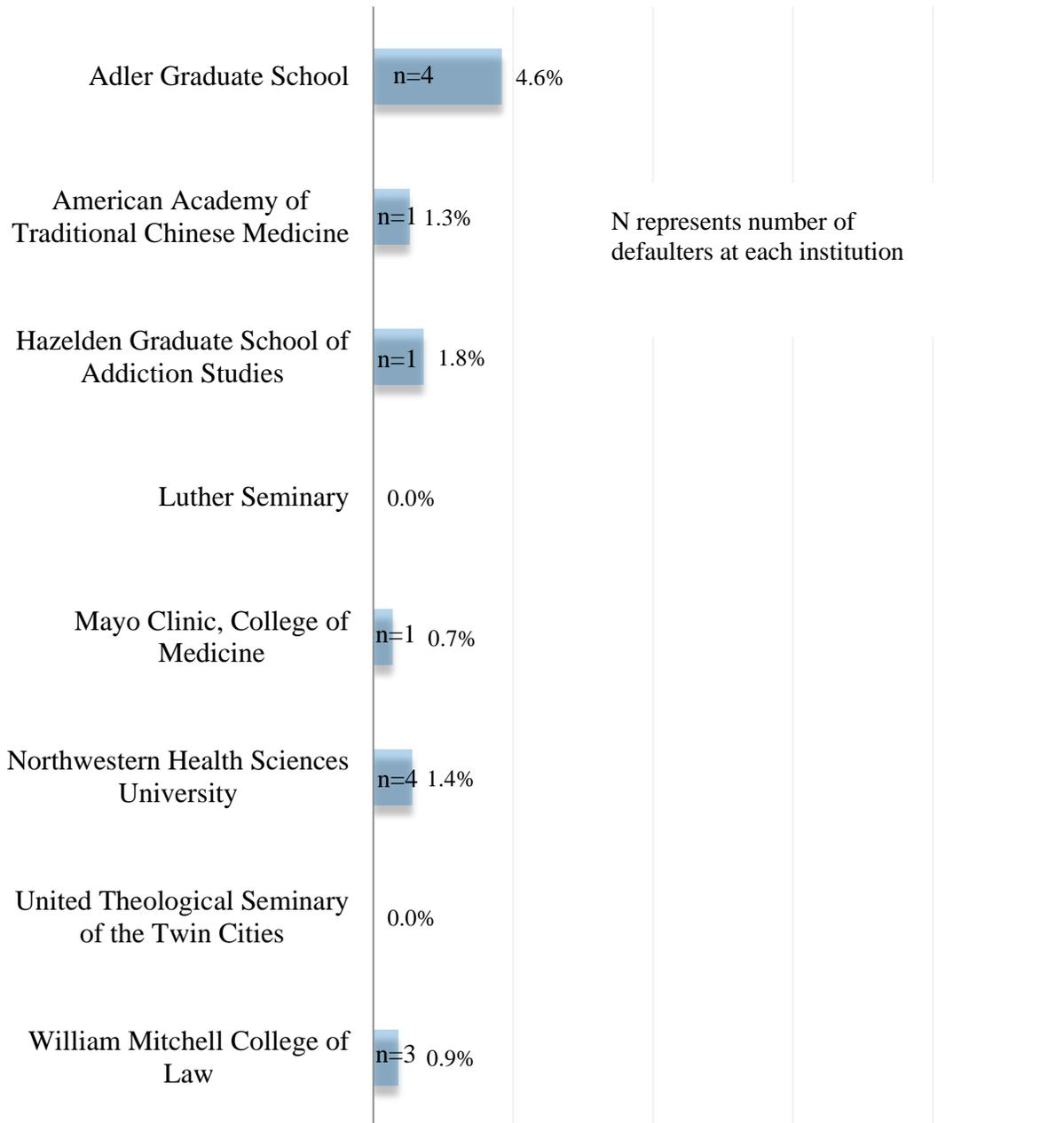
Source: U.S. Department of Education, Federal Student Aid Two-Year Cohort Default Rates, 2011

Minnesota Public Four-Year Universities, Two-Year Default Rates, 2011



Source: U.S. Department of Education , Federal Student Aid Two-Year Cohort Default Rates, 2011

