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# Student Loan Default Rates in Minnesota, 2007



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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 up to \$150 million in 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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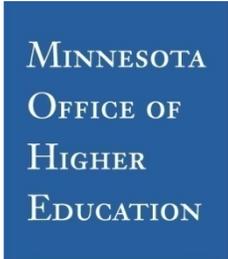
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# Table of Contents

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<b>Introduction</b> .....	<b>3</b>
<b>About Default Rates</b> .....	<b>5</b>
National Two-Year Cohort Default Rate.....	5
Minnesota Two-Year Cohort Default Rate .....	5
Three-Year Default Rate .....	5
<b>Default Rates for Institutions in Minnesota</b> .....	<b>7</b>
<b>Default Rates by Type of Institution in Minnesota</b> .....	<b>12</b>
<b>Minnesota Default Rates are Low, but Borrowing Rates Are High</b> .....	<b>13</b>
<b>Source of Data</b> .....	<b>13</b>



# Introduction

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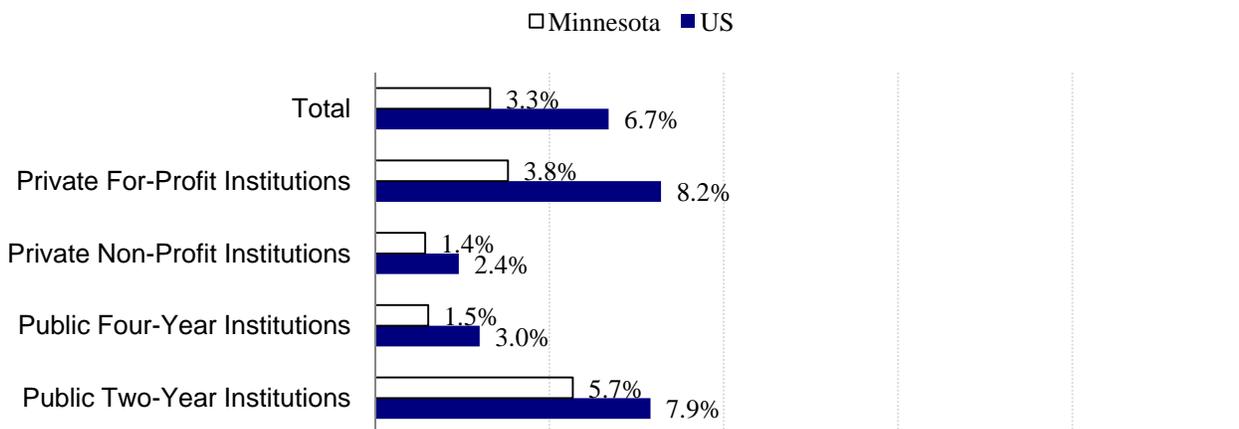
While Minnesota undergraduates are more likely to take out student loans, they are substantially less likely than their peers nationally to default on federal student loans.

Fifty-four 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<sup>1</sup> for students attending institutions in Minnesota was 3.3 percent for 2007, compared to 6.7 percent nationally and 6.1 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 – five states had lower default rates and 48 states and territories had higher default rates.

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.

## Two-Year Cohort Default Rates 2007 by Type of Institution



Minnesota public four year institutions had default rates of 1.5 percent, compared to 3 percent nationally. Minnesota private nonprofit institutions had default rates of 1.4 percent, compared to 2.4 percent nationally. The rates for borrowers who attended public two-year and private for-profit institutions were higher than the rates for borrowers who attended four-year institutions, but they were still less than national rates. Minnesota borrowers who attended public two-year institutions had a default rate of 5.7 percent compared to 7.9 percent nationally. Minnesota borrowers who attended private for-profit institutions had a default rate of 3.8 percent, substantially lower than the national rate of 8.2 percent. Nationally borrowers who attended for profit institutions had a higher default rate than

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<sup>1</sup> The Federal cohort default rate for 2007 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, 2006 and September 30, 2007, and defaulted prior to September 30, 2008. 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.

