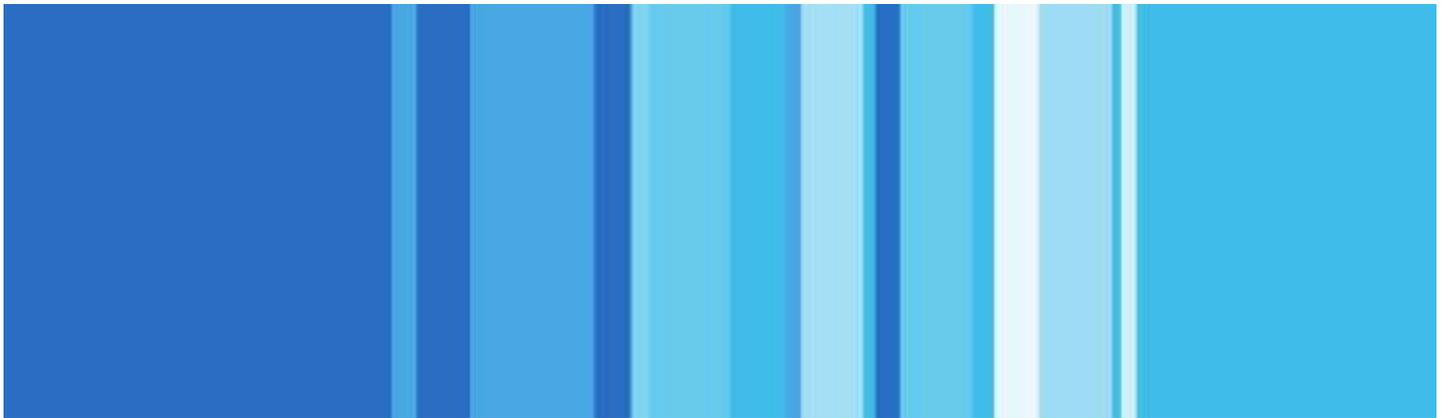


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Student Loan Default Rates in Minnesota, 2008, Two- and Three-Year Default Rates

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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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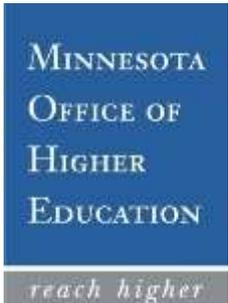
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Introduction

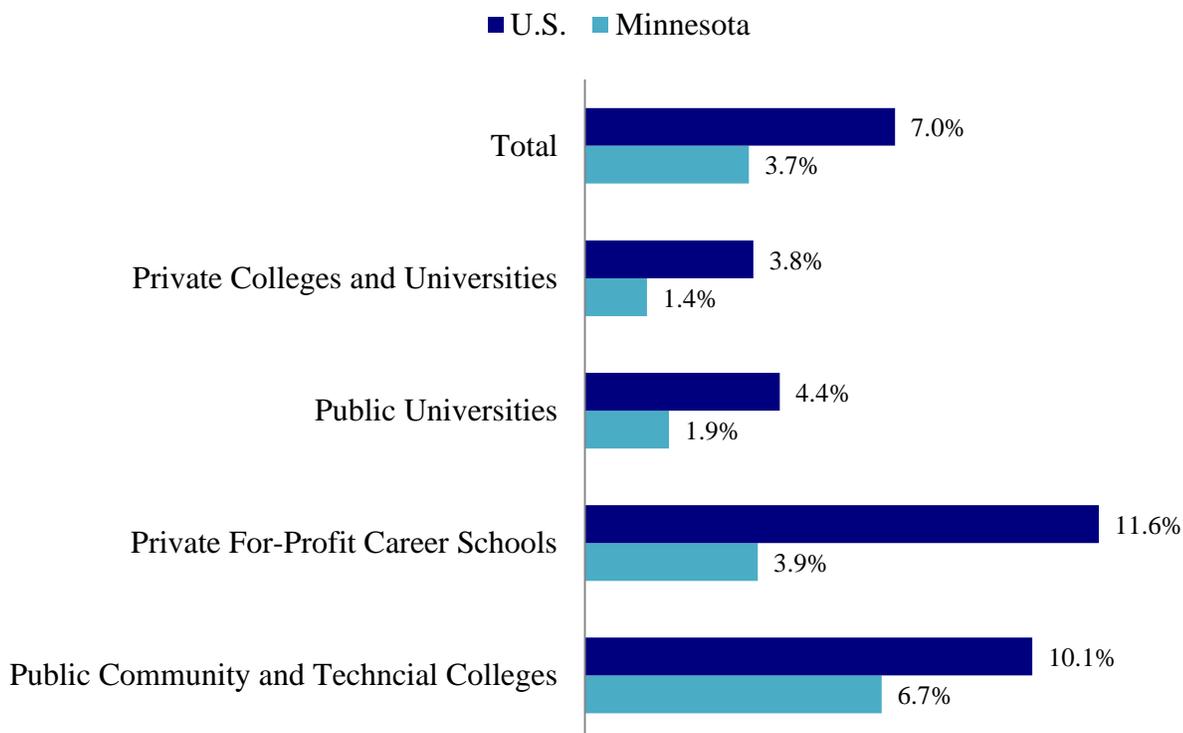
While Minnesota undergraduates are more likely to take out student loans, they are substantially less likely than their peers nationally to default on federal student loans.

