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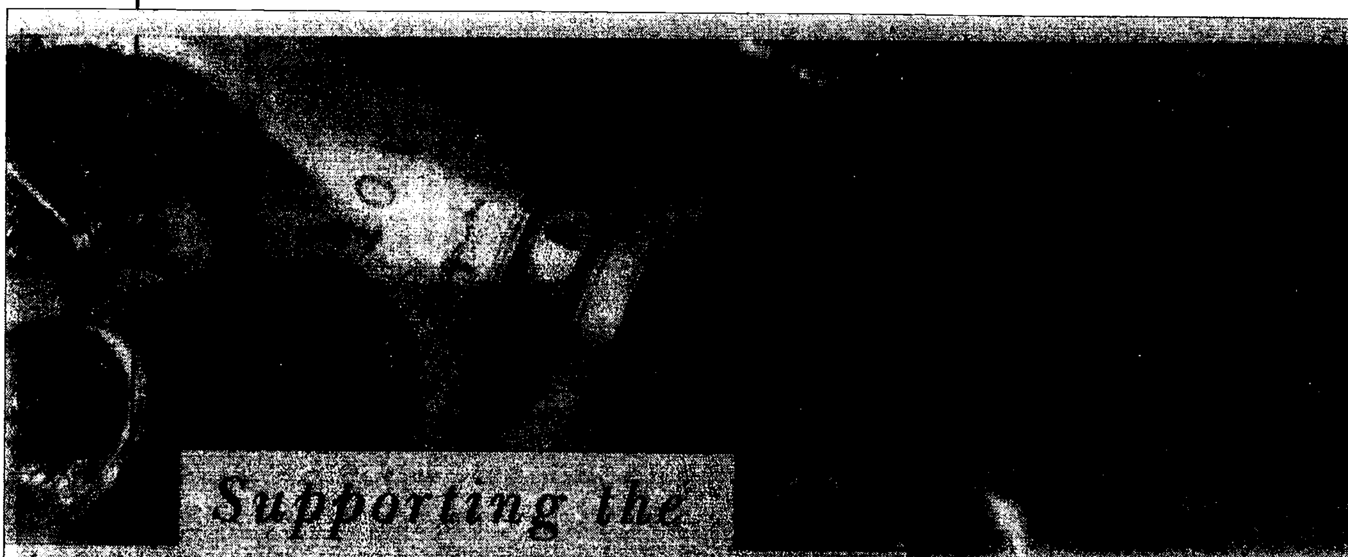
ABSTRACT

This study examined the characteristics of students attending historically black colleges and universities (HBCUs), focusing on 14 HBCUs with student loan default rates of 25 percent or more over the last 3 years, which are high enough to jeopardize their continued participation in federal financial aid programs. It was found that, in general, students from HBCUs come from low-income families, are highly dependent on financial aid, and educationally disadvantaged, and that most HBCUs have lower endowments, less funding for institutional scholarships, lower graduation rates, and limited technological resources compared to other colleges and universities. Of the 14 HBCUs surveyed, most lacked effective default management strategies and tools, as well as effective entrance and exit counseling in regard to student debt responsibilities. The study concluded that HBCUs could lower student loan default rates by developing default management teams that included campus leadership, hiring a default manager, increasing retention and graduation rates, involving faculty, increasing and repackaging institutional scholarships and fellowships, instituting consumer debt management courses, and joining the National Student Loan Clearinghouse. Other strategies suggested including partnerships with private industry, increases in federal Pell grant aid, increases in federal funds for retention and default prevention programs, and increased loan forgiveness incentives. (MDM)



Supporting the Historically Black College & University Mission:

THE SALLIE MAE HBCU DEFAULT MANAGEMENT PROJECT

SallieMae

Helping make education possible ®

PRELUDE

This report, based on surveys, site visits and meetings with college and university presidents and senior administrators, describes the characteristics of students who typically attend Historically Black Colleges and Universities, and the conditions facing these institutions. The report recommends specific actions these institutions can take to improve their student loan default rates, and shows the types of default management services that Sallie Mae and its lending partners can provide these colleges and universities. Finally, the report concludes with suggested steps that federal policymakers can take to preserve the historic mission of these at-risk, higher-education institutions.

