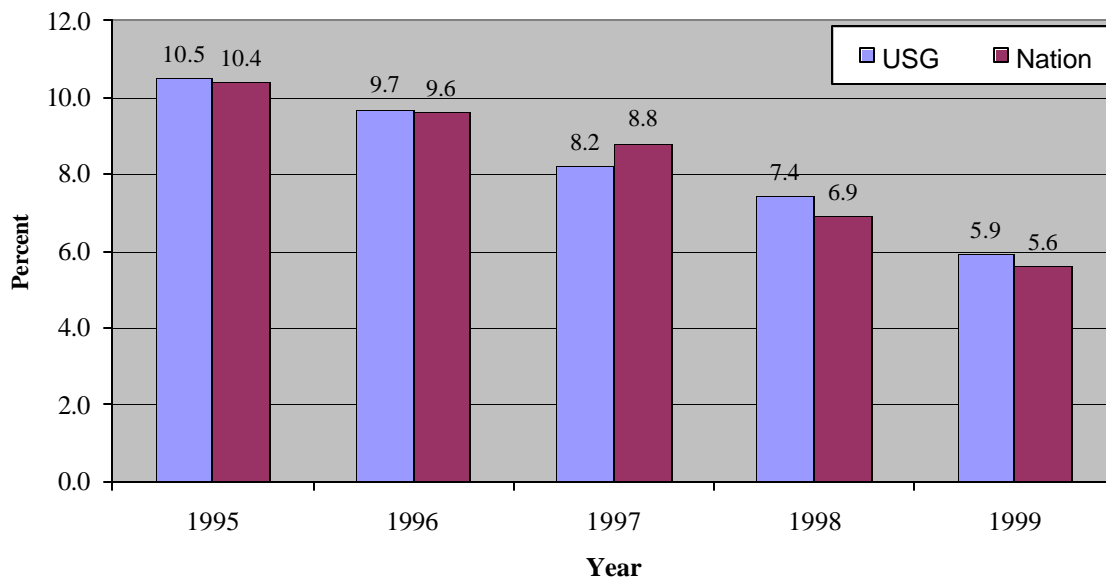




### Loan Defaults for University System of Georgia Students

The U.S. Department of Education recently released student loan default rates for FY 1999.<sup>1</sup> Continuing a downward trend in defaults, the proportion of USG borrowers who defaulted on their loans within 24 months of leaving school declined from 7.4 percent to 5.9 percent in 1999.<sup>2</sup> In 1998 the national default rate was 6.9 percent; in 1999 it was 5.6 percent. Generally, the System default rate has remained close to the national average.