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.

Prior to the release of the 2007 federal cohort default rates, the rates have been two-year rates. They counted borrowers who were due to go into repayment in one year, and defaulted that year or the next year. Beginning with 2007, the federal government is publishing three-year rates.

The three-year federal default 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 borrowers in the peer Midwestern states was 10.8 percent.

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) may lose eligibility to have their students receive federal student aid. No Minnesota institutions have default rates of 25 percent or more.

In general, 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 2007 was the most recent rate available at the time this report was published. It measures 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, 2006 and September 30, 2007, and defaulted prior to September 30, 2008. 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 2007 is 6.7 percent, as compared to 5.2 percent for 2006 and 4.6 percent for 2005. US Secretary of Education Arne Duncan said: “The economic downturn likely had a significant impact on the borrowers captured in these rates.” (U.S. Department of Education press release, September 14, 2009). The 2007 rates included the time period ending September 30, 2008. Since the 2007-2009 recession started in December 2007, the 2007 cohort default rates included 10 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 3.3 percent for 2007, as compared to 2.9 percent for 2006, and 3.0 percent for 2005. The rate for Minnesota was substantially lower than the rate for most states. Among the 54 states and territories of the United States, 48 states and territories had higher default rates and 5 had lower default rates. Minnesota's rate of 3.3 percent was also lower than the 6.1 percent rate for a group of Midwestern states - Illinois, Indiana, Iowa, Michigan, Ohio, Pennsylvania and Wisconsin.

