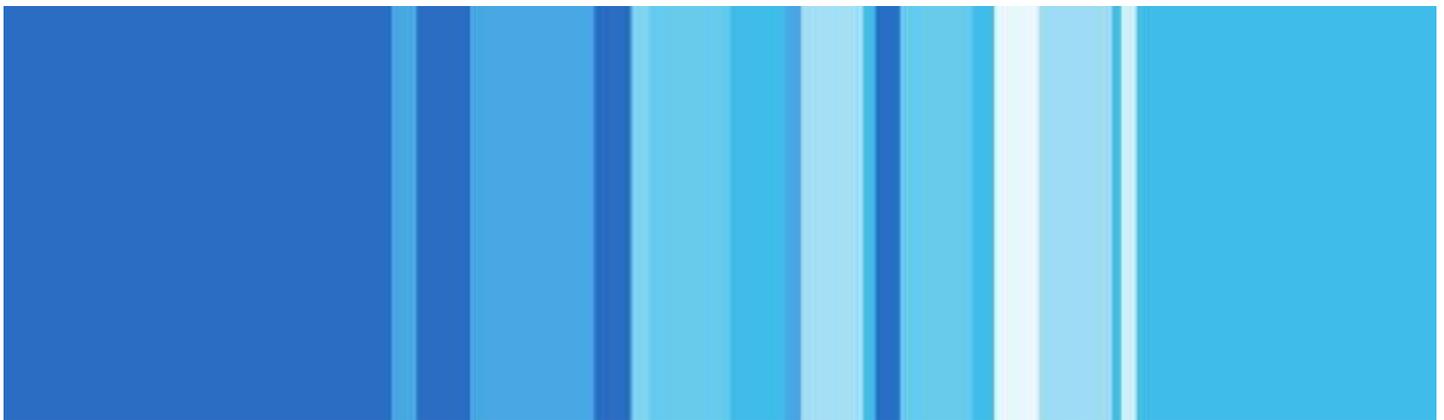




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# Student Loan Default Rates in Minnesota, 2009



## Authors

### Tricia Grimes

Policy Analyst

Tel: 651-259-3964

Tricia.Grimes@state.mn.us

## 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.

## Minnesota Office of Higher Education

1450 Energy Park Drive, Suite 350  
Saint Paul, MN 55108-5227

Tel: 651.642.0567 or 800.657.3866

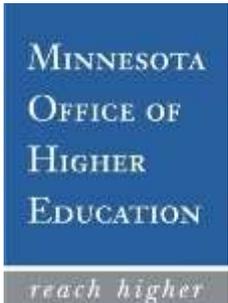
TTY Relay: 800.627.3529

Fax: 651.642.0675

E-mail: [info.ohe@state.mn.us](mailto:info.ohe@state.mn.us)

[www.getreadyforcollege.org](http://www.getreadyforcollege.org)

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# Introduction

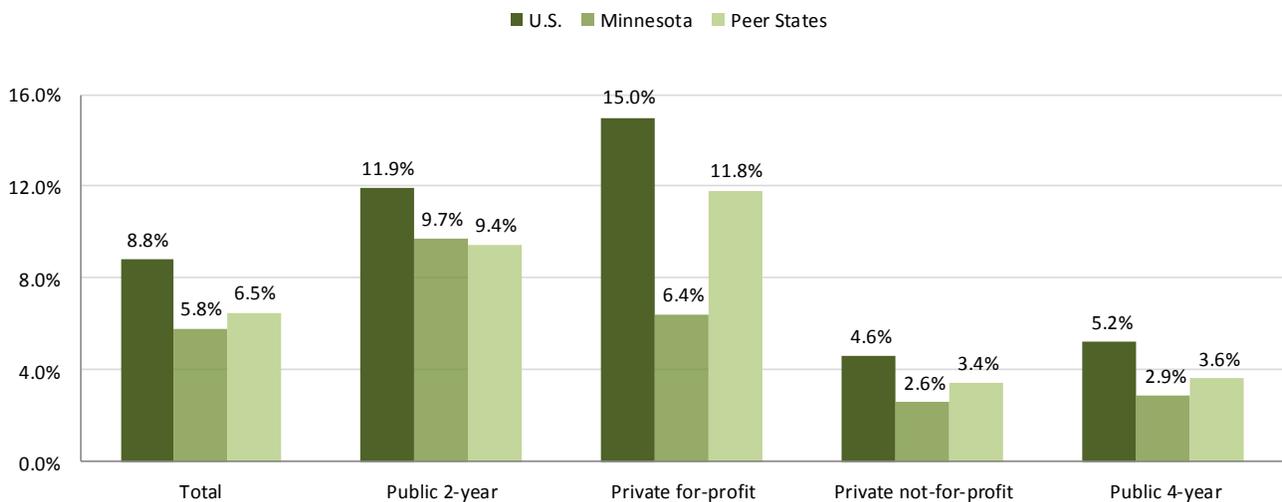
While Minnesota undergraduates are more likely to take out student loans, they are substantially less likely than their peers nationally to default on federal student loans.