EXECUTIVE SUMMARY

Historically Black Colleges and Universities (HBCUs) play a vital role in providing educational opportunities to low-income, educationally disadvantaged students. However, recently enacted federal laws now threaten 14 of these colleges. These institutions — which have had student loan default rates of 25 percent or more during the last three fiscal years — are now required to submit default management plans by July 1, 1999, to the U.S. Secretary of Education, or become ineligible to provide need-based federal financial aid to their students. This loss of eligibility could severely limit students' chances of obtaining a college degree.

Sallie Mae, the nation's largest provider of education funding for college students and their families, strongly supports the mission of HBCUs. To help these institutions, the company initiated a default management project, and provided advice and recommendations to help lower their default rates. This report summarizes Sallie Mae's key findings and its recommended actions for HBCUs to lower their default rates through campus initiatives and partnerships with the private sector. The report concludes with recommendations for the federal government.

PROJECT METHODOLOGY & KEY OBSERVATIONS

To conduct the default management project, Sallie Mae assembled a team from its government and industry relations, education and student loan research, information technology, marketing, and loan servicing departments. The team surveyed all 14 potentially affected HBCUs to collect information on their enrollments, financial aid operations, and use of loan processes and other financial aid technologies. The team also engaged in site visits with 11 of these colleges, meeting with the institutions' presidents and senior administrators.

These activities led to the following key findings about the HBCUs:

- Most lacked effective default management strategies and tools;
- Entrance and exit counseling, which educates students on their debt responsibilities, did not provide enough information, or was not tailored to the types of students at their institutions;

- Characteristics of students who borrow and subsequently default could not be readily identified;
- At a few colleges, admissions and financial aid offices were not communicating with each other, making it difficult to track which student borrowers were enrolled and which were in the process of leaving;
- Some did not have plans in place to increase their student retention and graduation rates;
- Institutional financial aid was limited;
- Many often lost track of students when they transfered to other colleges, preventing them from informing borrowers of their repayment options;
- Many student loan recipients had little experience with debt management and consumer finance issues; and,
- Most of the HBCUs with high default rates also had very high rates of students who left college in their freshman and sophomore years — increasing the likelihood of default.

RECOMMENDATIONS FOR THE INSTITUTIONS

Sallie Mae, relying on the observations outlined above, recommends several strategies HBCUs could implement to lower their default rates. These strategies include:

- Developing a default management team that includes campus leadership;
- Hiring a default manager to oversee default prevention activities;
- Increasing retention and graduation rates through additional academic advising, mentoring, peer counseling and tutoring, and other services;
- Involving faculty in default aversion efforts;
- Providing financial management and consumer debt counseling courses;
- Increasing and repackaging institutional grant aid for students who are at risk of defaulting;
- Instituting consumer debt management courses; and,
- Joining the National Student Loan Clearinghouse to track borrowers who transfer to other postsecondary education institutions.

RECOMMENDATIONS FOR PARTNERING WITH PRIVATE INDUSTRY

To assist schools in implementing the recommended strategies, Sallie Mae's default management team produced *A Guide to Default Prevention* for these and other institutions with high default rates. The *Guide* provides information on services the company offers to help institutions and students avert defaults. These services include:

- Offering strategies for financial aid planning;
- Providing more effective entrance and exit counseling materials;
- Collecting demographic characteristics on borrowers and those who default;
- Helping to design effective default management plans; and,
- Improving loan repayment and collection activities.

RECOMMENDATIONS FOR THE FEDERAL GOVERNMENT

The default management team concluded that the federal government could help to preserve these HBCUs by increasing its grant assistance for low-income students, and its appropriations for academic preparation, counseling and other services these institutions provide. The increase in federal funds to institutions and students would greatly enhance the ability of these colleges and universities to continue their historic mission of providing higher-educational opportunities to low-income, disadvantaged students.

BACKGROUND

HBCUs play a critical role in providing higher-educational opportunities to low-income, educationally disadvantaged students who might otherwise be denied access to college. These institutions — while enrolling only 16 percent of African American undergraduate students — actually award nearly 28 percent of all bachelor's degrees to African Americans. However, many HBCUs face severely inadequate funding and shortages of technology and other resources. Despite such adverse conditions, HBCUs continue to succeed in their mission of educating low-income, disadvantaged students.