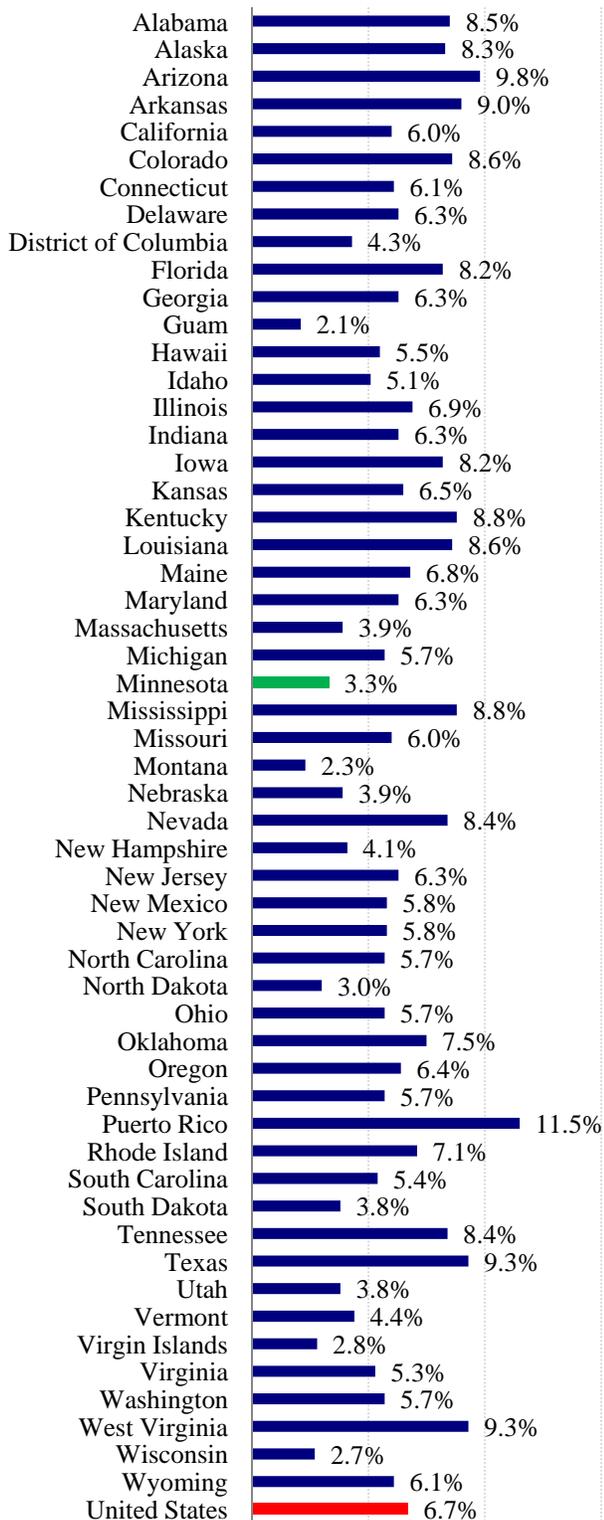
### Three-Year Default Rate

Beginning in December 2009, the two-year default rate is supplemented by 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.

## US States and Territories 2007 Two-Year Cohort Default Rates



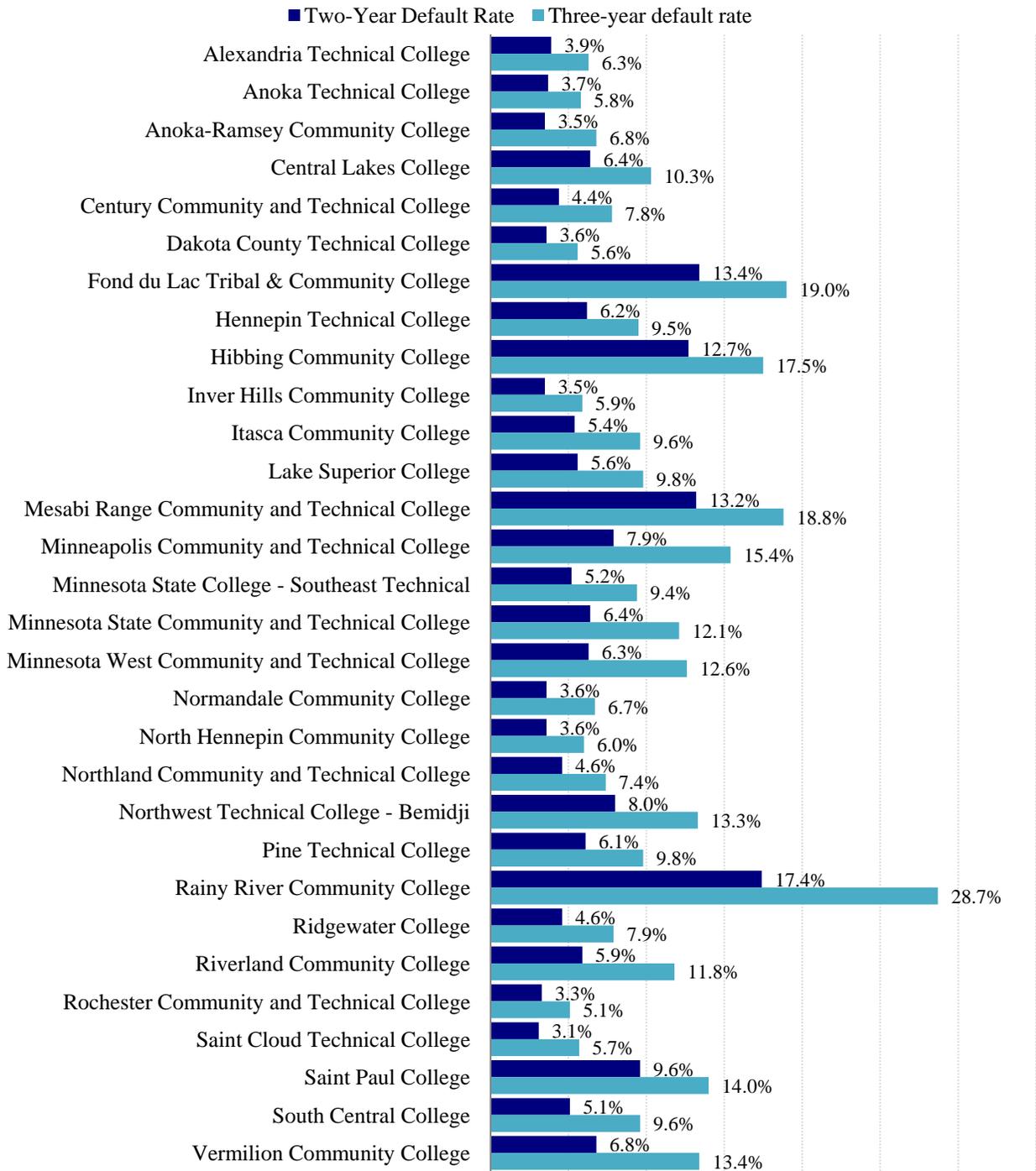
## **Default Rates for Institutions in Minnesota**

