



Student Loan Default Rates FY2002

Fifty percent of all financial aid received by USG students is in the form of federal loans. In FY2003, this amounted to over \$450 million dollars. Over the course of a student's education, these loans can be substantial. For example, Federal Stafford loan aggregate limits are: \$23,000 for dependent undergraduate students, \$46,000 for independent undergraduate students, and \$138,500 for graduate students.¹ Thus, federal loans are a significant component in the way students finance their higher education. However, as the name implies, federal loans are a type of financial aid that must be repaid.

Repayment options are available for all programs within the Family Federal Loan Program. Federal Stafford loans begin repayment no later than six months after graduation or termination of at least half-time study. Federal PLUS loan repayment begins after the final disbursement is made. Repayment schedules are set up for a ten-year repayment term with a minimum payment of \$50, depending on the amount borrowed. Additionally, there are options available to persons having difficulty repaying federal student loans such as:

- Income-Sensitive Repayment Option – factors in the amount of gross income.
- Gradual Payment Option – monthly payments increase gradually over the term of the repayment schedule.
- Consolidation Loans – offers borrowers with multiple loans or high balances consolidation into a single payment and often over longer periods, thus reducing the monthly payment to a manageable amount.

Even with the repayment options, there are still students who default on their federal loans. This research note provides an overview of student loan default rates using the most currently available data for borrowers who left college in FY2002.

The U.S. Department of Education tracks federal student loan recipients. Every September, a cohort default rate is issued, which measures the percentage of borrowers who have defaulted on their federal loans within 12 to 24 months of leaving college.² The Department of Education issues draft cohort default rates in January, and institutions are given the opportunity to correct any inaccuracies before the official data are released. By determining cohort default rates,

¹ A subsidized Federal Stafford loan is a need-based loan. The federal government pays the interest that accrues while the recipient is in school, during the grace period after leaving school or graduating, and during eligible deferment periods. An unsubsidized Federal Stafford loan is a non-need-based loan. The student is responsible for all interest that accrues on the loan from the date of disbursement forward. Eligibility for the Federal Stafford Loan Program is determined by the Financial Aid Office at the institution of attendance using federal guidelines. http://www.gsfc.org/GSFA/dsp_staffordloans.cfm.

² The Federal Family Education Loan Programs (FFELP) included in the cohort default rate calculation are Subsidized and Unsubsidized FFEL and Federal Supplemental Loans for Students (SLS). Federal SLS loans have not been made since July 1, 1994; however, it is possible for an SLS loan to be included in a current cohort rate calculation under certain circumstances. The Direct Loans included in the cohort default rate calculation are the Federal Direct Subsidized and Unsubsidized Ford Loans.

sanctioning schools with higher rates from Title IV programs, and providing benefits to schools with lower rates, the U.S. Department of Education creates an incentive for colleges and universities to work with borrowers to reduce defaults.³

According to the U.S. Department of Education, the FY2002 rate at which borrowers default on federal student loans had dropped to an unprecedented low of 5.2 percent. This was a 0.2 percentage point drop from the 2001 rate, and represented a reduction of about 17 percentage points since FY1990, when the default rate peaked at 22.4 percent.⁴ U.S. Secretary of Education Rod Paige attributes the debt repayment surge to the lowest interest rates in 35 years. In July, student loan interest rates dropped to 3.4 percent, making repayment more affordable for borrowers.⁵

Nationally, Georgia ranked 8th in student loan default rates for FY2002, behind Nevada, Arkansas, Florida, Alaska, West Virginia, Alabama, and Kentucky (see Table 1). Such rankings, however, should be interpreted with caution. Nevada had 643 borrowers from 23 colleges and universities to default on their student loans, producing an overall rate of 8.5 percent. In contrast, Georgia had 4,009 borrowers from 119 post-secondary institutions defaulting on their federal student loans. The average default rate among the 34 USG institutions was 5.6 percent, lower than the state average of 6.6 percent (see Table 2).

Figure 1 illustrates the overall decreasing trend of student loan default rates over time. In FY1995, the USG had a double-digit default rate of 10.5 percent, comparable to the national rate of 10.4 percent. In FY2002, the USG and national student loan default rates were similar, decreasing to 5.6 percent and 5.2 percent respectively.

In FY2002 the national average default rate was 4 percent for public four-year colleges and 8.5 percent for public two-year colleges. When looking at default rates by sector, research university students had the lowest rate of 2.5 percent (see Figure 2). Two-year college students had the highest default rate by sector with 10.8 percent in FY2002 (see Figure 3).

