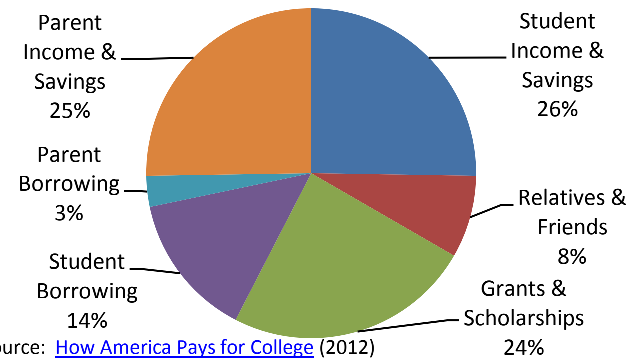
Florida College System Transparency, Accountability, Progress, and Performance

WHAT BASIC INFORMATION SHOULD STUDENTS KNOW ABOUT COLLEGE LOANS?
WHAT IS THE FEDERAL STUDENT LOAN DEFAULT RATE FOR THE FLORIDA COLLEGE SYSTEM?

Figure 1: How the Typical Family Pays for College: Percent of Total Cost of Attendance Paid by Source 2012, 2 Year Public



Source: How America Pays for College (2012)

Rising costs have made financing a college education challenging for students and their families. Figure 1 from How America Pays for College (2012) illustrates from a national perspective how traditional age students (18 to 24 years of age) resourcefully piece together money from a variety of sources to attend.

The following paragraphs contain brief comments about student loans and default rates. More comprehensive financial aid information is available through Florida's Office of Student Financial Assistance's (OSFA) Navigating Your Financial Future and US Department of Education's Financial Aid Overview.

Loans. Student borrowing is one important and growing source of funds for financing a college education. Nationwide, student loans initially surpassed credit cards as the largest source for consumer debt in June, 2010 and exceeded $1 trillion dollars in November, 2012. Experts estimate that across the country student loan debt is increasing at a rate of nearly $2,854 per second. To put that figure in perspective, consider that the National Association for Realtors recently reported the US median existing home price at $180,600 (11/2012). Collectively, about every 1 minute and 4 seconds the equivalent of the full cost of a substantial house is being borrowed to finance student loans.

One of the key things to know about student loans is that they **must be paid back to the lender with interest**. For federal loans, qualifying students – based on need – do not pay interest on their loan(s) while the student remains in school and is making satisfactory academic progress. Grants and scholarships generally do not require repayment.

> The maximum total loan debt taken on by a student to complete a degree should not exceed the entry level pay of the student's chosen occupation.

From a purely economic perspective, taking on reasonable levels of debt to enroll full-time, invest in yourself and gain marketable skills at an accelerated pace can be a wise choice. Those who graduate sooner and major in areas where good jobs\careers exist should benefit from higher earnings for a longer period of time after finishing college. Strategic borrowers minimize the amount of loans assumed; have a clear understanding of their loan terms including the interest rate and repayment schedule; pursue federal loans first (due to their lower interest rates) rather than private loans or worse yet using credit cards to finance college; and limit the loan amount based on the wages that are associated with their chosen major. Wages vary substantially based on student major (e.g., engineers earn more than teachers). For example, Smart-College-Choices, Florida's Research Economic Information Database Application, My Next Move, and Salary.com provide wage information for a variety of occupations\careers. The maximum total loan debt taken on by a student to complete a degree should not exceed the entry level pay of the student's chosen occupation. Students who are undecided about their college major and need to take out loans to study should pursue low cost college options and borrow conservatively. The Wall Street Journal and economist Timothy Taylor provide additional insights on the sensible use of student loans.

> Strategic borrowers . . . pursue federal loans first (due to their lower interest rates) rather than private loans or worse yet using credit cards to finance college.