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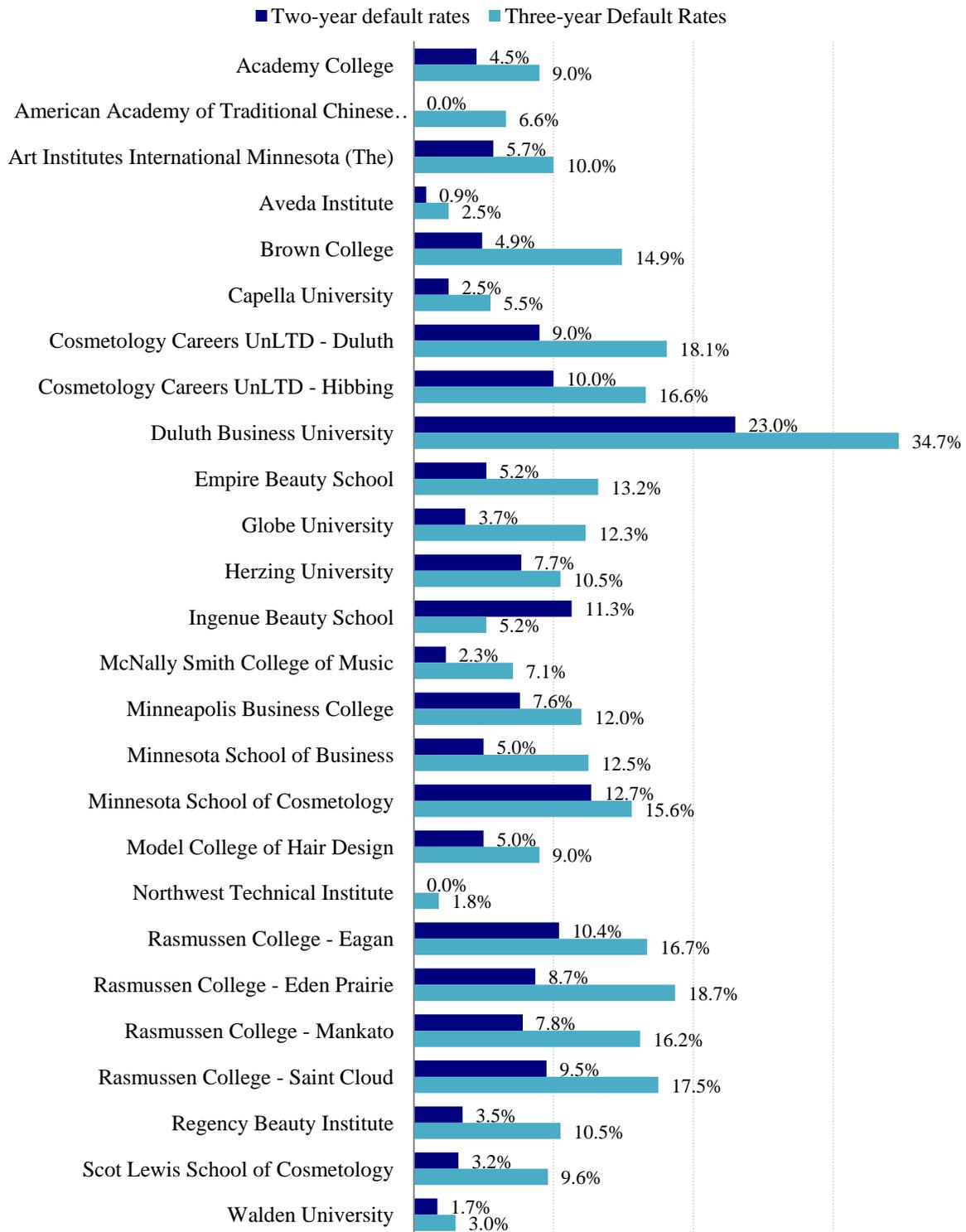
The U.S. Department of Education's 2007 default rates included 101 institutions in Minnesota. Default rates changed by more than half of one percent or stayed the same as follows:

- 40 Minnesota institutions had 2007 default rates that were higher than their default rates in 2006.
- 22 Minnesota institutions had 2007 default rates that were lower than their default rates in 2006.
- 39 Minnesota institutions had 2007 default rates that were the same as their rates in 2006.
- 11 Minnesota institutions had 2007 default rates of zero – no borrowers defaulted.

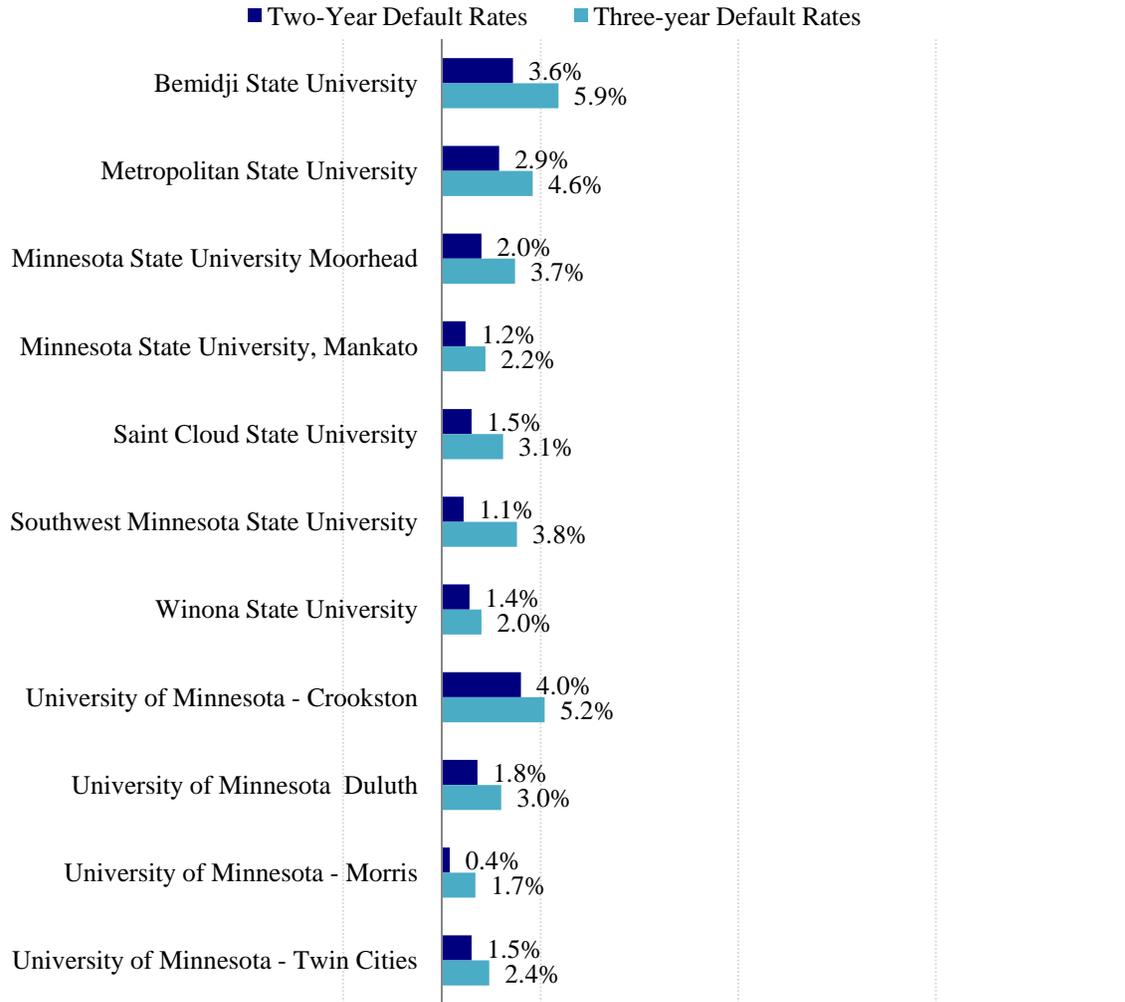
# Minnesota Public Two-Year Institutions 2007 Cohort Default Rates