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 the 47 percent of undergraduates with student loans who were from the similar Midwestern states of Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

The federal student loan 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.<sup>1</sup> 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 cohort default rate for 2009 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, 2008 and September 30, 2010, and defaulted prior to September 30, 2010. The official cohort default rate for 2009 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 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

<sup>1</sup> The peer Midwestern states are Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

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 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.

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.

## About Default Rates

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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.

The federal two-year cohort default rate for 2009 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 2008 and September 2010 and who defaulted before September 20, 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. The official cohort default rate for 2009 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 2009 is 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 Rate

In 2009, 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 2008 cohort of borrowers in January 2010. The three-year rates are for the cohort who were due to begin repayment in 2008 and defaulted before September 2010.

The three-year rates for the 2008 cohort are higher overall. This report for the 2009 cohort will be updated to include the three-year rates, when those rates for 2009 are released.

## **Default Rates for Institutions in Minnesota**

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The U.S. Department of Education's 2009 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 2008.
- 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**

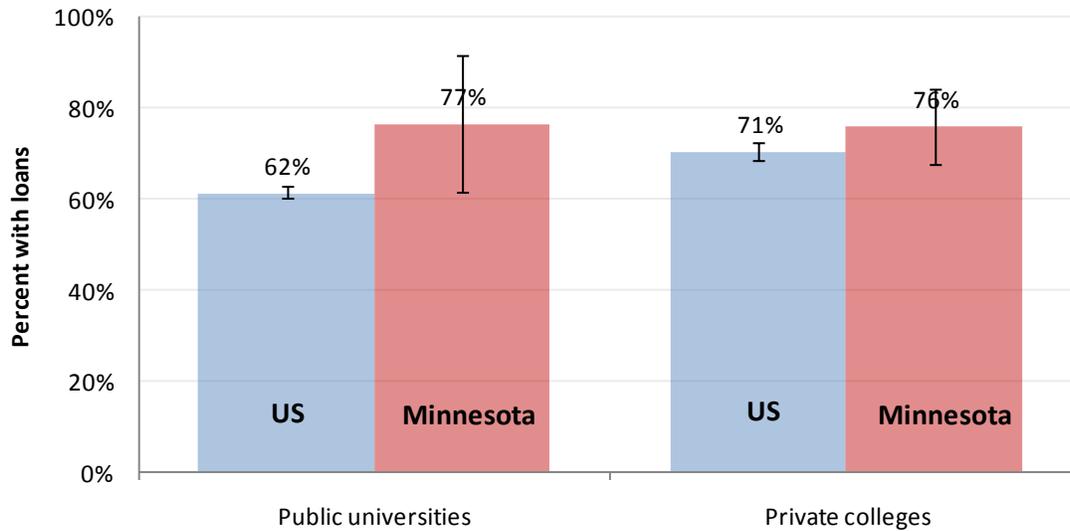
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While default rates for Minnesota borrowers of student loans are low, Minnesota undergraduates are more likely to borrow than students nationally. According to information from the National Postsecondary Student Aid Study, 55 percent of Minnesota undergraduates 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