USG and National Average Default Rates, 1995-1999

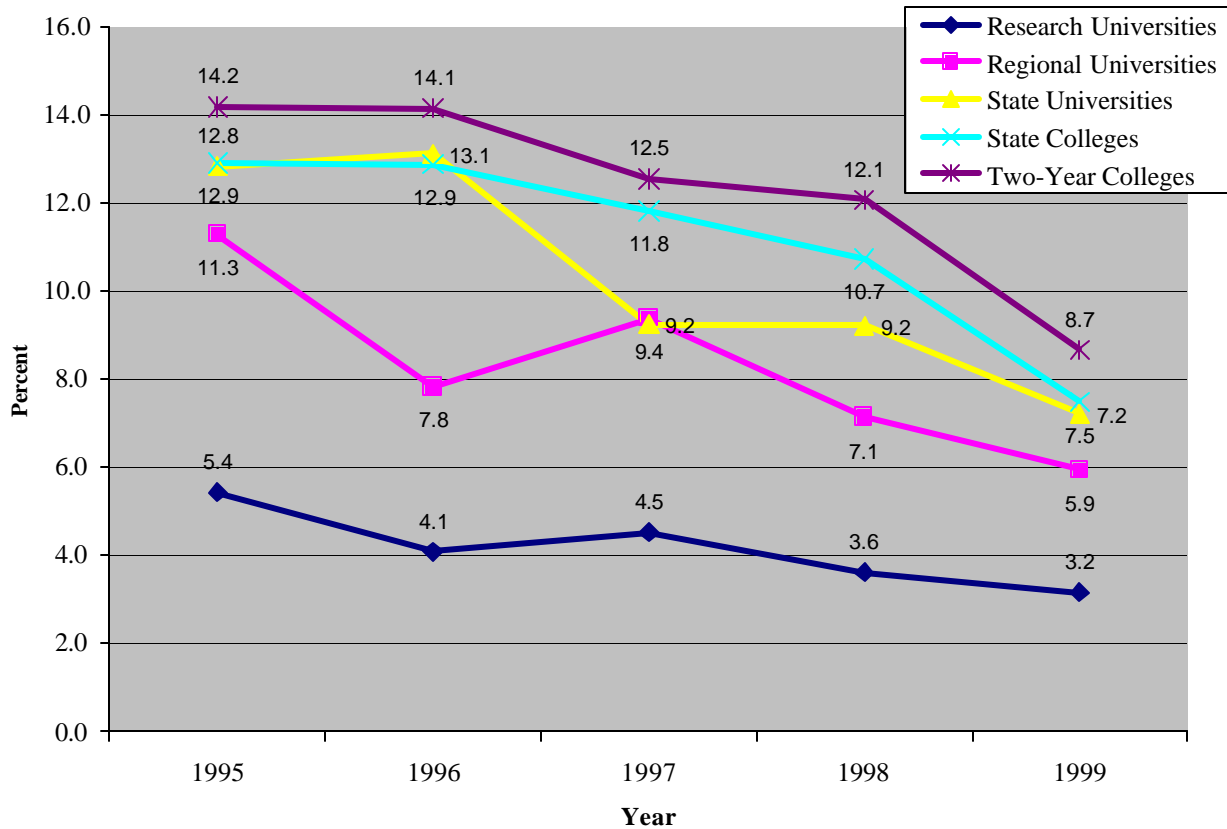


The majority of University System of Georgia institutions registered declines in their default rates as well. The average default rate for four-year USG institutions declined from 6.8 percent in 1998 to 5.5 percent in 1999. The average default rate at two-year USG institutions declined from 12.1 percent in 1998 to 8.7 percent in 1999.

<sup>1</sup> The default rate is defined as the percentage of borrowers who enter repayment in a certain fiscal year and default before the end of the next fiscal year. For instance, the 1999 default rate represents the cohort of borrowers whose first loan repayments came due on or after October 1, 1998, the beginning of federal FY 1999, and who defaulted before September 30, 2000. A borrower is in default if he or she has gone 270 days without a payment.

<sup>2</sup> U.S. Department of Education, Official Cohort Default Rates for Schools, Database, September 2001, Oct. 1, 2001, <http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html>.

**Student Loan Default Rates by Institution Type, 1995-1999**



At the same time that the default rate has declined, the cost of college has increased, a seeming paradox, but actually the result of federal accountability initiatives. The cost of college attendance has increased dramatically over the past twenty years. Nationally, the average inflation-adjusted cost of tuition, room and board at all postsecondary institutions rose 31.9 percent from 1989-90 to 1999-00.<sup>3</sup> A decline in the availability of need-based aid and an increased reliance on loans has accompanied the increased costs of attendance. Loans constituted 48 percent of total financial aid in 1989-90, and 58 percent of total aid received in 2000-01, with \$37.1 billion awarded in FY 2001.<sup>4</sup>

The federal government has long been concerned with reducing the number of delinquent borrowers. In 1990, the national default rate peaked at 22.4 percent, prompting critics of student financial aid programs to call into question the existence of federal student loan programs. Since that time the Department of Education began the Default Management Initiative, requiring greater school accountability for borrower repayment. Schools with default rates above 25 percent for three consecutive years (or greater than 40 percent for any given year) face loss of

<sup>3</sup> U.S. Department of Education, National Center for Education Statistics. *Digest of Education Statistics, 2000*, NCES 2001-034, by Thomas D. Snyder. Production Manager, Charlene M. Hoffman. Washington, DC: 2001, Table 313.

<sup>4</sup> Meanwhile, grants have declined from 49 percent of aid in 1989-90 to 41 percent in 2000-01. College Board, *Trends in Student Aid, 2001*. Table 6. <http://www.collegeboard.org/policy/html/pafa.html>.

Pell grant and Stafford loan eligibility. Since 1991, over 1,100 schools have lost loan program eligibility. Institutions, lenders and guarantee agencies have worked together to reduce default rates through a combination of borrower counseling, debt-management and flexible repayment plans.<sup>5</sup>

Some of the most dramatic decreases in default rates are among the Historically Black Colleges and Universities (HBCUs). Traditionally, these schools have had higher than average default rates. In 1998, amendments to the Higher Education Act removed exemptions that shielded HBCUs with high default rates from Department of Education sanctions. By strengthening their default management plans, HBCUs have been able to achieve significant reductions in default rates. For the most recent cohort, all 101 HBCUs have lowered their default rates to the point that none of them are on the Department of Education's watch list. In line with the national trend, HBCUs in the University System have dramatically reduced their default rates: the 1995 default rate for Albany State University was 21.5 percent; in 1999 it was 9.5 percent. Fort Valley State University reduced its default rate from 21.8 percent in 1995 to 13.7 percent in 1999, and Savannah State University's rate declined from 23.1 percent to 12.8 percent during the same period.