Although Georgia's default rate is high relative to other states, this rate is improving within USG institutions. Institutional financial aid officers work with students individually to create a financial aid package that meets educational expenses, as well as providing a manageable repayment schedule. It is likely that the trend in default rates will continue to decline in the future.

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³ Institutions with student loan default rates greater than 40 percent in one year or 25 percent or more for three consecutive years can be dropped from most federal student aid programs.

⁴ Burd, Stephen, "Default Rate on Student Loans Falls to New Low, Education Department Reports," <http://chronicle.com/daily2004/09/2004091504n.htm>

⁵ <http://www.ed.gov/print/news/pressreleases/2004/09/09142004.html>

Table 1
National Student Loan Default Rates, FY2002

State	Number of Schools	Borrowers in Default	Borrowers in Repayment	Borrower Default Rate
Nevada	23	643	7,506	8.5%
Arkansas	52	1,260	17,806	7.0%
Florida	223	8,093	115,293	7.0%
Alaska	9	159	2,300	6.9%
West Virginia	48	1,164	16,831	6.9%
Alabama	62	2,355	34,494	6.8%
Kentucky	89	2,094	31,232	6.7%
Georgia	119	4,009	60,425	6.6%
Arizona	92	5,181	79,290	6.5%
Idaho	26	779	12,162	6.4%
Mississippi	42	1,525	23,671	6.4%
Texas	284	8,620	134,428	6.4%
Oklahoma	88	2,158	35,084	6.1%
Tennessee	128	2,826	45,667	6.1%
New Mexico	33	768	12,701	6.0%
Montana	27	572	9,823	5.8%
Colorado	92	2,505	44,366	5.6%
Iowa	91	2,296	40,470	5.6%
Ohio	235	6,038	107,495	5.6%
Louisiana	71	2,414	43,882	5.5%
New Jersey	127	2,840	52,468	5.4%
Pennsylvania	376	7,185	134,696	5.3%
Rhode Island	25	809	15,082	5.3%
Delaware	13	296	5,689	5.2%
Hawaii	22	270	5,171	5.2%
Wyoming	11	287	5,495	5.2%
Illinois	256	4,732	92,724	5.1%
Maine	41	613	11,908	5.1%
Michigan	137	4,052	78,619	5.1%
Washington	92	2,202	43,127	5.1%
California	552	10,879	216,084	5.0%
New York	424	9,285	188,485	4.9%
Kansas	79	1,430	30,844	4.6%
South Carolina	62	1,309	28,037	4.6%
Maryland	84	1,538	33,618	4.5%
Indiana	109	2,633	59,514	4.4%
Oregon	91	1,369	30,982	4.4%
Virginia	126	2,328	52,753	4.4%
Connecticut	75	979	23,009	4.2%
North Carolina	132	1,876	44,386	4.2%
Nebraska	54	793	19,327	4.1%
Minnesota	117	2,223	57,159	3.8%
Missouri	179	2,237	57,963	3.8%
Wisconsin	87	1,674	47,653	3.5%
Utah	34	738	21,626	3.4%
Massachusetts	182	2,204	65,501	3.3%
North Dakota	24	351	10,643	3.2%
New Hampshire	39	471	16,215	2.9%
South Dakota	28	298	11,386	2.6%
Vermont	27	236	17,536	1.3%

Source: Federal Student Aid Default Management; <http://www.ifap.ed.gov/DefaultManagement/DefaultManagement.html>.