Fifty-five percent of Minnesota undergraduates took out student loans in 2007-2008, compared to 39 percent of undergraduates across the U.S. Minnesota undergraduates were also more likely to borrow than undergraduates with student loans who were from the similar Midwestern states of Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin. Fifty-five percent of Minnesota undergraduates had student loans and 47 percent of those in the Midwestern peer states had student loans.

The two-year federal student loan default rate for students attending institutions in Minnesota was 3.7 percent for 2008, compared to 7.0 percent nationally and 6.6 percent for the peer Midwestern states. Compared to the 54 U.S. states and territories, Minnesota was among those with the smallest percentage of borrowers defaulting – three states had lower default rates and 50 states and territories had higher default rates. The Federal two-year cohort default rate for 2008 is the percentage of a school's borrowers who were due to enter repayment on Federal Stafford Loans (Family Education Loans or Direct Loans) between October 1, 2007 and September 30, 2008, and defaulted prior to September 30, 2009. The official cohort default rate for 2008 is a two-year rate; it counts the borrowers who were due to begin repayment in one federal fiscal year who defaulted in that year or the next federal fiscal year.

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.

Federal two-year cohort default rates, 2008, by type of institution attended

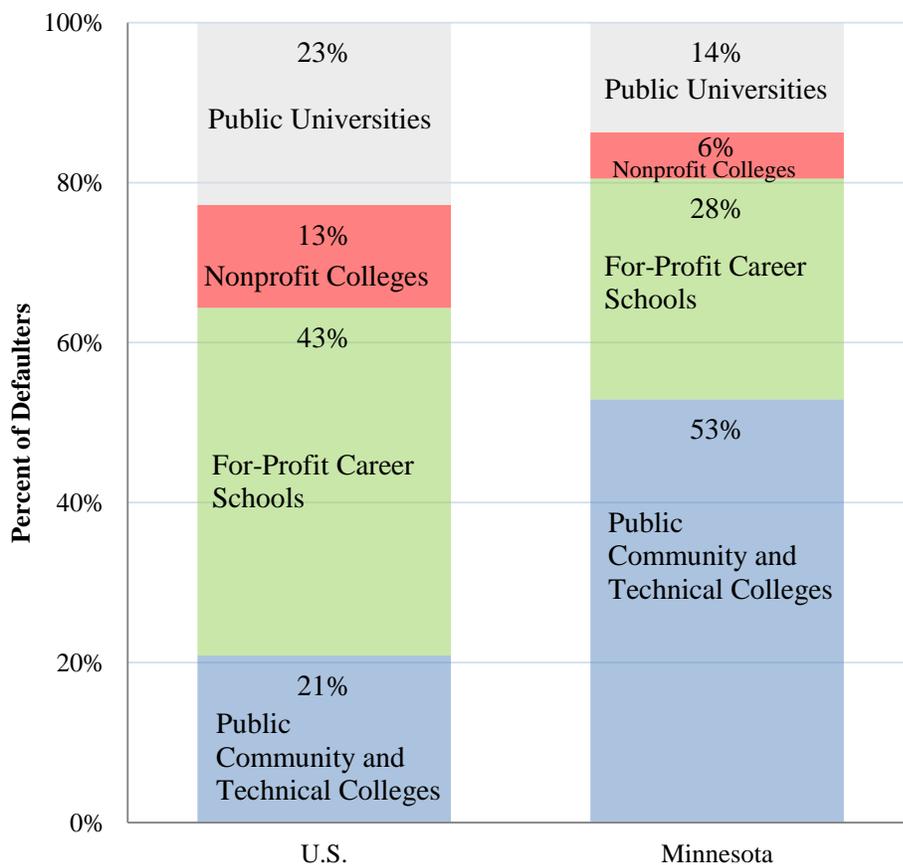


Minnesota public four-year universities had two-year default rates of 1.4 percent, compared to 4.4 percent nationally. Minnesota private nonprofit colleges and universities had two-year default rates of

1.4 percent, compared to 3.8 percent nationally. Minnesota borrowers who attended public community and technical colleges had a two-year default rate of 6.7 percent compared to 10.1 percent nationally. Minnesota borrowers who attended private for-profit career schools had a two-year default rate of 3.9 percent, substantially lower than the national rate of 11.6 percent. Nationally borrowers who attended for profit institutions had a higher two-year default rate than those who attended public two-year institutions, but in Minnesota borrowers who attended for-profit institutions had a lower rate than those who attended public two-year institutions.

Nationally, defaulters who attended for-profit career schools were 43 percent of all defaulters in the 2008 two-year default rate cohort. In Minnesota, defaulters from for-profit career schools were a smaller percentage of all two-year defaulters – 28 percent. Nationally, defaulters from public community and technical colleges were 21 percent of all two-year defaulters. In Minnesota, defaulters from public community and technical colleges were more than half of all two-year defaulters – 53 percent.

Percent of defaulters by type of institution attended, 2008 – two-year default rates



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 2012, 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 have default rates of 25 percent or more. However, Cosmetology Careers Unlimited in Duluth had a two-year rate for 2008 that was 24.3 percent.

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.