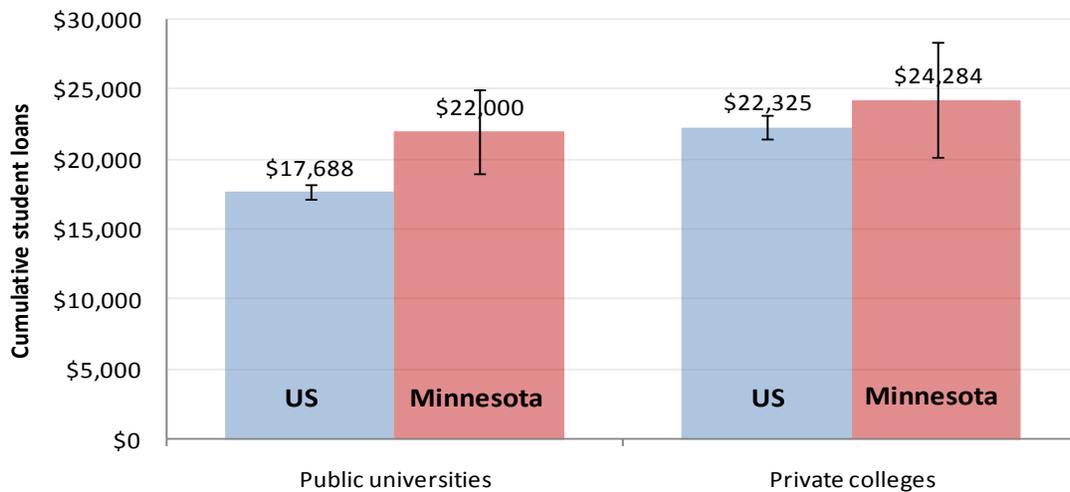


Source: National Postsecondary Student Aid Study

## 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



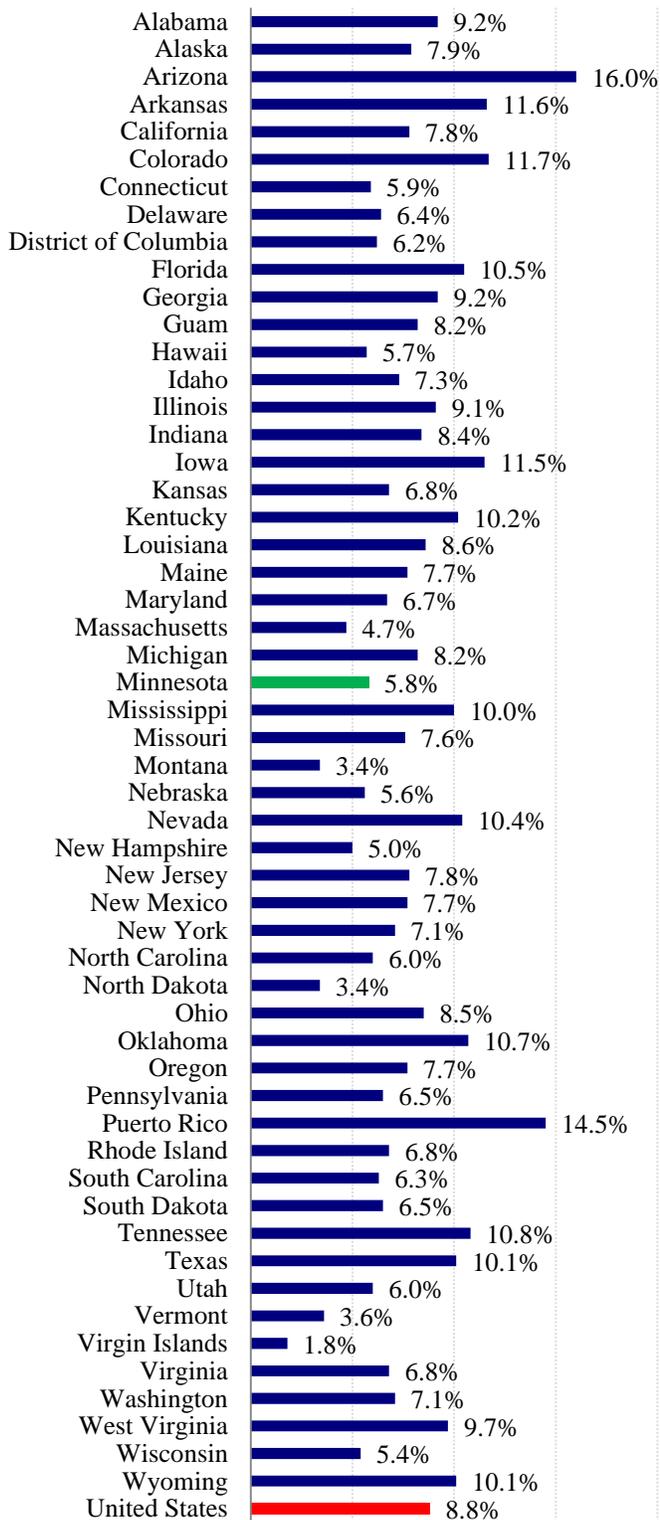
Source: National Postsecondary Student Aid Study