Table 2
USG Student Loan Default Rates, FY2000-FY2002

	FY2000			FY2001			FY2002		
	Borrowers in Default	Borrowers in Repay	Default Rate	Borrowers in Default	Borrowers in Repay	Default Rate	Borrowers in Default	Borrowers in Repay	Default Rate
Research Universities									
Georgia Institute of Technology	25	1,613	1.5%	28	1,709	1.6%	20	1,560	1.3%
Georgia State University	183	3,973	4.6%	130	3,714	3.5%	144	3,637	4.0%
Medical College of Georgia	1	498	0.2%	6	500	1.2%	4	504	0.8%
University of Georgia	132	4,526	2.9%	128	4,345	2.9%	79	4,091	1.9%
Weighted Average	341	10,610	3.2%	292	10,268	2.8%	247	9,792	2.5%
Regional Universities									
Georgia Southern University	260	3,315	7.8%	186	3,363	5.5%	143	2,863	5.0%
Valdosta State University	140	2,144	6.5%	118	1,898	6.2%	88	1,822	4.8%
Weighted Average	400	5,459	7.3%	304	5,261	5.8%	231	4,685	4.9%
State Universities									
Albany State University	151	1,081	14.0%	122	1,335	9.1%	85	934	9.1%
Armstrong Atlantic State University	92	1,362	6.8%	92	1,311	7.0%	83	1,217	6.8%
Augusta State University	64	807	7.9%	66	813	8.1%	51	816	6.3%
Clayton College & State University	43	725	5.9%	59	897	6.6%	73	799	9.1%
Columbus State University	64	984	6.5%	56	860	6.5%	40	835	4.8%
Fort Valley State University	236	1,199	19.7%	156	1,090	14.3%	85	761	11.2%
Georgia College & State University	48	1,100	4.4%	46	991	4.6%	21	912	2.3%
Georgia Southwestern State University	29	490	5.9%	27	504	5.4%	32	491	6.5%
Kennesaw State University	67	1,814	3.7%	76	1,832	4.1%	75	1,687	4.4%
North Georgia College & State University	12	409	2.9%	11	365	3.0%	11	484	2.3%
Savannah State University	263	1,199	21.9%	116	850	13.6%	82	650	12.6%
Southern Polytechnic State University	34	581	5.9%	20	563	3.6%	21	431	4.9%
State University of West Georgia	126	1,820	6.9%	105	1,687	6.2%	93	1,677	5.5%
Weighted Average	1,229	13,571	9.1%	952	13,098	7.3%	752	11,694	6.4%
State Colleges									
Dalton State College	6	117	5.1%	11	92	12.0%	18	107	16.8%
Macon State College	65	711	9.1%	59	698	8.5%	63	804	7.8%
Weighted Average	71	828	8.6%	70	790	8.9%	81	911	8.9%
Two-Year Colleges									
Abraham Baldwin Agricultural College	63	671	9.4%	77	647	11.9%	58	546	10.6%
Atlanta Metropolitan College	10	250	4.0%	44	348	12.6%	50	338	14.8%
Bainbridge College	9	60	15.0%	12	90	13.3%	4	63	6.3%
Coastal Georgia Community College	6	96	6.3%	3	59	5.1%	1	71	1.4%
Darton College	23	284	8.1%	34	298	11.4%	38	356	10.7%
East Georgia College	34	247	13.8%	38	268	14.2%	40	257	15.6%
Floyd College	17	243	7.0%	23	229	10.0%	30	271	11.1%
Gainesville College	9	134	6.7%	7	141	5.0%	5	145	3.4%
Georgia Perimeter College	89	1,267	7.0%	103	1,032	10.0%	68	992	6.9%
Gordon College	24	322	7.5%	41	358	11.5%	50	395	12.7%
Middle Georgia College	61	408	15.0%	81	442	18.3%	73	425	17.2%
South Georgia College	9	109	8.3%	11	118	9.3%	13	128	10.2%
Waycross College	5	53	9.4%	10	85	11.8%	8	84	9.5%
Weighted Average	359	4,144	8.7%	484	4,115	11.8%	438	4,071	10.8%
SYSTEM TOTALS	2,400	34,612	6.9%	2,102	33,532	6.3%	1,749	31,153	5.6%