Three-Year Default Rate

For 2007 and 2008, the two-year default rate is supplemented by a preliminary three-year default rate. In 2008, Congress approved the Higher Education Opportunity Act which will require the U.S. Department of Education, effective in 2012, 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)

While the requirement for three-year rates does not begin until federal Fiscal Year 2012, the U.S. Department of Education released preliminary three-year rates for the 2007 and 2008 cohorts to assist institutions in preparing for the release of official three-year rates for the 2009 cohort and to think about interventions that might help students avoid defaults in future. The 2008 three-year rates are for the cohort who were due to begin repayment in 2008 and defaulted before September 2010.

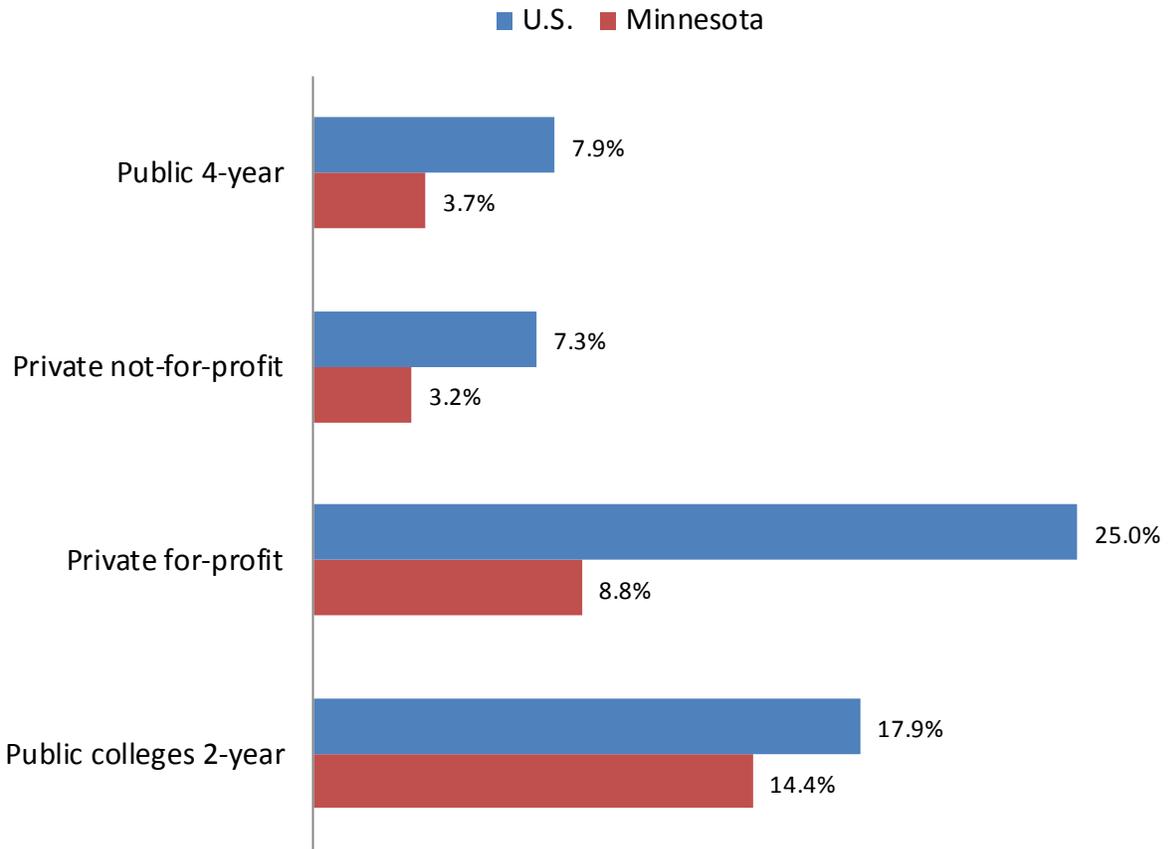
The three-year rates are higher overall than the two-year rates. The three-year default rate for 2008 for students who attended postsecondary institutions in Minnesota was 7.6 percent, compared to a three-year rate of 6.2 percent for 2007.

Minnesota's 7.6 percent three-year default rate compares to a national rate of 13.8 percent. The national three-year rate was 11.8 percent for 2007.

Minnesota's three-year rates by type of institution compare to national rates as follows:

- Borrowers who attended public four-year institutions had three-year default rates of 3.7 percent in Minnesota, compared to 7.9 percent nationally.
- Borrowers who attended private not-for-profit institutions had three-year default rates of 3.2 percent in Minnesota and 7.3 percent nationally.
- Borrowers who attended private for-profit institutions had three-year default rates of 8.6 percent in Minnesota and 25 percent nationally.
- Borrowers who attended public two-year colleges had three-year default rates of 14.4 percent in Minnesota and 17.9 percent nationally.

Three-Year Default Rates, 2008 by Type of Institution



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 have default rates of 25 percent or more. However, Cosmetology Careers Unlimited in Duluth had a rate that was 24.3 percent for 2008. If that rate increases in future years, Cosmetology Careers Unlimited-Duluth may lose its ability to give federal financial aid to its students.