## Source of Data

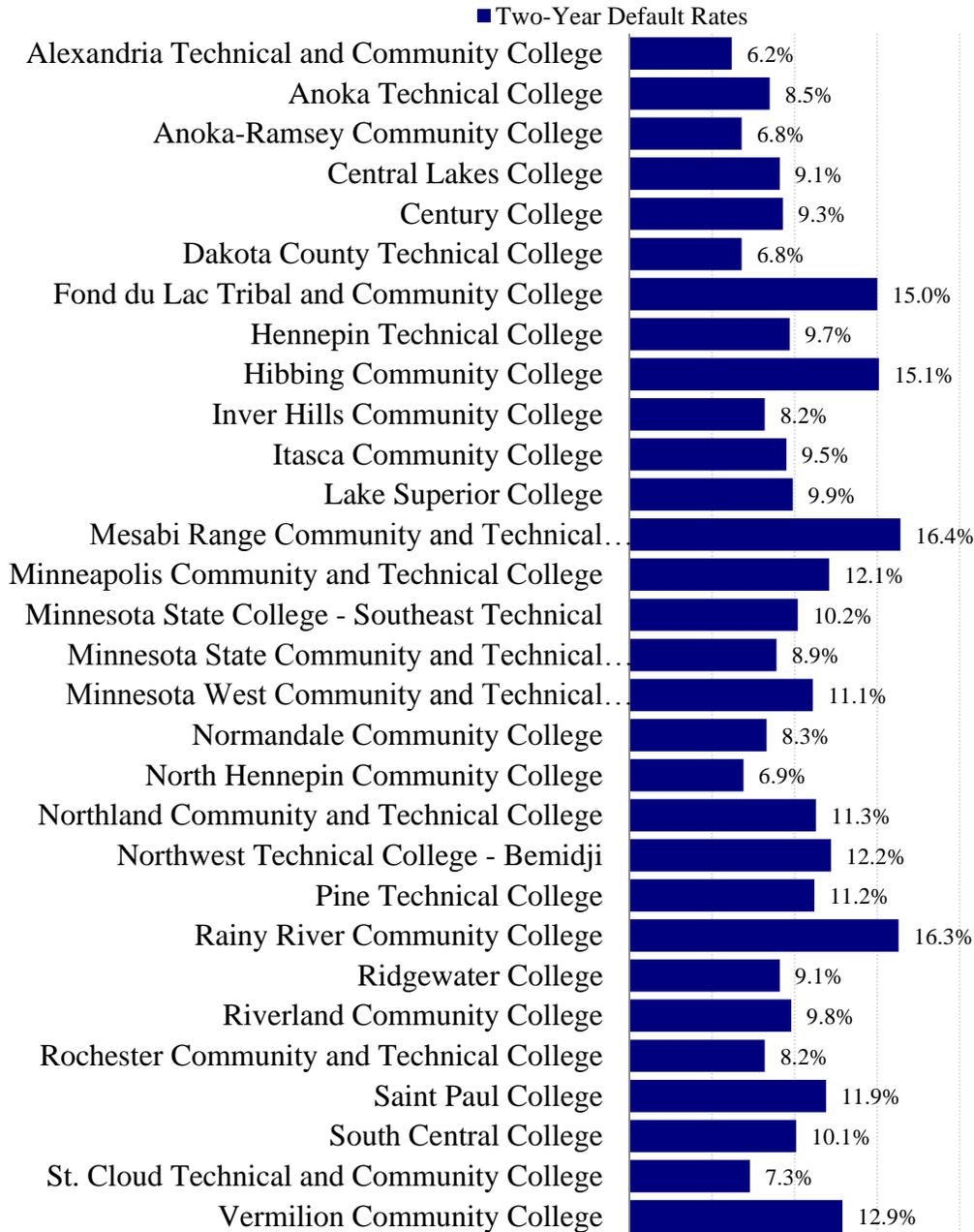
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The source of data for the federal two-year cohort default rates is the U.S. Department of Education. The data is available online at [www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html](http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html). The source of data for the percentage of undergraduates with student loans and cumulative amount borrowed is the National Postsecondary Student Aid Study, 2008, a project of the National Center for Education Statistics.

