

TG Research – Institutional Default Studies

Institutional Default Studies

In an effort to better understand student loan default behavior, TG has conducted a series of studies of the factors related to borrower default. Unlike most prior default research, the TG studies focus on individual institutions of postsecondary education and mainly utilize campus-based information to explain the occurrence of default. The benefit of this approach is that it produces results that are specific and relevant to an institution. The ultimate intent of the research is to assist institutions in developing strategies that help their students avoid default. Although each study is tailored to a specific school, the complete body of work has begun to reveal some patterns that should be relevant to many other postsecondary institutions. To date, TG has conducted studies of Texas A&M University – College Station, the University of South Florida, and Texas A&M University – Kingsville.

School Descriptions	Texas A&M College Station	University of South Florida	Texas A&M Kingsville
Location	College Station, TX	Tampa, FL	Kingsville, TX
Type	Public, 4-year or above	Public, 4-year or above	Public, 4-year or above
Total enrollment Fall 2004	44,435	42,238	7,126
Undergraduate enrollment Fall 2004			
Women	49%	59%	52%
White non-Hispanic	82%	66%	25%
Black non-Hispanic	2%	13%	6%
Hispanic	10%	11%	66%
Other+	6%	11%	2%
Full-time	91%	70%	69%
Percent of applicants admitted Fall 2004*	72%	51%	99%
Transfer-out rate (1998 cohort)	16%	9%	39%
Graduation rate within 6 years at institution (1998 cohort)	76%	47%	27%
Official ED Cohort Default Rate			
Default Rate FY 2003	1.7%	2.7%	8.0%
Number in Default	96	156	117
Number in Repayment	5,522	5,599	1,450
Tuition and fees in-state 2004-05*	\$5,955	\$3,090	\$3,906
Financial aid 2003-04*			
Percentage of students receiving aid			
Federal grants~	19%	25%	61%
State/local grants~	33%	81%	23%
Institutional grants~	25%	43%	4%
Loans to students	53%	30%	78%
Average amount of aid they received			
Federal grants~	\$3,426	\$2,950	\$1,655
State/local grants~	\$2,065	\$2,258	\$487
Institutional grants~	\$1,715	\$1,492	\$500
Loans to students	\$2,917	\$2,464	\$1,444
County Descriptions	Brazos County	Hillsborough County	Kleberg County
2003 Census			
Age 5-17 in poverty	20%	18%	30%
Median household income	\$31,410	\$43,097	\$30,325

*full-time, first-time undergraduate students

+Other category includes: Asian or Pacific Islander, American Indian or Alaskan Native, unknown, and Non-resident Alien

~includes scholarships/fellowships

Source: U.S. Department of Education. Integrated Postsecondary Education Data System College Opportunities On-line (IPEDS COOL). Washington, D.C.

(<http://nces.ed.gov/ipeds/cool/>)

Source: U.S. Census Bureau. Housing and Household Economic Statistics Division, Small Area Estimates Branch. (<http://www.census.gov/hhes/www/saie/county.html>)



The Effect of Borrower Characteristics on the Probability of Default at Three Universities

Main Conclusions	
Texas A&M College Station	A higher college grade point average and graduation from college, which describe a borrower's success in college, are strongly associated with lower default rates. Receipt of in-person exit counseling also appears to lower default risk. Race/Ethnicity, gender and other "background" variables were also significant, but they were generally less important than the success variables.
University of South Florida	Borrowers who graduate and do not have any failed course hours have considerably lower likelihoods of default. However, unlike the College Station study, the student's family income is one of the most important factors, with higher incomes having lower probabilities of default.
Texas A&M Kingsville	Like the College Station study, having higher college grade point averages, graduating and receipt of in-person exit counseling lowered borrowers' chances of default. However, unlike the other studies, the Kingsville analysis showed that success in high school, as measured by class rank, was also related to a lower probability of default.

Key for Table	↑ = Increases chances of default	↓ = Decreases chances of default	(Blank) = Not Tested
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Characteristics	Texas A&M College Station	University of South Florida	Texas A&M Kingsville
Number of Borrowers in Study	12,776	17,036	5,177
Cohort Default Rate for Study	4.7%	4.5%	11.0%
Attendance Pattern			
Transferred Course Hours to School	↓		
Higher Total Course Hours		↓	
Low Number of Incomplete Hours		↑	
College Success Variables			
Low Grade Point Average in College	↑	↑	↑
Graduated	↓	↓	↓
Failed Course Hours	↑	↑	
Last Attended Engineering School	↓		
College Preparedness			
High School Class Rank is High			↓
Demographic			
Being Female	↓	↓	↓
Being African-American	↑	↑	↑
Being Hispanic	Not significant	Not significant	↑
Thirty+ Years of Age	↑	↑	Not significant
Parents are Married		↓	
Father Educated Beyond Middle School		↓	
Mother with Middle School Education	↑		
Financial Aid Variables			
Did Not Receive In-person Exit Counseling	↑		↑
Loan(s) Taken After Freshman Year			↓
Zero Expected Family Contribution	↑		↑
Very High EFC	↓		↓
Very High Adjusted Gross Income	↓		
Higher Total Family Income		↓	
Dependent Borrower			Not significant

Applying Default Knowledge at the Campus Level

Texas A&M University – College Station

Changes in Policies/Procedures:

- Enhanced the satisfactory academic progress appeal process to include additional counseling on borrowing to students below a 2.0 grade point average or who completed less than 75 percent of their coursework.
- Initiated a mail campaign to delinquent borrowers and a call campaign to borrowers who are delinquent for 240 days or more.