The federal two-year cohort default rate for 2008 was the most recent rate available at the time this report was published. The rate is a snapshot in time, measuring the rate for the cohort of borrowers whose first loan repayments were due between October 2007 and September 2008 and who defaulted before September 20, 2009. In this time period, almost 3.4 million borrowers started repayment and more than 238,000 nationally defaulted on their loans. In Minnesota during that time period 95,400 borrowers entered repayment and 3,600 defaulted. The official cohort default rate for 2007 is a two-year rate – it counts the borrowers who were due to begin repayment in one federal fiscal year who defaulted in that year or the next federal fiscal year.

National Two-Year Cohort Default Rate

The national federal student loan cohort default rate for 2008 is 7.0 percent, as compared to 6.7 percent for 2007 and 5.2 percent for 2006. US Secretary of Education Arne Duncan said: “This data confirms what we already know: that many students are struggling to pay back their student loans during very difficult economic times.” (U.S. Department of Education press release, September 13, 2010). The 2008 rates included the time period ending September 30, 2009. The 2007-2009 recession started in December 2007, thus the 2008 cohort default rates included 22 months of economic recession. With unemployment high and economic activity low, borrowers were likely to have experienced reduced work hours or wages, which makes default more likely.

Minnesota Two-Year Cohort Default Rate

Borrowers who attended Minnesota institutions had a cohort default rate of 3.7 percent for 2008, as compared to 3.3 percent for 2007 and 2.9 percent for 2006. The rate for Minnesota was substantially lower than the rate for most states. Among the 54 states and territories of the United States, 50 states and territories had higher default rates and 3 had lower default rates. Minnesota’s rate of 3.7 percent was also lower than the 6.6 percent rate for a group of Midwestern states - Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

Three-Year Default Rate

In 2007, the U.S. Department of Education supplemented the two-year default rate with a three-year default rate. In 2008, Congress approved the Higher Education Opportunity Act which will require the U.S. Department of Education, effective in 2012, 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)

While the requirement for three-year rates does not begin until federal Fiscal Year 2012, the U.S. Department of Education released three-year rates for the first time in December 2009. The three-year rates are for the cohort who were due to begin repayment in 2007 and defaulted before September 2009.

The three-year rates are higher overall. The three-year default rate for 2007 for students who attended postsecondary institutions in Minnesota was 6.2 percent, compared to the national three-year rate of 11.8 percent. The three-year rate for the peer Midwestern states was 10.8 percent.

Default Rates for Institutions in Minnesota

The U.S. Department of Education's 2008 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:

- 44 Minnesota institutions had 2008 two-year default rates that were higher than their default rates in 2007.
- 22 Minnesota institutions had 2008 two-year default rates that were lower than their default rates in 2007.
- 32 Minnesota institutions had 2008 two-year default rates that were the same as their rates in 2007.
- 11 Minnesota institutions had 2008 two-year default rates of zero – no borrowers defaulted.

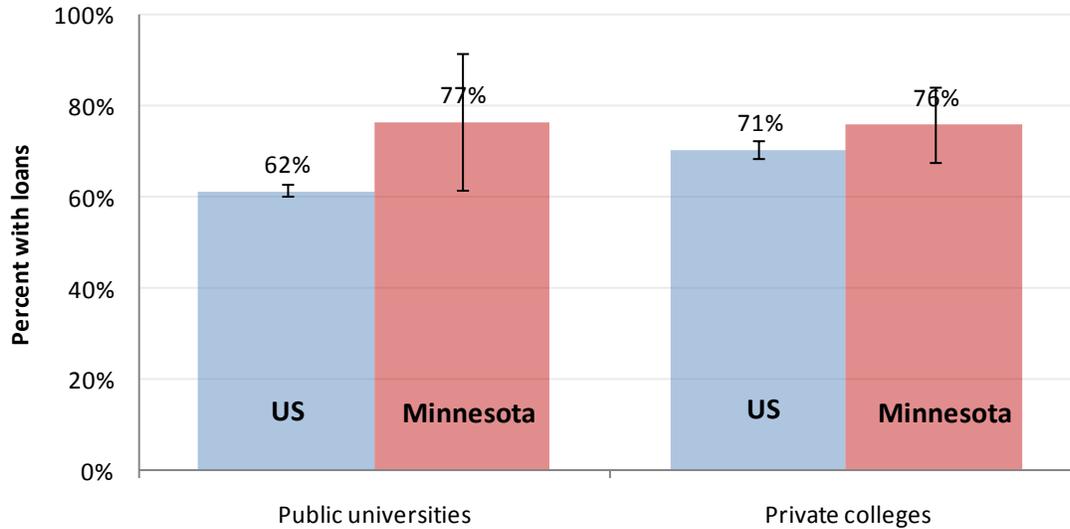
Minnesota Default Rates are Low, but Borrowing Rates Are High

While default rates for Minnesota borrowers of student loans are low, Minnesota undergraduates are more likely to borrow than students nationally. According to information from the National Postsecondary Student Aid Study, 55 percent of Minnesota undergraduates took out student loans in 2007-2008, compared to 39 percent of undergraduates across the U.S. Minnesota undergraduates were also more likely to borrow than the 47 percent of undergraduates with student loans who were from the similar Midwestern states of Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

Borrowing by Graduating Seniors in 2008

As with borrowing in 2007-2008, Minnesota students were more likely to have student loans by the time they graduated from bachelor's degree programs than students nationally. Seventy-seven percent of seniors graduating from public universities in Minnesota in 2008 had student loans of some kind, compared to 62 percent nationally. Among students attending private colleges, 76 percent of graduating seniors had student loans, compared to 71 percent nationally.