Default Rates. According to the USDOE Default Rate Guide Quick Reference, cohort default rates show the extent to which students who have entered the loan repayment phase – graduated or left college – are not up-to-date in paying back their loans as scheduled. Default rates exclude deferment or forbearance arrangements which temporarily postpone or reduce loan payments. Both are short term avoidance strategies and not long term solutions. During a deferment – granted to individuals who meet specified hardship criteria – the federal government pays interest that accrues on subsidized loans – but not on unsubsidized loans. In forbearance, interest accrues on both subsidized and unsubsidized portions of a loan. **Generally, lower default rates are positive and indicate that more students from a particular school are entering careers with sufficient wages to repay their loans on a timely basis and acting in a responsible manner.** Borrowers

For assistance, contact Florida College System Research & Analytics
Scott J. Parke, Ph.D. or Kathyrine L. Scheuch, Ed.D. at 850-245-0407

The Florida College System
Research & Analytics

technically default when they exit college and make no required payment for at least 270 days. The US Department of Education and most private lenders give students a 6-month grace period after graduating or exiting college before they're required to start making payments on their student loans. The Institute for Higher Education Policy estimates that **for every student loan borrower who defaults, two others are delinquent** (missed one or more payments but not officially 9 months overdue). Analysis by the Federal Reserve shows similar results.

Default rates vary substantially by institution.

Default rate data examined below focus on statewide results for the Florida College System. **The attachments contain detailed data for all types of Florida higher education institutions.** There are several factors to keep in mind when looking at default rates across the different types of higher education institutions including: selectivity; average amount of debt student's incur; cost of attendance; program length; borrower's dependency status, socio-economic characteristics of the population served, etc. Lending money to higher risk populations provides needed higher education access and can contribute to elevated default rates. **A weak economy, rising college costs, and more borrowing have contributed to growing default rates in Florida and across the country.**

Florida College System Statewide Two-Year Rates. Two-year default rate looks at individuals entering repayment in one federal fiscal year who default in that federal fiscal year or by the end of the next federal fiscal year. Florida's two-year default rates by sector and level appear in Table 1 in the attachment. **The latest two-year default rate for the Florida College System was 13.5 percent which is comparable to the national average of 13.4 percent for public community colleges.** Two-year default rates are trending upward in Florida and across the country for public institutions that primarily offer the first two years of college. The overall rate of increase is slower for Florida College System institutions than the national rate. CollegeMeasures.org rates the Florida College System as above average at 17th best in the country on two-year default rates and improving.

Florida College System Statewide Three-Year Rates. The federal government is transitioning to a three-year default rate which should provide a more complete view of actual defaults. Beginning with the 2009 cohort and initially reported in September, 2012 -- a three-year rate is being calculated for borrowers who default in that federal fiscal year or by the end of the next two federal fiscal years. **The latest three-year default rate for the Florida College System was 20.2 percent which is above the national average of 18.3 percent for public community colleges.** Comparing the Florida College System's two-year and three-year default rates for the same 2009 cohort shows an increase of 7.3 percent. At the same time, the national 2009 cohort default rate for public community colleges increased 6.4 percent.

Amount of Debt Assumed Component. Predominantly two-year public schools like Florida College System institutions have elevated default rates. At the same time, due to their affordable tuition and fees, **the cumulative debt taken on by students and parents is typically much lower among two-year public colleges than other sectors**. Likewise the **percent of borrowers are the lowest among these predominantly two-year public institutions**. Older national data appears in the attachment that supports these statements. Although newer data would reveal that the debt levels and percent of students and parents borrowing has increased across sectors, the relative position of predominantly two-year public institutions like Florida College System institutions will remain the same – low debt burden and a relatively low percentage of borrowers.

Defaulting on a Federal Student Loan is Serious. Defaulting on a federal student loan can have serious financial consequences including wage garnishment, withholding of tax refunds, and will negatively impact an individual's credit score. Having a low credit score makes it more difficult and costly to borrow money for major purchases (e.g., car, house). Even access to new revolving credit (e.g., credit cards) can be limited. It is important to recognize that federal student loans generally remain payable even if an individual declares bankruptcy. The US Department of Education and Florida Office of Student Financial Assistance (OSFA) offers specific advice on avoiding default. When a loan goes into default the lender is likely to turn it over to collections and can request immediate payment in full. Collections costs become the responsibility of the borrower.

Many employers run credit checks on potential new hires and low credit scores are viewed negatively.

For assistance, contact Florida College System Research & Analytics
Scott J. Parke, Ph.D. or Kathyrine L. Scheuch, Ed.D. at 850-245-0407