Recently enacted changes in federal higher-education laws threaten many of these institutions. A provision in the Higher Education Amendments of 1998 requires all HBCUs with student loan default rates of 25 percent or more during the last three federal fiscal years to submit default management plans to the U.S. Secretary of Education by July 1, 1999. If they don't, they risk becoming ineligible to participate in federal financial aid programs. This provision could make 14 of the 103 HBCUs unable to award need-based federal financial aid to their students. **Figure 1** shows a list of the colleges and universities that are affected by this provision. This loss of program eligibility

FIGURE 1

Historically Black Colleges and Universities that Currently Face the Loss of Eligibility to Participate in Federal Financial Aid Programs.

Allen University, Columbia, SC	Mary Holmes College, West Point, MS
Arkansas Baptist College, Little Rock, AR	Miles College, Birmingham, AL
Barber-Scotia College, Concord, NC	Paul Quinn College, Dallas, TX
Central State University, Wilberforce, OH	Southwestern Christian College, Terrell, TX
Huston-Tillotson College, Austin, TX	Texas College, Tyler, TX
Jarvis Christian College, Hawkins, TX	Texas Southern University, Houston, TX
Lane College, Jackson, TN	Wiley College, Marshall, TX

could adversely affect many low-income students' chances of receiving a college degree, since most of these 14 institutions would close if they could not participate in federal financial aid programs.

To help strengthen and preserve these institutions, Sallie Mae, the nation's largest provider of education funding for college students and their families, conducted a study of these 14 HBCUs and agreed to help them design effective default management plans.

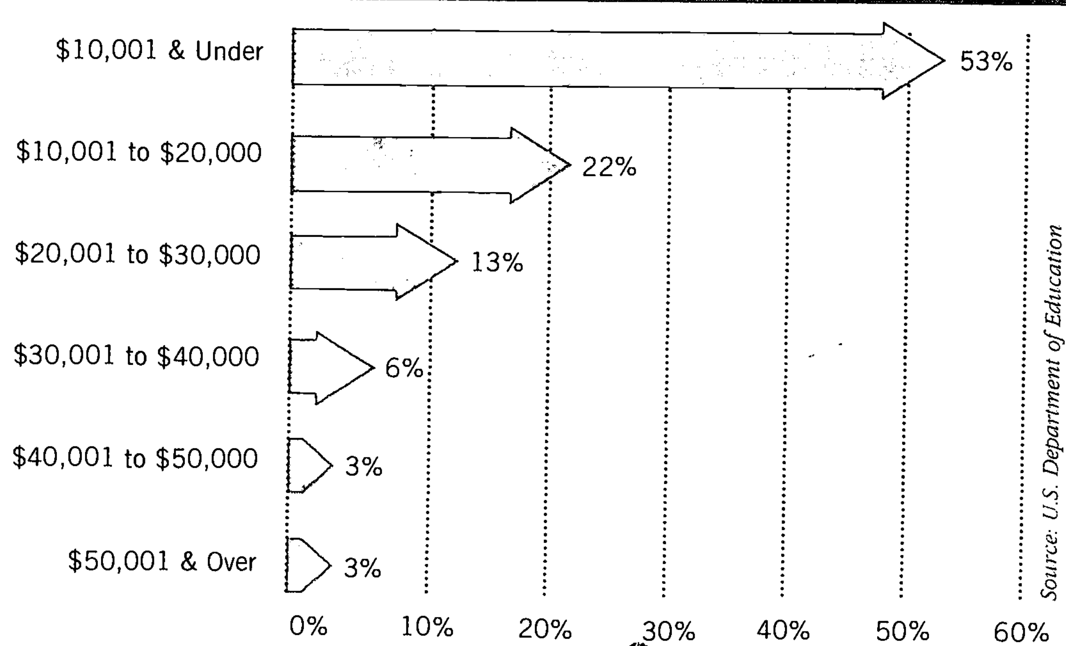
CHARACTERISTICS OF HBCU STUDENTS

Students who attend HBCUs typically come from educationally and economically disadvantaged backgrounds. Data from the U.S. Department of Education shows that, in academic year 1995-96, undergraduates at four-year Historically Black Colleges and Universities had these general characteristics:

- **Low Family Income** — More than 52 percent of the undergraduates attending HBCUs came from families with annual incomes of less than $20,000. Only 39 percent of students at other four-year public and private colleges had family incomes below this level. The mean family income of students at HBCUs was $26,805, which is 25 percent lower than the mean family income ($35,746) of students at other four-year colleges and universities.