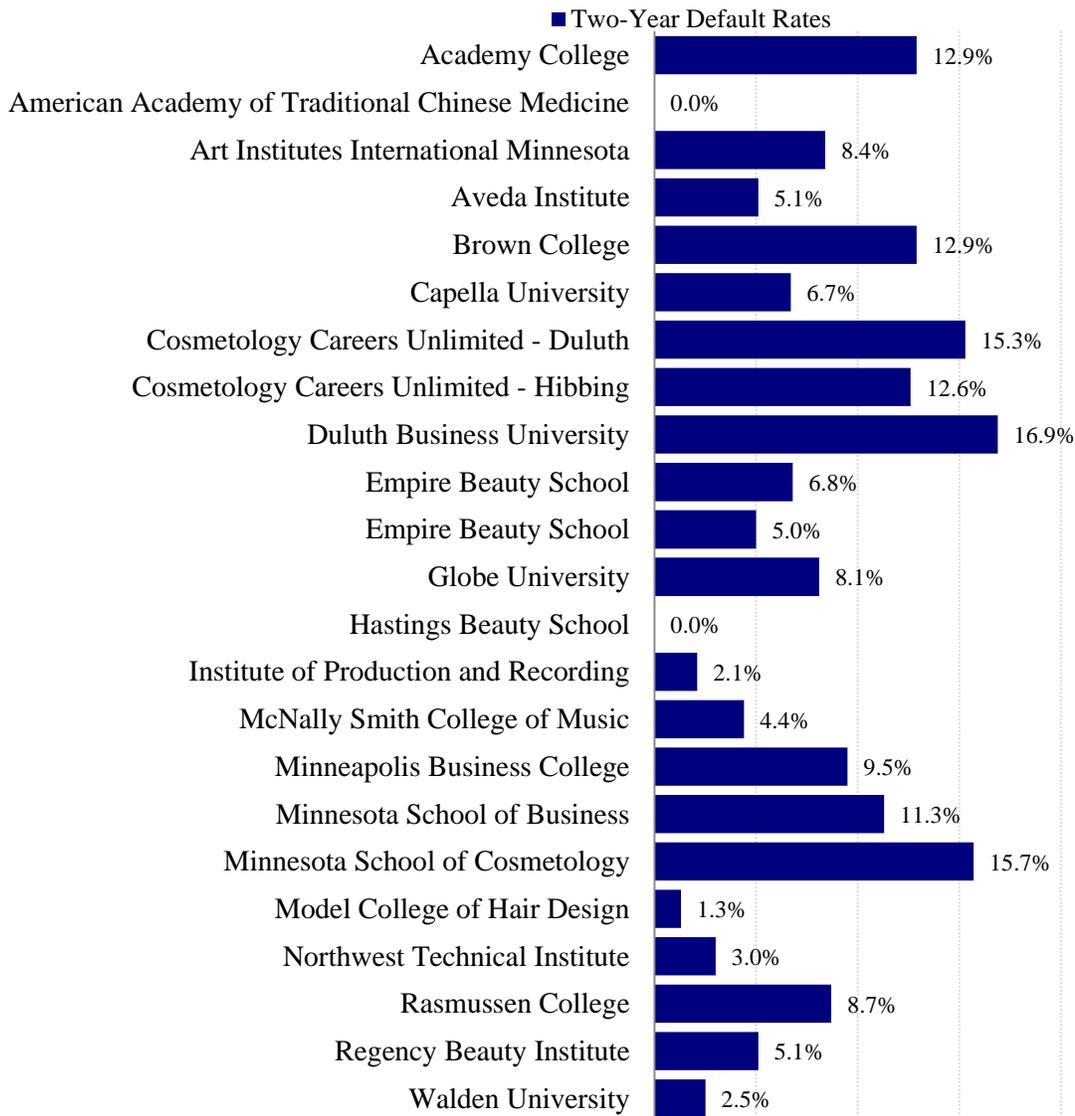
## U.S. States and Territories, Default Rates 2009