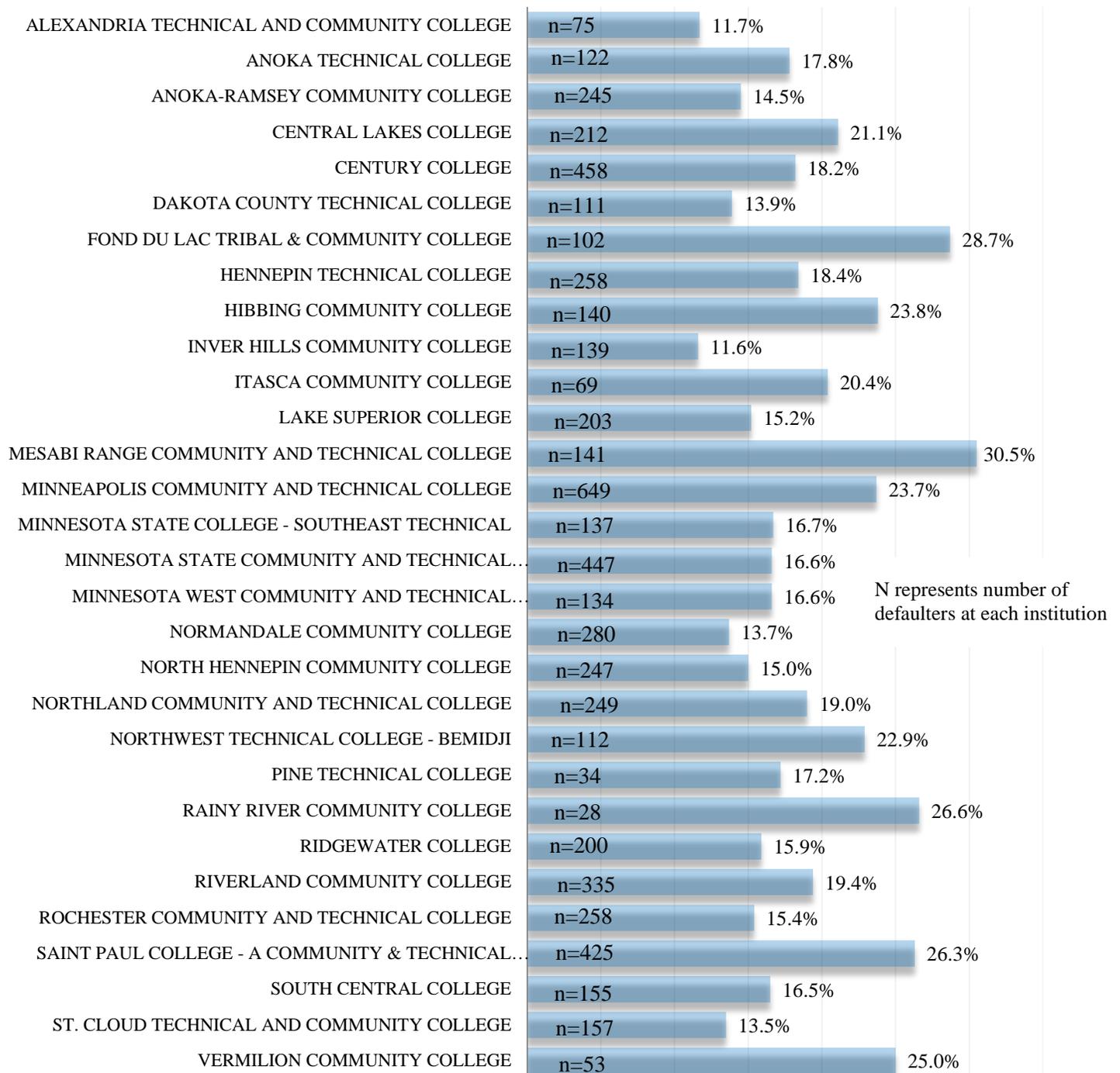
Minnesota Private Graduate Schools, Two-Year Default Rates, 2011



Source: U.S. Department of Education , Federal Student Aid Two-Year Cohort Default Rates, 2011