While the default rate has declined over the past decade, the cost of loan defaults has grown dramatically. The total amount outstanding on defaulted loans in 1999 was \$25 billion, more than double the \$12 billion outstanding in 1991. Additionally, while national and System default rates are at historic lows, the recent downturn in the economy may threaten to reverse this trend. However, the existence of innovative, flexible repayment options such as extended loan periods and income-sensitive payment plans may mitigate the effects of an economic recession.

---

<sup>5</sup> *The Chronicle of Higher Education*, September 28, 2001, vol. 48, no. 5, p. 38.

**Student Loan Default Rates for USG Institutions, 1995-1999 (in percent)**

	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
<b>Research Universities</b>					
Georgia Institute of Technology	4.6	4.3	2.7	2.2	2.2
Georgia State University	6.9	4.6	5.9	4.4	4.4
Medical College of Georgia	1.1	0.6	0.9	0.6	1.1
University of Georgia	5.4	4.1	4.5	3.8	2.6
<b>Weighted Average</b>	<b>5.4</b>	<b>4.1</b>	<b>4.5</b>	<b>3.6</b>	<b>3.2</b>
<b>Regional Universities</b>					
Georgia Southern University	9.1	4.8	8.1	7.2	6.0
Valdosta State University	14.1	10.8	11.0	6.9	5.8
<b>Weighted Average</b>	<b>11.3</b>	<b>7.8</b>	<b>9.4</b>	<b>7.1</b>	<b>5.9</b>
<b>State Universities</b>					
Albany State University	21.5	22.8	14.9	18.5	9.5
Armstrong Atlantic State University	11.5	12.3	9.9	10.2	8.9
Augusta State University	10.2	12.3	7.4	9.9	7.4
Clayton College & State University	13.3	11.9	9.3	10.8	7.3
Columbus State University	10.9	4.7	9.7	5.5	5.6
Fort Valley State University	21.8	21.8	17.1	15.9	13.7
Georgia College & State University	8.4	8.5	6.2	4.2	3.6
Georgia Southwestern State University	10.4	8.7	6.7	8.5	5.7
Kennesaw State University	6.4	10.2	5.6	6.2	4.1
North Georgia College & State University	2.8	3.4	2.8	3.0	1.8
Savannah State University	23.1	27.6	15.7	15.6	12.8
Southern Polytechnic State University	7.9	11.3	4.1	3.4	5.0
State University of West Georgia	10.7	10.2	8.7	6.8	5.7
<b>Weighted Average</b>	<b>12.8</b>	<b>13.1</b>	<b>9.2</b>	<b>9.2</b>	<b>7.2</b>
<b>State Colleges</b>					
Dalton State College	12.5	9.1	9.5	10.9	10.8
Macon State College	13.0	13.8	12.1	10.6	7.0
<b>Weighted Average</b>	<b>12.9</b>	<b>12.9</b>	<b>11.8</b>	<b>10.7</b>	<b>7.5</b>
<b>Two-Year Colleges</b>					
Abraham Baldwin Agricultural College	15.7	16.6	14.4	11.1	7.5
Atlanta Metropolitan College	16.8	18.5	9.1	15.8	11.6
Bainbridge College	26.4	14.3	16.7	24.1	18.3
Coastal Georgia Community College	15.6	9.6	7.4	4.8	7.9
Darton College	10.9	15.9	12.1	12.1	7.8
East Georgia College	10.5	7.7	8.9	7.2	7.3
Floyd College	12.5	12.9	10.4	9.8	10.7
Gainesville College	7.6	6.6	9.2	8.2	6.1
Georgia Perimeter College	10.2	13.2	12.6	9.8	8.5
Gordon College	11.9	14.6	8.4	12.1	6.5
Middle Georgia College	18.6	17.8	19.0	17.8	8.9
South Georgia College	19.5	9.0	5.4	3.3	8.3
Waycross College	18.2	13.4	20.0	19.4	9.7
<b>Weighted Average</b>	<b>14.2</b>	<b>14.1</b>	<b>12.5</b>	<b>12.1</b>	<b>8.7</b>
<b>SYSTEM TOTALS</b>	<b>10.5</b>	<b>9.7</b>	<b>8.2</b>	<b>7.4</b>	<b>5.9</b>