FIGURE 2

Fiscal Year 1996 Family Income Levels of Students Who Defaulted and Attended the HBCUs in the Sallie Mae Default Management Project.



A high proportion of undergraduates from low-income families default on their student loans. In fiscal year 1996, fifty-three percent of students who defaulted on their loans from the 14 HBCUs participating in the default management project came from families with annual incomes of $10,000 or less **(Figure 2).** Only 3 percent came from families with annual incomes of more than $50,000. The median family income of students who defaulted on their loans from the HBCUs was just $9,434.

- **High Dependency on Federal Financial Aid** — Seventy-six percent of students from four-year HBCUs received financial assistance to help pay their college expenses, compared with 60 percent of students at other four-year colleges and universities. Nearly 43 percent of those at HBCUs received federal Pell grants (grant aid for low-income undergraduates), versus just 23 percent of students at other four-year colleges. HBCU undergraduates also were more likely to receive federal Stafford loans. About 53 percent of HBCU students received Stafford loans, compared with just 37 percent of all other undergraduates.

- **Educationally Disadvantaged** — The mean composite Scholastic Aptitude Test (SAT) score of HBCU students was 752, versus 944 at other four-year institutions. More than 18 percent of the first- and second-year students at HBCUs said they were enrolled in remedial education courses. Only 10 percent of students at other four-year colleges were taking remedial classes.

CHARACTERISTICS OF HBCUs

HBCUs are unique institutions that educate students who come from families with low incomes, have a high dependency on federal financial aid and are educationally disadvantaged. Currently, 90 of the HBCUs are four-year colleges and universities, and 13 are two-year colleges. HBCUs have small enrollments and class sizes, allowing the faculty to devote more time to teaching and nurturing at-risk students. However, many of these colleges are struggling financially. Compared with other four-year colleges and universities, they have fewer financial resources for instruction, advanced technology, and other services for students and faculty. The 14 colleges and universities involved with the Sallie Mae default management project have:

- **Low Endowments** — According to the U.S. Department of Education, the average endowment at these HBCUs was $4 million ($2,960 per full-time equivalent student). This compares with an average endowment of $67.4 million ($15,329 per full-time equivalent student) at all other four-year colleges and universities.

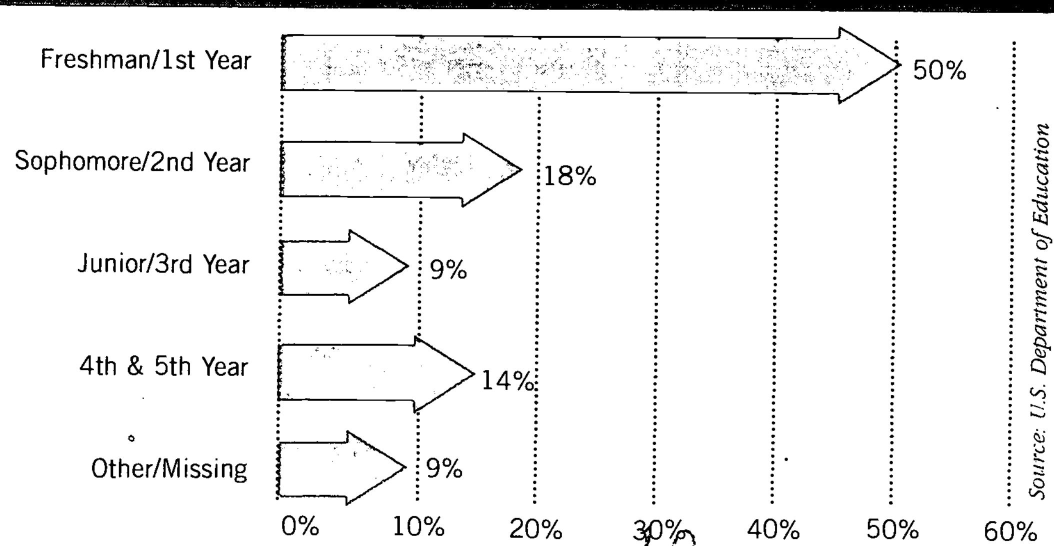
- **Less Funding for Institutional Scholarships** — In 1995-96, the 14 HBCUs provided $5.9 million ($666 per full-time equivalent student) in institution-funded scholarships and fellowships. Non-HBCUs awarded about $8 billion in institutional grants ($1,145 per full-time equivalent student).