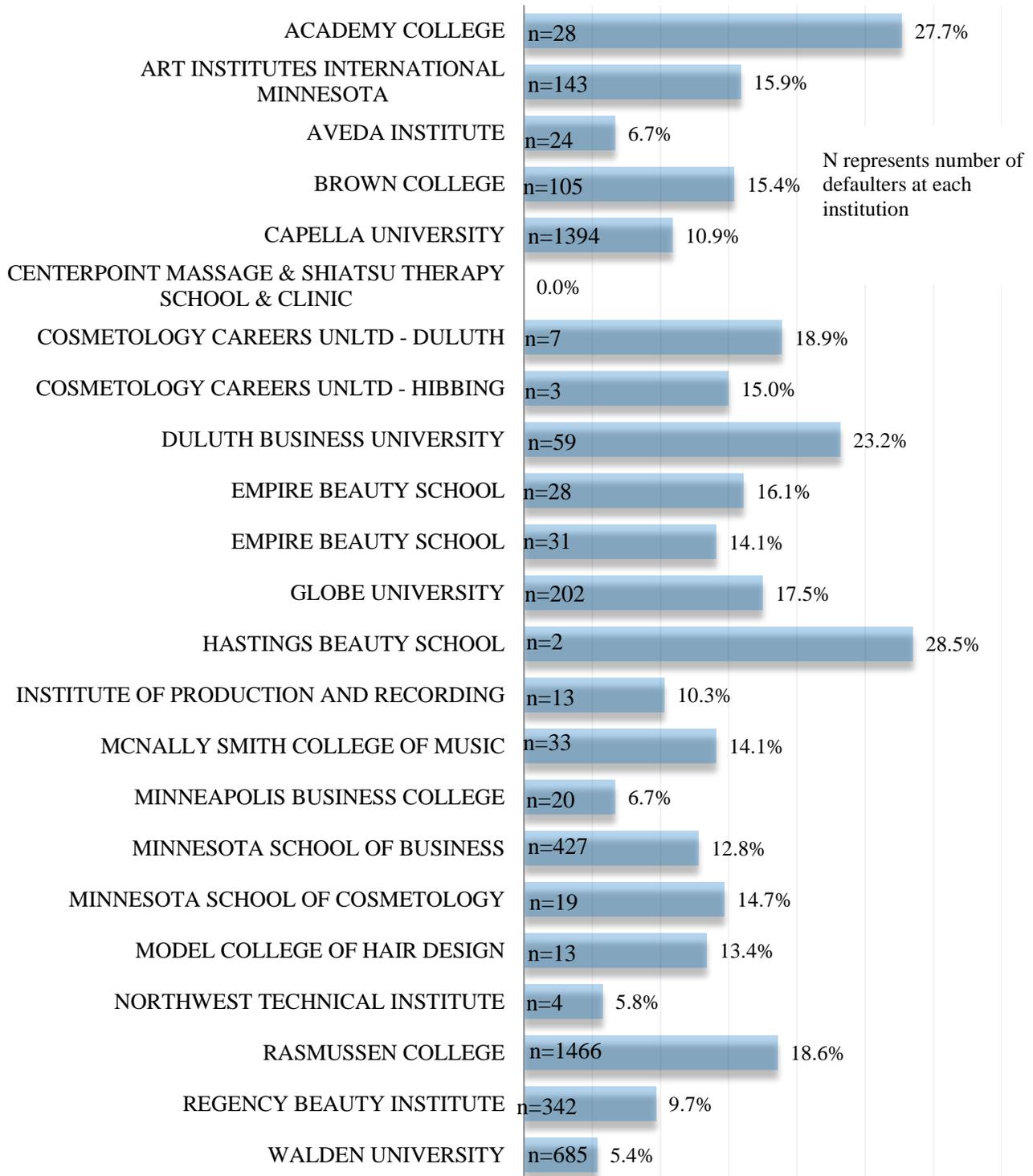
Appendix B: 2010 Three Year Default Rates by Institution