Percentage of graduating seniors with student loans, 2008

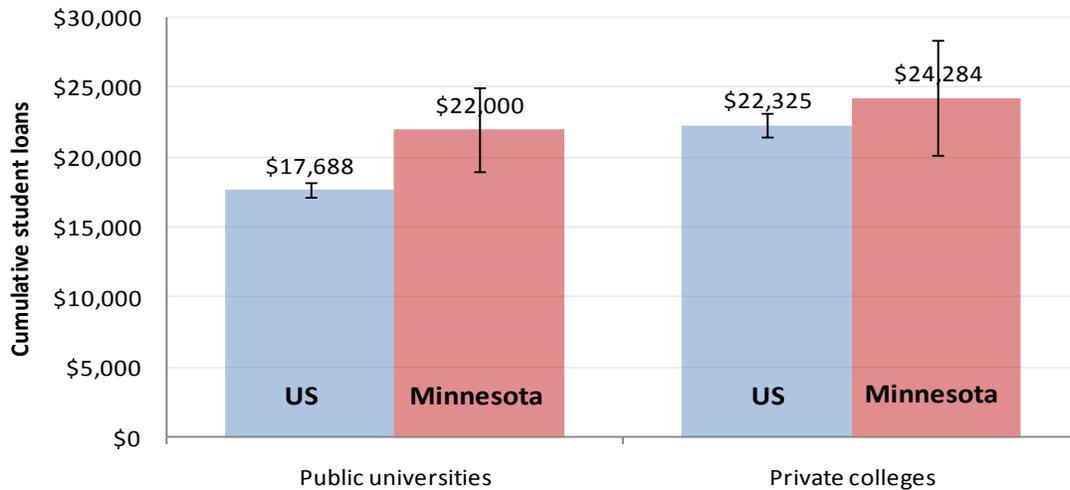


Source: National Postsecondary Student Aid Study

Median cumulative amount borrowed by graduating seniors

The cumulative amount borrowed by graduating seniors from public universities was higher for Minnesota students than nationally. The median amount borrowed by Minnesota seniors graduating from public universities was \$22,000 in 2008, compared to \$17,688 nationally. Among students attending private colleges in Minnesota, the median cumulative amount borrowed was \$24,284 compared to \$22,325 nationally.