# Minnesota Public Community and Technical Colleges, Default Rates 2009

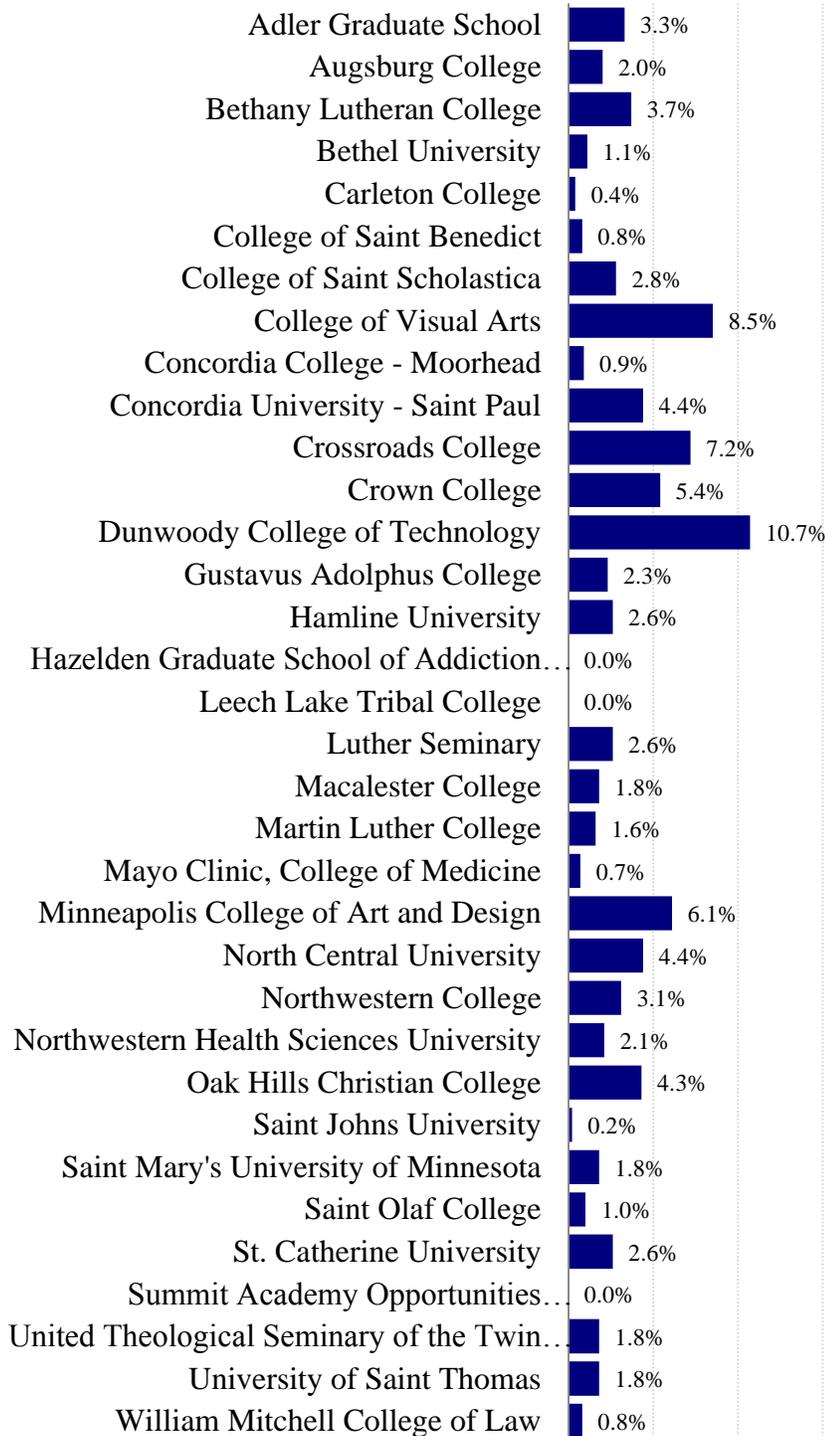


# Minnesota Private Career Schools, Default Rates 2009



# Minnesota Private Nonprofit Colleges and Universities, Default Rates 2009

■ Two-Year Default Rates



# Minnesota Public Universities, Default Rates 2009