Minnesota Public Community and Technical Colleges Three-Year Default Rates, 2010



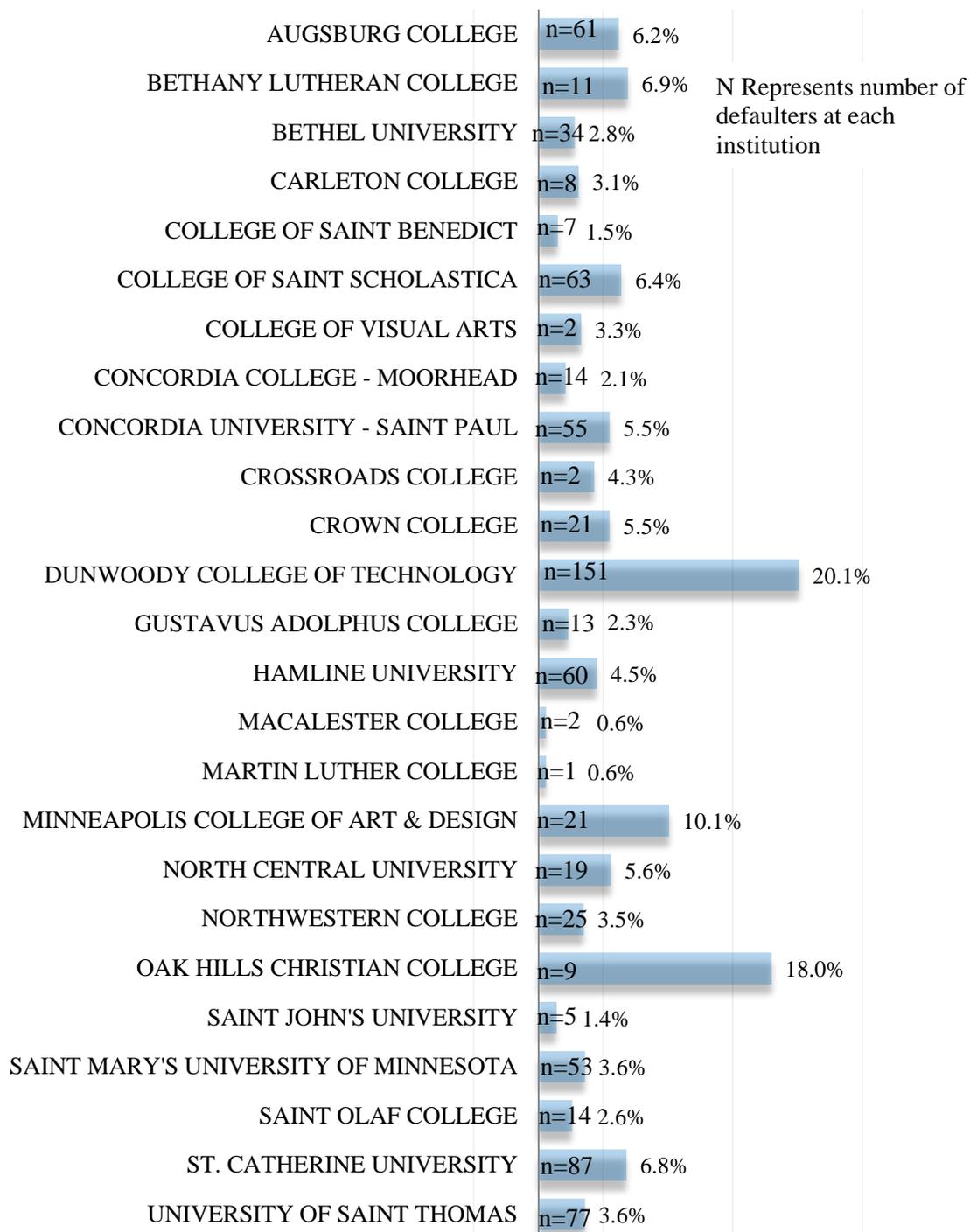
Source: U.S. Department of Education , Federal Student Aid Three-Year Cohort Default Rates, 2010

Minnesota Private For-Profit Postsecondary Institutions Three-Year Default Rates, 2010