- **Low Graduation Rates** — In 1997, according to statistics compiled by *U.S. News and World Report*, seven of the colleges and universities that participated in the Sallie Mae project had six-year graduation rates of 30 percent or less. This means that more than 70 percent of the students who entered these institutions as freshmen in 1989 left their campuses within six years without receiving a bachelor's degree. At many of these institutions, more than 40 percent of the first-year students left college before the start of their sophomore year. And students who leave college without a degree are much more likely to default on their loans (**Figure 3**). About 50 percent of the students who defaulted on their loans from the 14 HBCUs in fiscal year 1996 left college in their freshman year, and 18 percent left college during their sophomore year. Only 14 percent were students who received loans in their fourth and fifth years of academic study.

- **Limited Technology** — Many of the HBCUs lack the types of technology-driven resources that might help reduce default rates. Several of the institutions did not have adequate computer facilities for students or faculty. Others did not have e-mail accounts or Internet access for financial aid administrators and other campus staff. And some did not have the up-to-date computer hardware or software needed to track the financial aid records of their federal aid recipients, making it more difficult to provide adequate financial aid services.

FIGURE 3

Fiscal Year 1996 Academic Grade Levels of Those Who Defaulted and Attended the HBCUs in the Sallie Mae Default Management Project.



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- Some did not have plans in place to increase their student retention and graduation rates;
- Institutional financial aid was limited;
- Many often lost track of students when they transfered to other colleges, preventing them from informing borrowers of their repayment options;
- Many student loan recipients had little experience with debt management and consumer finance issues; and,
- Most of the HBCUs with high default rates also had very high rates of students who left college in their freshman and sophomore years — increasing the likelihood of default.

Recommendations for the Institutions

On many campuses, addressing loan default problems is viewed solely as an issue for the financial aid office. Such a viewpoint limits the ability of HBCUs to put in place meaningful and sustainable default aversion policies. Because of this, the Sallie Mae default management team offers the following strategies to help HBCUs lower their student loan default rates:

- **Develop a Default Management Team that Includes Campus Leadership** — While meeting with the HBCU presidents and staffs, the Sallie Mae team quickly discovered that involvement from campus leadership, particularly at the presidential and senior staff level, is the key factor for institutions to lower their student loan default rates. Default aversion should involve many departments on campus — admissions, financial aid, academic advising, fiscal affairs, career planning and placement, and alumni affairs, to name only a few. Each campus president or chancellor must assemble a default management team that involves all such departments so that coordinated strategies can be developed to help increase student success, which ultimately will lower defaults. The president must remain fully informed of the team's activities and help each of these units contribute to the goal of raising student achievement. Only leadership from the campus president or chancellor can bring these units together to coordinate a comprehensive default prevention initiative.

- **Hire a Default Manager** —The Sallie Mae team strongly encouraged each of the participating HBCUs to hire a default manager. This individual would have primary responsibility for collecting information on the demographic characteristics of borrowers who default, counseling students on strategies for avoiding default status, and apprising campus leaders on the institutions' default rates and other key statistics.

- **Increase Retention and Graduation Rates** — Research has shown that many students who default are those who leave higher-education institutions before obtaining degrees. Many of the HBCUs with high default rates have very low graduation rates. To lower defaults, it is imperative that these institutions develop plans to increase their rates of student retention and success. Sallie Mae recommends that these plans include increasing academic advising, mentoring, peer counseling, and other services. Some of the institutions that Sallie Mae visited have started to develop these plans. Institutions such as Central State University in Ohio and Southwestern Christian College in Texas have plans for increased use of faculty and student mentoring, peer advising, and academic and social counseling to encourage students to remain enrolled. All institutions should strengthen these types of programs for their disadvantaged students.