Median cumulative student loans for graduating seniors, 2008

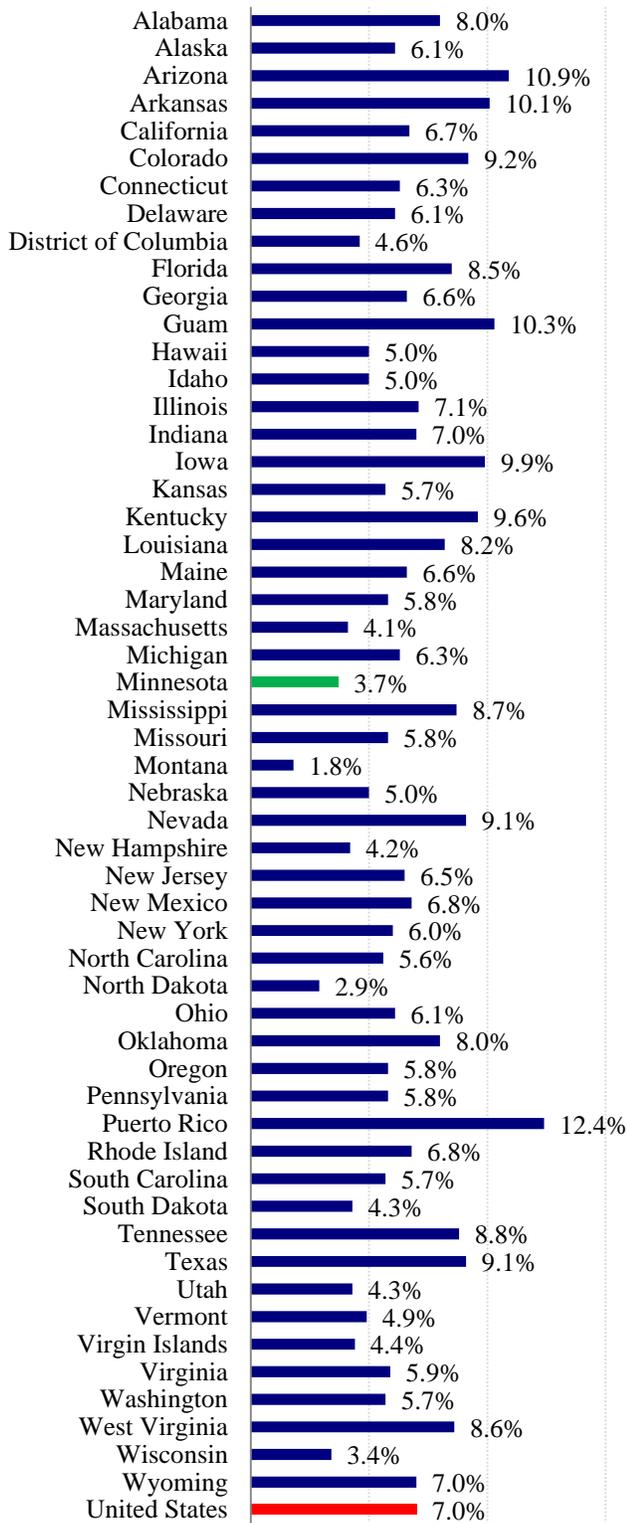


Source: National Postsecondary Student Aid Study

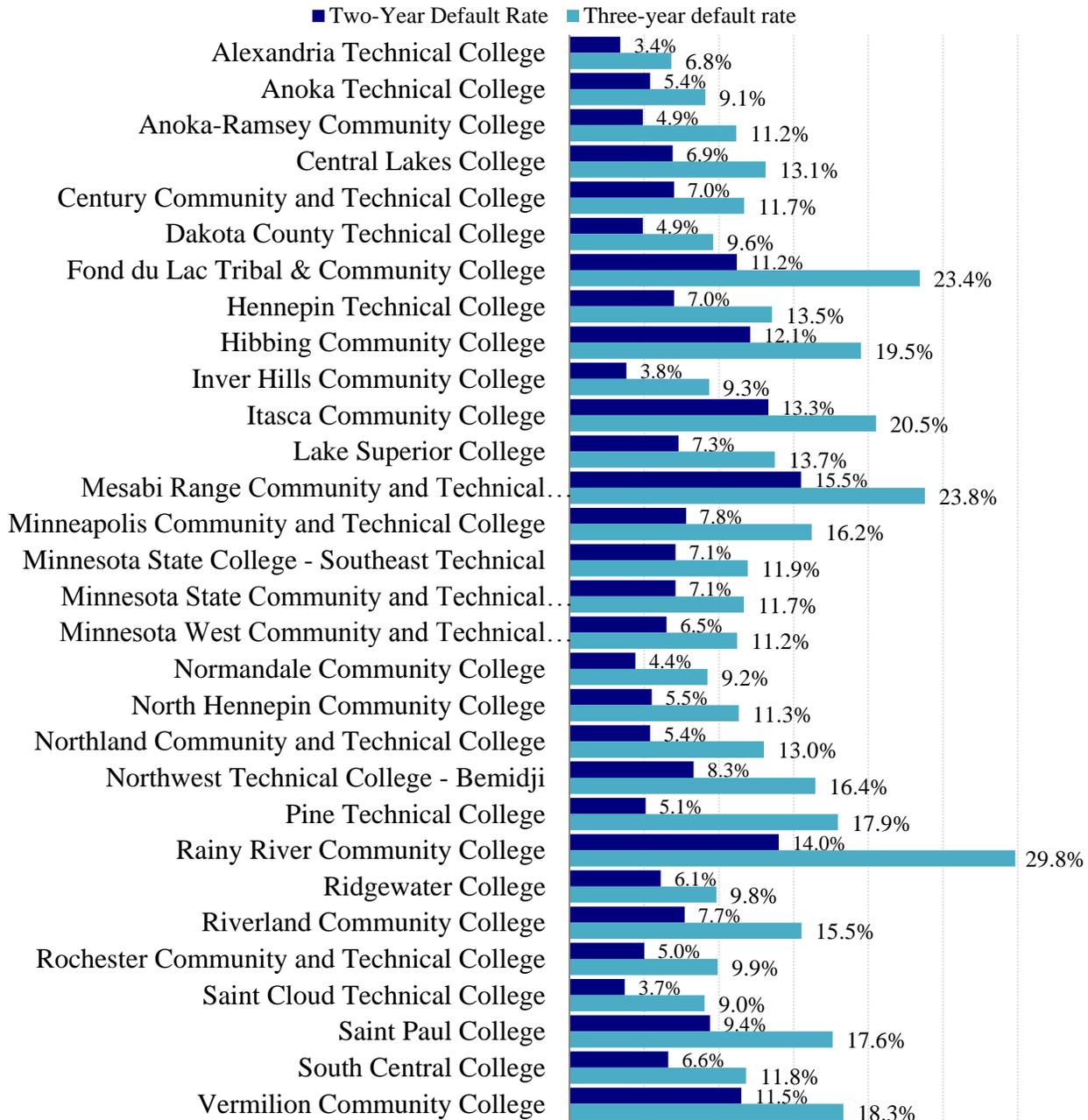
Source of Data

The source of data for the federal two-year cohort default rates is the U.S. Department of Education. The data is available online at www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html. The source of data for the percentage of undergraduates with student loans and cumulative amount borrowed is the National Postsecondary Student Aid Study, a project of the National Center for Education Statistics.