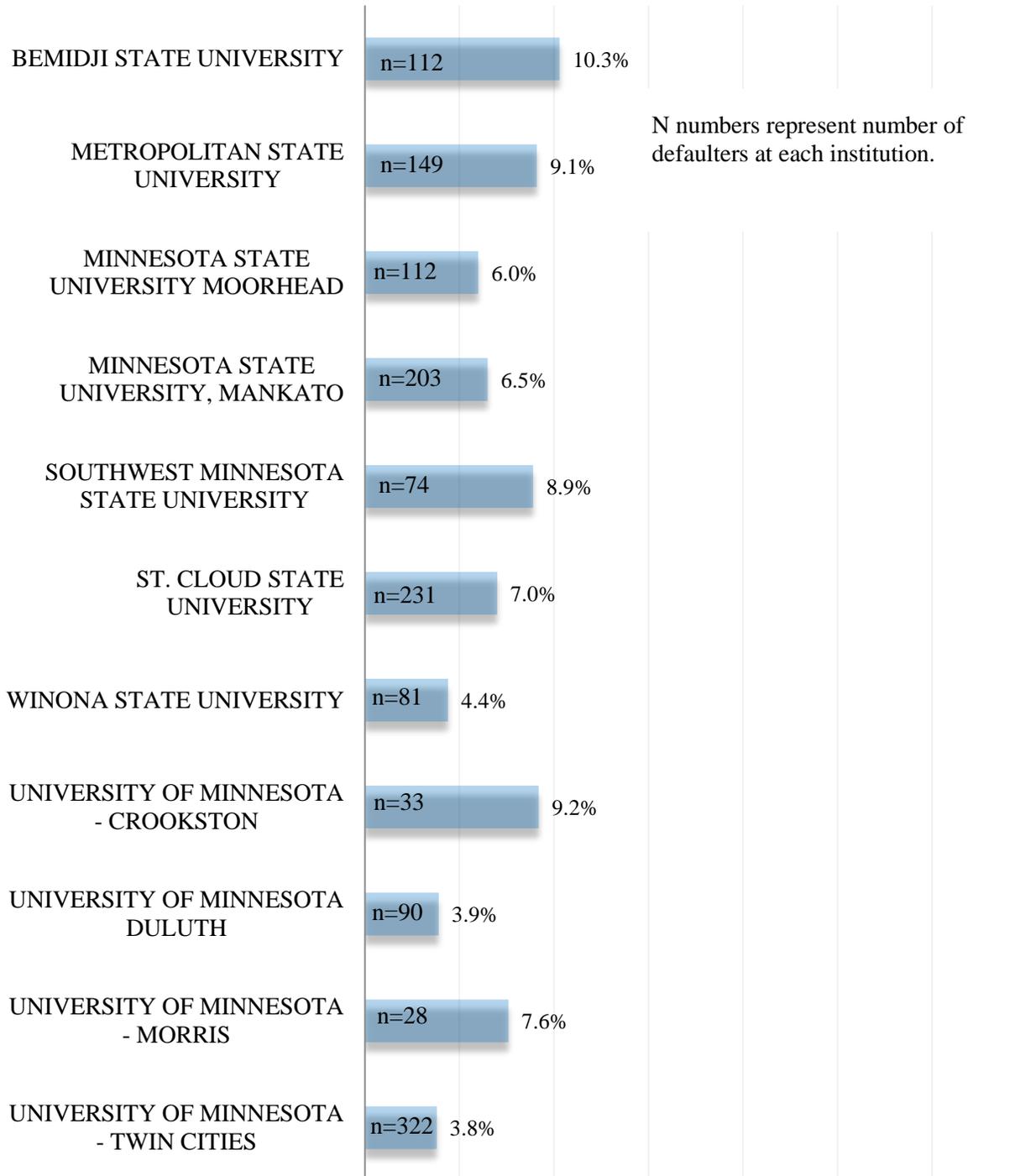
Source: U.S. Department of Education , Federal Student Aid Three-Year Cohort Default Rates, 2010

Minnesota Private Nonprofit Postsecondary Institutions Three-Year Default Rates, 2010