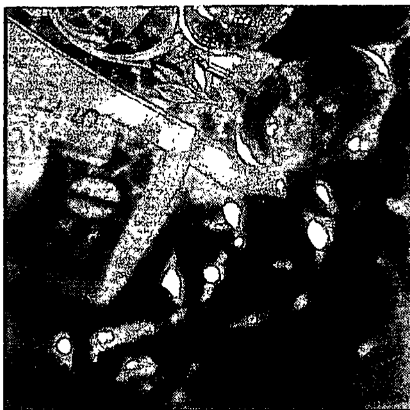
- **Involve Faculty** — Faculty also should play a role in the institutions' default aversion efforts because they can integrate information on student loan borrowing into their curricula. For example, professors in business and accounting should consider using student loans as examples in discussions on consumer finance. These types of lessons could make students more aware of the issues involved with debt and college financing. Faculty also can act as academic advisors and mentors to students who are in danger of leaving their institutions before completing their studies.

- **Increase and Repackage Institutional Scholarships and Fellowships** — As the research findings suggest, the colleges and universities involved with the default management project provide a very limited amount of institutional financial aid. Therefore, it is important to focus scholarships on freshmen students with the greatest financial need. Many of these students have a high risk of defaulting on their loans; adding more grant aid to their financial aid packages would make them less dependent on student loans. Thus, as a long-term strategy, institutions might consider "front-loading" grant dollars toward first-year students, and lowering the loan amounts they receive until their sophomore year, when they have a better chance of completing their educational programs. Each campus also should engage its development and fundraising departments to raise additional funds for institutional scholarships and fellowships.

- **Institute Consumer Debt Management Courses** — A recent study from Nellie Mae, Inc., found that, in academic year 1997-98, sixty-seven percent of all undergraduate students had at least one credit card with an average balance of nearly $1,900. Many students also have car loan payments and other debt, which may make it more difficult for them to pay their student loans after leaving college. This situation may be even more precarious for students at HBCUs, who, because of their low-income family backgrounds, may not have much experience with debt management.

  To increase students' awareness of consumer financing issues, the Sallie Mae team recommends that all institutions require students to complete a short financial planning and consumer debt management course. This course would encourage students to avoid any unnecessary use of credit cards or other debts. These sessions, which could be provided during the freshman orientation week, could be offered by faculty, non-profit agencies, local credit bureaus, or other organizations that provide free debt counseling information to consumers. Additionally, lenders and credit card companies could be required to provide information on debt management as a condition for advertising their credit cards or other products on campus.

- **Join the National Student Loan Clearinghouse** — The National Student Loan Clearinghouse provides a database of records on the enrollment and deferment status of federal student loan recipients. This free service allows institutions to keep track of borrowers who transfer to other higher-education institutions. Joining the Clearinghouse would limit the number of technical defaults by allowing institutions to alert borrowers of their repayment options before loan records become delinquent.



Recommendations For Partnering With Private Industry

Sallie Mae has significant expertise in helping student loan borrowers avoid defaulting on their loans. The company's loan servicing centers in Kansas, Florida, Pennsylvania and Texas help many borrowers who, through no fault of their own, experience financial or personal difficulties that hinder their ability to repay their loans. Sallie Mae's knowledge and experience can serve as a resource to these institutions that are working to lower their numbers of students who become delinquent on loan repayments.

Sallie Mae developed a *Guide to Default Prevention*, which is based on the company's HBCU research findings. The *Guide* is designed to help at-risk, higher-education institutions improve their financial aid counseling and default prevention services. The *Guide* recommends strategies that all institutions can use to help student loan borrowers stay current with loan repayment obligations, and includes options institutions can offer borrowers who encounter difficulties with loan payments. It also contains information on several default aversion services that Sallie Mae and its lending partners can provide to HBCUs and other institutions that are experiencing high default rates. Specifically, the *Guide* addresses:

- **Financial Aid Planning** — Sallie Mae offers a "Paying for College" presentation that institutions can use to inform borrowers about grants, work-study programs, and other financing options. All students, particularly those from low-income families, should be well informed about all college financing options before borrowing. Sallie Mae recommends that this information be provided to students while they are enrolled in junior high and high school so they will understand the best way to finance their college education.