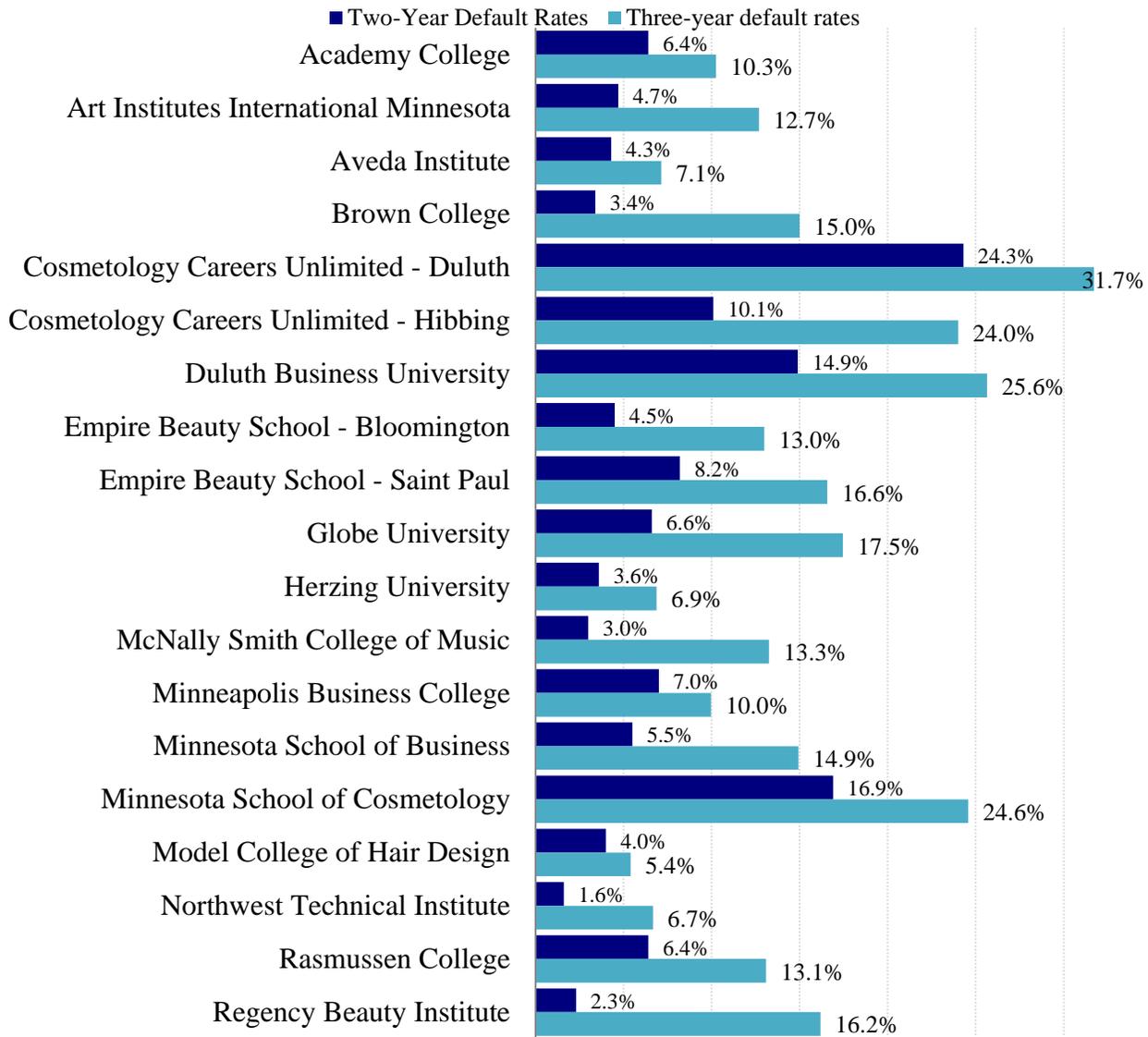
U.S. States and Territories, Two-Year Default Rates 2008