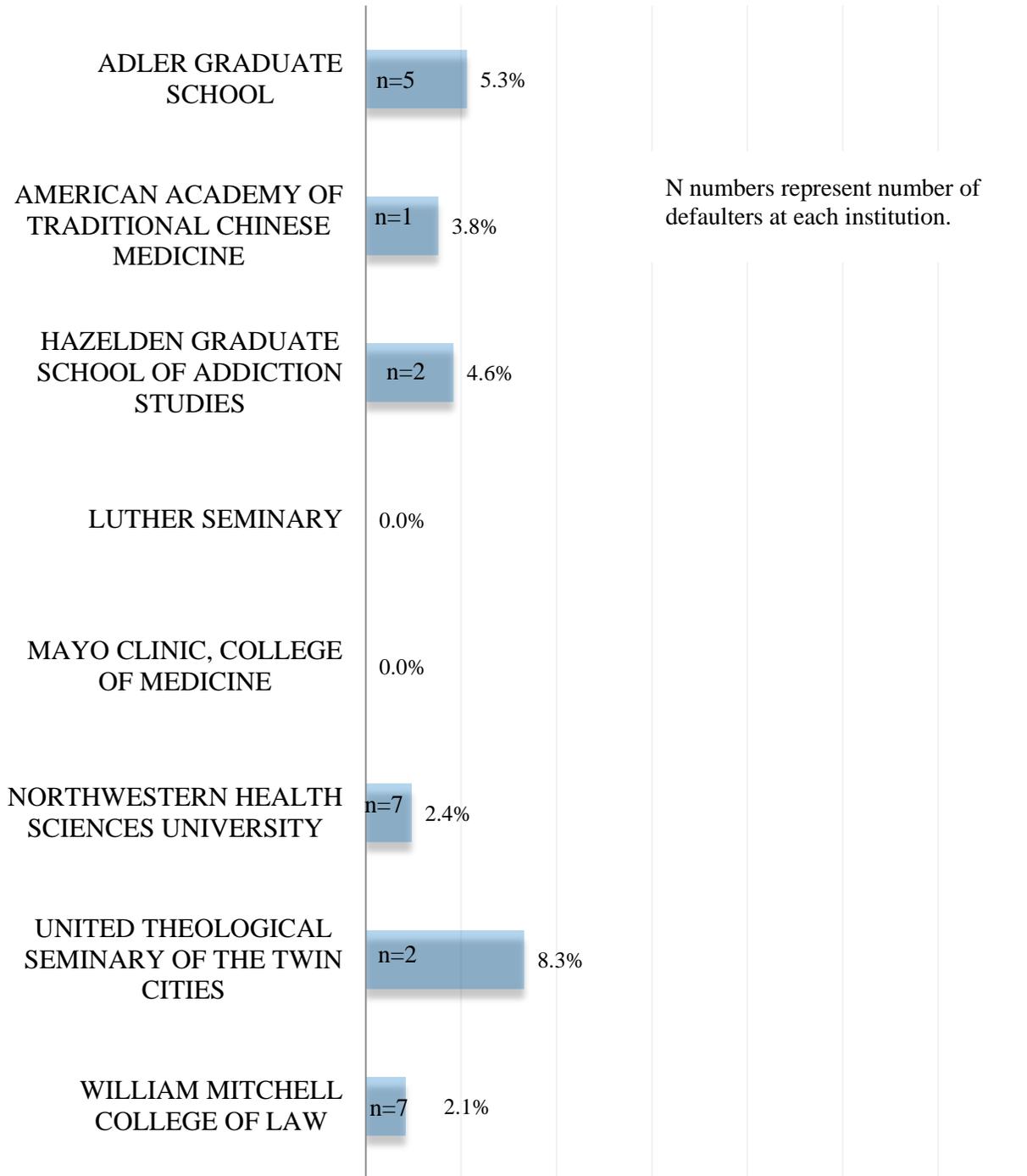
Source: U.S. Department of Education , Federal Student Aid Three-Year Cohort Default Rates, 2010

Minnesota Public Universities Three-Year Default Rates, 2010



Source: U.S. Department of Education , Federal Student Aid Three-Year Cohort Default Rates, 2010