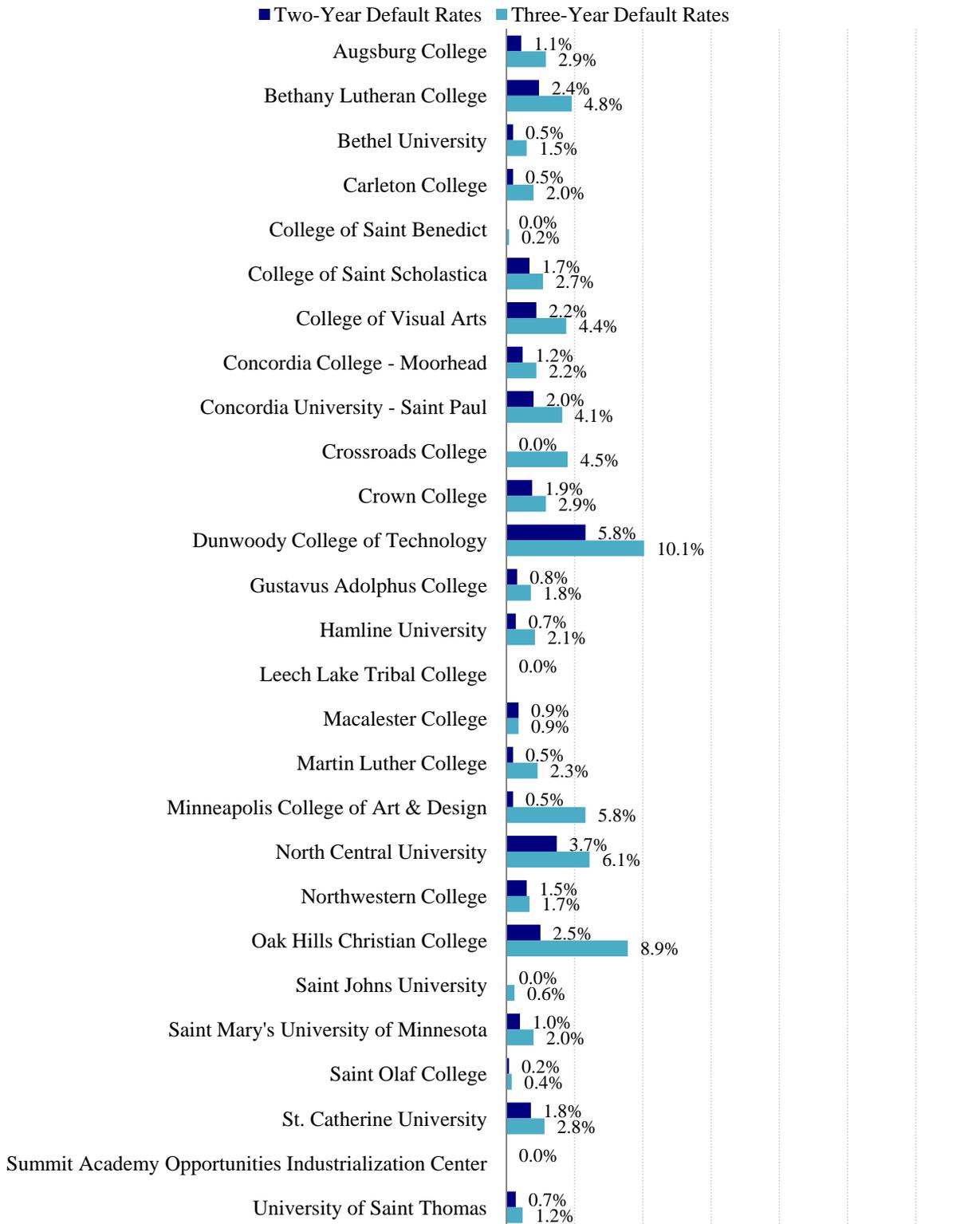
# Minnesota Private For-Profit Institutions 2007 Cohort Default Rates