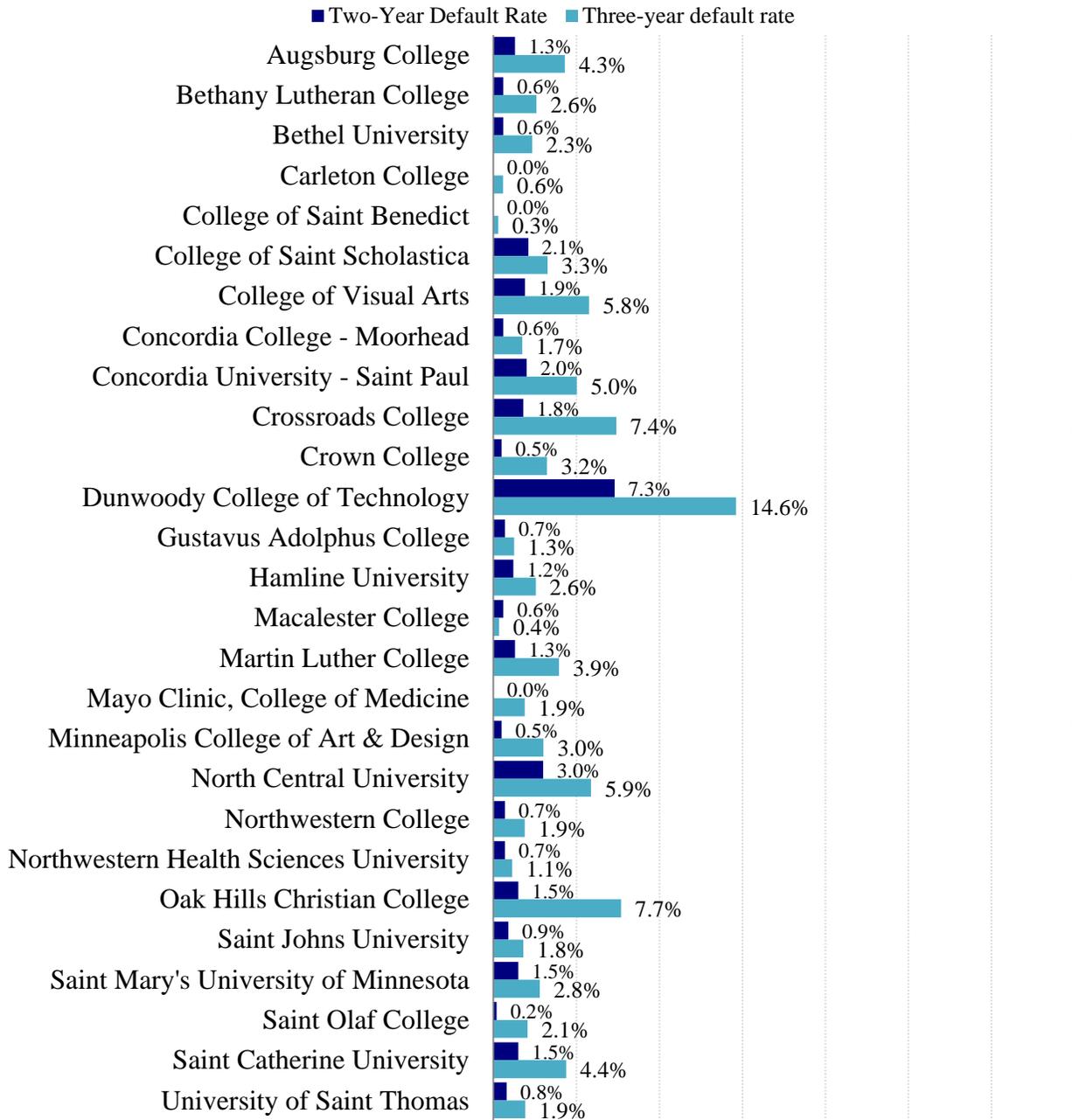
Minnesota Public Community and Technical Colleges, Default Rates 2008



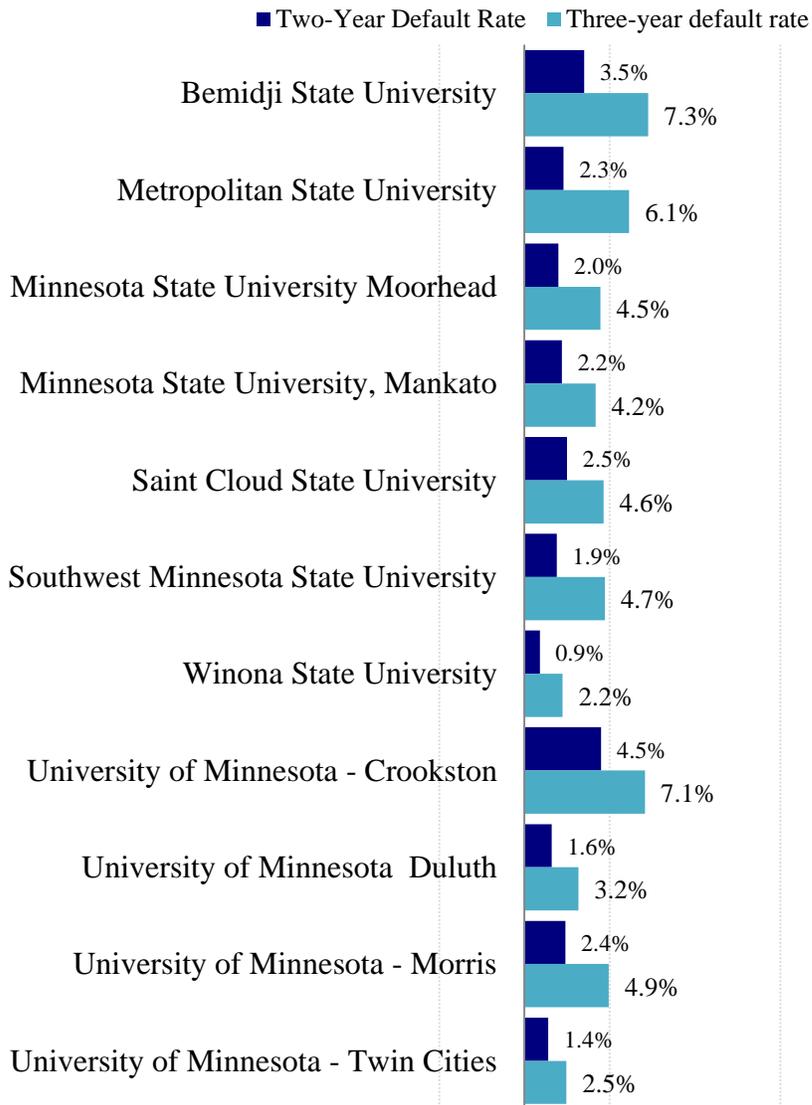
Minnesota Private Career Schools, Default Rates 2008



Minnesota Private Colleges and Universities, Default Rates 2008



Minnesota Public Universities, Default Rates 2008



Minnesota Private Graduate Schools, Default Rates 2008