Figure 1

Student Loan Default Rates: USG vs. National Average
FY1995-FY2002

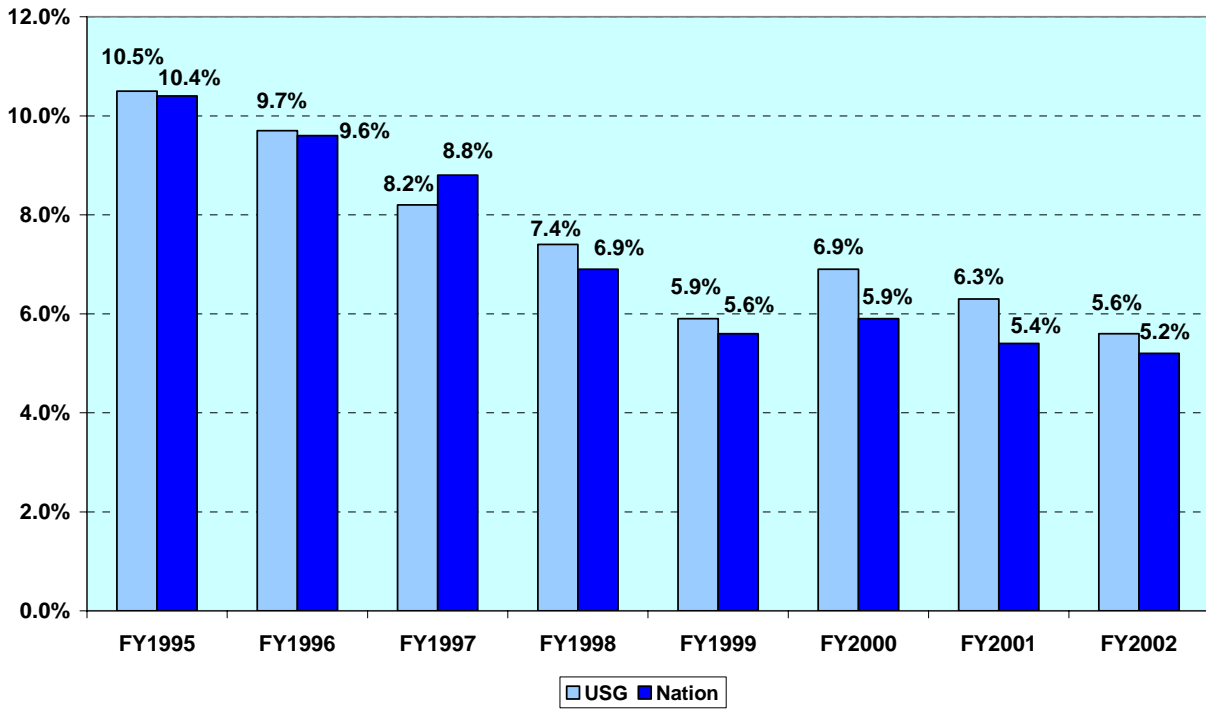


Figure 2

Student Loan Default Rates: USG vs. National Average
Four-Year Colleges
FY2002

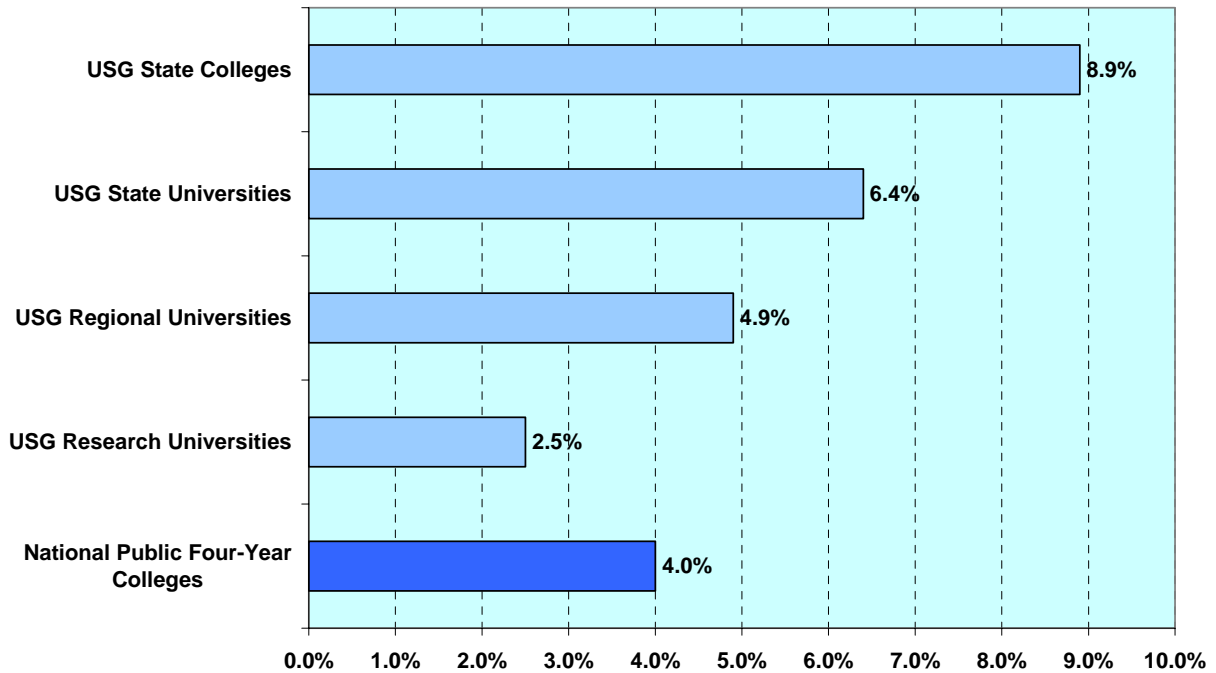


Figure 3

Student Loan Default Rates: USG vs. National Average
Two-Year Colleges
FY2002