# Minnesota Public Four-Year Institutions 2007 Cohort Default Rates



# Minnesota Private Non-Profit Institutions 2007 Cohort Default Rates



## Default Rates by Type of Institution in Minnesota

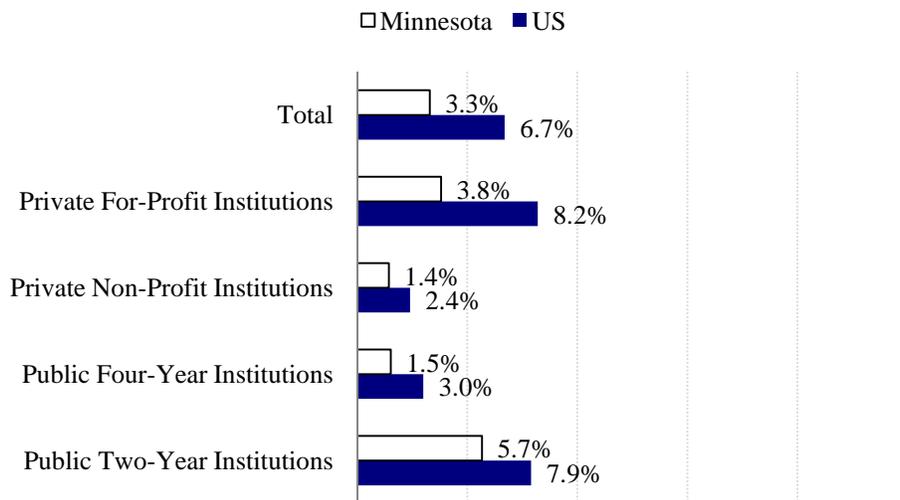
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Two-year default rates varied by the type of institution the borrower attended. In general, rates were higher for borrowers who attended two-year institutions.

- Public two-year institutions – Minnesota: 5.7 percent; U.S.: 9.9 percent
  - The range of default rates in Minnesota varied by institution from 3.1 percent at Saint Paul College to 17.4 percent at Rainy River Community College.
- Private for-profit institutions – Minnesota: 3.8 percent; U.S.: 12.5 percent
  - The range of rates in Minnesota went from two colleges with zero defaults to Duluth Business University with 17.4 percent.
- Public four-year institutions – Minnesota: 1.7 percent; U.S.: 4.3 percent
  - The range of default rates in Minnesota went from 0.4 percent at the University of Minnesota Morris to 3.6 percent at Bemidji State University and 4.0 percent at the University of Minnesota Crookston.
- Private nonprofit institutions – Minnesota: 1.4 percent; U.S.: 3.6 percent
  - The range of default rates in Minnesota went from three colleges with zero defaults to Dunwoody College of Technology with a rate of 5.8 percent.

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 than those who attended public two-year institutions.

## Two-Year Cohort Default Rates 2007 by Type of Institution



### 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, 54 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.

### 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 federal three-year cohort default rates is also the U.S. Department of Education. The rates are listed as “Trial Three-Year Default Rates” and are available online at [federalstudentaid.ed.gov/datacenter/cohort.html](http://federalstudentaid.ed.gov/datacenter/cohort.html).