Changes to Staffing Levels or Skill Sets:

- Provided better training and resources to counselors including ten counselors who are becoming Accredited Financial Counselors via courses by the Association of Financial Counselors and Professional Educators (AFCPE).
- Added a default coordinator position.
- Brought loan entrance counseling back in-house to provide additional counseling on-line for borrowers.

Changes in Communicating with Students:

- Added financial literacy workshop for student employees.
- Integrated financial literacy information into a popular course for freshmen.
- Raised awareness of student loan indebtedness on campus and fostered the view of the financial aid office as research driven.

University of South Florida

Changes in Policies/Procedures:

- Encourage students to meet with counselors before budget adjustments or student loan increases are approved.
- Increase opportunities for on-campus employment by overmatching federal work-study funds.
- Increase the gift aid maximum from 60 percent to 65 percent in the packaging formula.

Changes to Staffing Levels or Skill Sets:

- Enrolled several staff members in Association for Financial Counseling and Professional Educators' (AFCPE) Accredited Financial Counselor program.
- Trained staff members on ways to counsel students to avoid default and how to manage their debt.

Changes in Communicating with Students:

- Co-sponsored the creation of a Students in Free Enterprise (SIFE) chapter at college. One project of the chapter involved peer financial counseling.
- Provided financial literacy training in college orientation and student support service programs.
- Developing a financial literacy workbook for students.

Texas A&M University – Kingsville

Changes in Policies/Procedures:

- New freshmen are awarded grants and work-study up front, but no loans are awarded at the initial notification. These students must request loans and are required to attend in-person entrance counseling. Other undergraduates wanting loans must complete Loans By Web entrance counseling.
- Enhanced entrance and exit counseling to reflect knowledge gained from the study.

Changes to Staffing Levels or Skill Sets:

- Have requested, but have not received, a default prevention officer position.
- Trained financial aid staff on the report to improve their ability to counsel students.

Changes in Communicating with Students:

- Intensified communication with students via mail and e-mail.
- Supplemented college's Academic Intervention and Development Enhancement program which provides academic counseling and required attendance in this program for those seeking to waive their financial aid suspension.
- Conducted classroom presentations on the importance of staying in school and developing life skills including how to better budget money.

TG School Default Studies

Multivariate Analysis of Student Loan Defaulters at Texas A&M University, Matt Steiner and Natali Teszler, TG, January 2005.
http://www.tgslc.org/pdf/TAMU_Multivariate_Analysis.pdf

Multivariate Analysis of Student Loan Defaulters at the University of South Florida, Matt Steiner and Carmen Tym, TG, March 2005.
http://www.tgslc.org/pdf/usf_default.pdf

Multivariate Analysis of Student Loan Defaulters at Texas A&M University - Kingsville, TG, Sandra Barone, Matt Steiner, and Natali Teszler, May 2005.
http://www.tgslc.org/pdf/TAMU_K_Multivariate_Analysis.pdf

Other Related Research

Dynarski, M. (1994). Who defaults on student loans? Findings from the National Postsecondary Student Aid Study. *Economics of Education Review*, 13(1), 55-69.

Knapp, L.G., and Seaks, T. G. (1992). An analysis of the probability of default on federally guaranteed student loans. *Review of Economics and Statistics*, 74(3), 404-411.

Monteverde, K. (2000). Managing student loan default risk: Evidence from a privately-guaranteed portfolio. *Research in Higher Education*, 41(3), 331-352.

Podgursky, M., Ehlert, M., Monroe, R. and Watson, D. (2000). Student loan defaults and enrollment persistence. Columbia, MO. October

Volkwein, J. F., Cabrera, A. F., Szelest, B. P. and Napierski, M. (1995). *Characteristics of student loan defaulters among different racial and ethnic groups*. Boston, MA: AIR 1995 Annual Forum Paper. (ERIC Document Reproduction Services No. ED 386 972).

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Woo, J. H. (2002). Factors affecting the probability of default: Student loans in California. *Journal of Student Financial Aid*, 32(2), 5-23.

For more information contact either
Jeff Webster, TG Assistant Vice President for Research and Analytical Services
at (800) 252-9743, ext. 4504, or jeff.webster@tgslc.org; or
Matt Steiner, Senior Research Analyst
at (800) 252-9743, ext. 2918, or matt.steiner@tgslc.org.



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