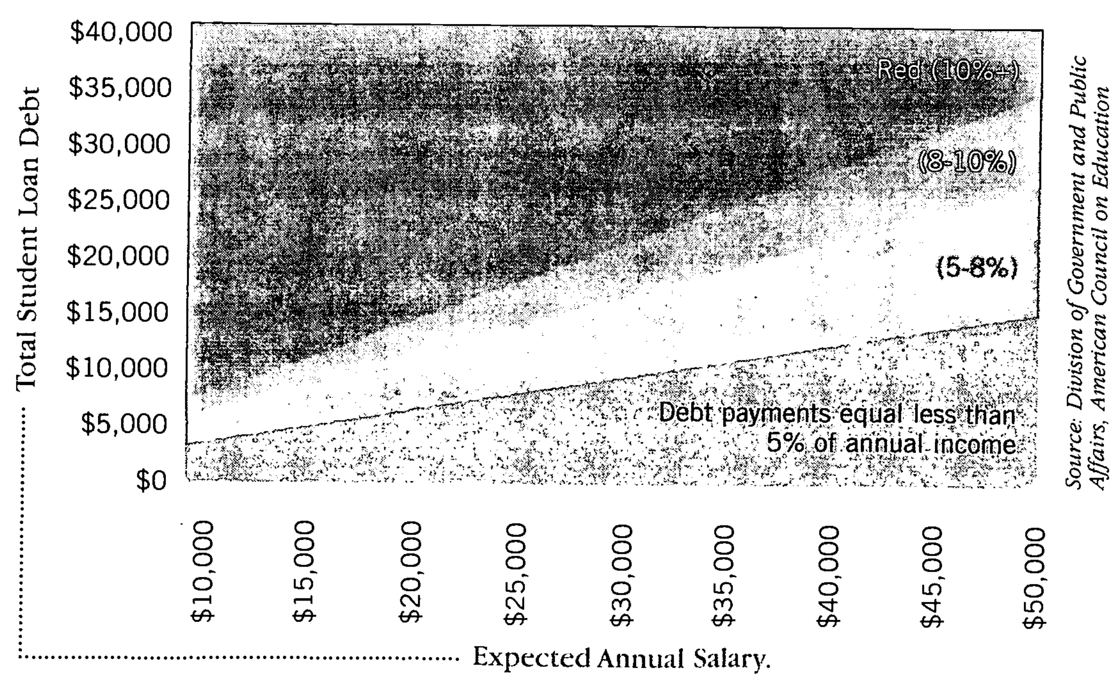
◦ **Entrance and Exit Counseling** — Entrance and exit counseling information sessions are used by postsecondary education institutions to deliver loan information to students when they first borrow, and before they graduate and begin repayment. HBCUs can partner with private lenders to provide more informative loan counseling sessions that will be relevant to the characteristics of their students.

An example of what private industry can offer is evident in **Figure 4**, which pictures new exit counseling material that can be used by HBCUs. This chart, developed by the American Council on Education, shows that students whose expected loan repayments after graduation exceed 10 percent of their anticipated incomes will be in the "red zone"— the danger zone for defaulting. This figure could be used to help students avoid borrowing amounts that exceed 10 percent of their expected salaries. The HBCUs could use this and other new information to increase the frequency of their counseling sessions. Rather than conducting sessions only when students first borrow and before they graduate, institutions should counsel students once a year, or once a semester — especially at institutions with high proportions of students who leave at the end of their first semester.

Increasing the number of counseling sessions would give colleges a greater opportunity to provide information on loan repayment options to borrowers who might leave their institutions before they receive a degree.

FIGURE 4

Is Your Student Loan Debt In The Red Zone?



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- **Designing Default Management Plans** — Sallie Mae's *Guide* follows the U.S. Department of Education's Interim Guidelines for HBCUs and other "Special Institutions" that must submit default management plans to the U.S. Secretary of Education. The *Guide* is meant to serve only as a blueprint. Each college should customize its default management program to meet the individual needs of the institution and its students.