Minnesota Private Graduate School Three-Year Default Rates, 2010

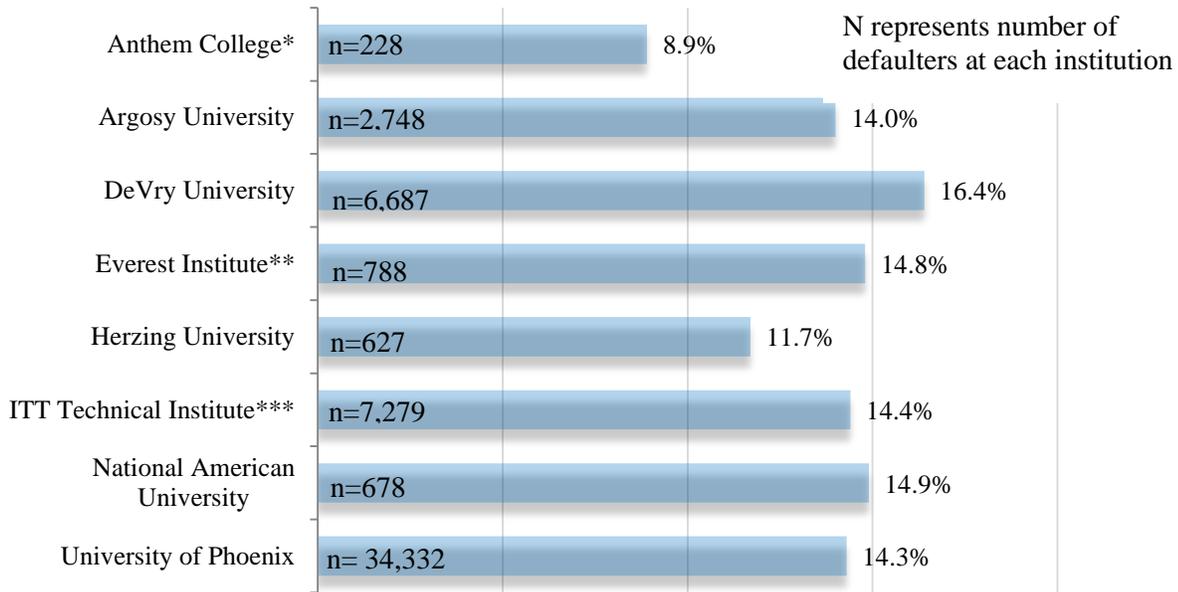


Source: U.S. Department of Education , Federal Student Aid Three-Year Cohort Default Rates, 2010

Appendix C: Default Rates for For-Profit Institutions with Headquarters in Other States

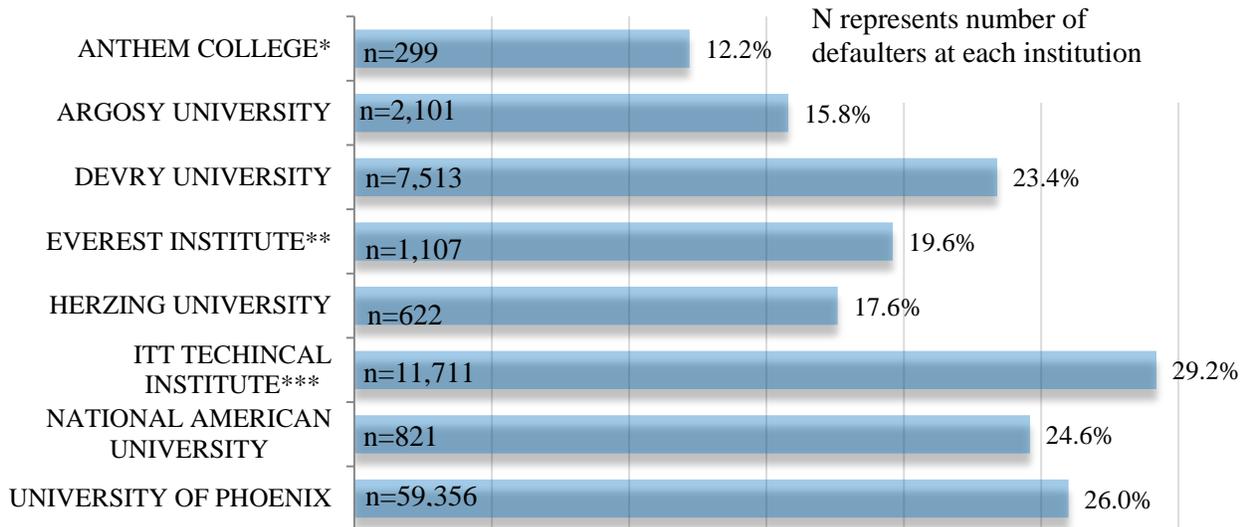
The following institutions have a campus in Minnesota, but the institution operates campuses in multiple states and is headquartered outside of Minnesota. For these campuses, a default rate for just the Minnesota campus is not available. Instead, Minnesota campuses are counted with the institution's aggregate national default rate, which either includes students at all of their campuses or at all campuses from a designated region.

Two-Year Rates



*Data from Anthem's AZ Location ** Data from Everest's Southfield, MI Location *** Data from ITT's IN Location

Three-Year Rates



*Data from Anthem's AZ Location ** Data from Everest's Southfield, MI Location *** Data from ITT's IN Location