- **Characteristics of Borrowers and Those Who Default** — This information is important if institutions are to design effective default management plans. Sallie Mae has worked with the U.S. Department of Education to provide the characteristics of students who default on their loans at each of the 14 HBCUs involved with the project. The information includes the borrowers' family income levels and the academic grade levels when they received their most recent loans. This data can serve as the basis for designing default management strategies for all institutions with high default rates.

- **Loan Repayment and Collection Activities** — The *Guide* provides colleges and universities with information on loan repayment and collection activities that Sallie Mae and its lending partners have used to help delinquent borrowers become current on their loan repayments. It offers sample letters institutions can send to borrowers to inform them of their delinquency status, and the adverse effects it might have on them and their institutions. The *Guide* also provides information on effective telephone collection techniques, sample loan repayment reminder letters, and new ways to help borrowers avoid default.

Recommendations for the Federal Government

The federal government has a unique role to play in helping support and preserve HBCUs. Congress and the U.S. Department of Education provide funds and administer services to the institutions through Title III, Part B, of the Higher Education Act. Congress also provides funds through college preparation programs such as Upward Bound and other programs that provide academic services to students, and through the National Science Foundation and other agencies seeking to increase the number of African Americans in mathematic, science and engineering careers.

In 1986, when Congress first authorized Title III, Part B funds for Historically Black Colleges and Universities, the Members praised HBCUs for their "[significant contributions] to the efforts to attain equal opportunity through postsecondary education for black, low-income, and educationally disadvantaged Americans." However, during the mid- and late-1990s, federal funds for HBCUs have declined in inflation-adjusted value and have not kept pace with the increases in college costs, and the costs of providing academic support and other services to students and institutions.

To reverse this trend and allow these institutions to continue their historic mission of providing higher-educational opportunities for disadvantaged Americans, Congress should take the following steps:

- **Increase Federal Pell Grant Aid** — Data from the College Board shows that from 1988-89 to 1997-98, federal appropriations for Pell grants, when adjusted for inflation, increased by only 4 percent, but tuition and fee charges at four-year public colleges increased by 44 percent. This lack of Pell grant funds has been even more harmful to students at HBCUs, who are more dependent on financial aid. Unlike other four-year colleges, HBCUs do not have the financial resources to replace inadequate Pell grant dollars. Increasing Pell grant funding would allow students to reduce their dependence on federal student loans and to reduce the institutions' loan default rates.

- **Increase Title III Funds for Retention and Default Prevention Programs** — From fiscal year 1992 to 1998, the amount appropriated by Congress for Title III funds to strengthen Historically Black Colleges and Universities increased by only 6 percent in inflation-adjusted value, from $135 million to $143 million. This small increase is inadequate to keep pace with these colleges' rapidly growing need to improve academic advising and other services the funding is intended to support. Greater increases in Title III aid are needed to help improve student access, retention and default prevention efforts. Congress also should increase the appropriation to HBCUs for Student Support Services, which also are designed to increase student retention and graduation rates.
- **Increase Loan Forgiveness Incentives** — The Higher Education Amendments of 1998 allow student loan borrowers who engage in teaching for elementary and secondary schools in low-income areas to have up to $5,000 of their federal student loans repaid by the federal government. Expanding loan forgiveness to other professions and increasing the amount available would provide all students, particularly those at HBCUs, with added incentives to stay in college and to enter professions that serve low-income citizens.

SUMMARY

Sallie Mae initiated the default management project for Historically Black Colleges and Universities because these institutions play a vital role in providing opportunities for low-income, educationally disadvantaged African Americans. If these institutions close due to their high student loan default rates, the odds for many of these deserving students to achieve academic success will be greatly diminished. Sallie Mae hopes the default management project is the beginning of a successful, long-term relationship with HBCUs and other colleges and universities that provide opportunities for low-income students.

Sallie Mae believes that student loan default prevention is very much a team effort, with the institutions working continually in partnership with lenders, other private sector companies, and the federal government to help students achieve their goals. Sallie Mae and its lending partners can provide these colleges and universities with help in loan counseling information and other services to improve their default aversion efforts.

Private industry also can play a key role in providing advanced technology equipment and other services to these institutions. Increased federal grants for HBCU students and institutions will help to improve retention programs at these colleges and universities. Collectively, these efforts will help Historically Black Colleges and Universities lower their default rates and increase their success in providing higher education to disadvantaged students.

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