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MINNESOTA HIGHER EDUCATION COORDINATING BOARD

ANALYSIS OF GUARANTEED
STUDENT LOAN PROGRAM
BORROWERS

Consultants' Report and
Coordinating Board Recommendations

May 19, 1988

SUBJECT: ANALYSIS OF GUARANTEED STUDENT LOAN PROGRAM BORROWERS

DATE: MAY 19, 1988

ACTION: THE HIGHER EDUCATION COORDINATING BOARD RECOMMENDED THAT IT:

1. Encourage all two-year post-secondary institutions within the state, and the few four-year institutions with comparatively high default rates, to develop strategies for reducing defaults by their students. To assist in this effort, the Board should sponsor training symposia for representatives of these institutions to help them identify ways in which their institutions can work effectively to reduce defaults without reducing access to post-secondary education.
2. Work actively at the federal level to develop policies that provide incentives for post-secondary institutions to develop efforts to control defaults by rewarding reduced default experience, penalizing institutions that prove unwilling or unprepared to address the issue, and assuring individual institutions greater discretion in pursuing institutional remedies.
3. Continue to make the case within Minnesota for strong state scholarship and grant support for students, including part-time and returning students, from low-income backgrounds in order to avoid the need for excessive borrowing by these students.
4. Work actively at the federal level to develop policies that reduce the borrowing need of economically disadvantaged students by increasing the availability of federal student grant assistance, including aid for part-time and returning students.
5. Support the Higher Education Assistance Foundation (HEAF) in its ongoing review of institutions with high levels of borrowing and default and with problems administering their institutional responsibilities within the Guaranteed Student Loan Program. As allowed under current law, HEAF is encouraged to limit, suspend, or terminate eligibility for institutions that prove unwilling or unprepared to address the issue.
6. Work actively at the federal level to: a) develop policies that allow the state designated guarantee agency within each state the authority to eliminate eligibility for those institutions that prove unwilling or unprepared to address the issue, and b) encourage the U.S. Secretary of Education to support institutional eligibility sanctions imposed by state designated guarantee agencies and prevent other guarantee agencies from approving loans for students attending an institution that has been designated as ineligible by the state guarantee agency.

OVERVIEW OF
CONSULTANTS' ANALYSIS OF
GUARANTEED STUDENT LOAN PROGRAM
BORROWERS, HECB STAFF
CONCLUSIONS, AND BOARD
RECOMMENDATIONS

The Higher Education Coordinating Board's 1987-1990 Management Plan includes an analysis of Guaranteed Student Loan Program (GSL) borrowers. In response to this mandate, the Board contracted for a study with Saul Schwartz of Tufts University, Medford, Massachusetts, and Sandra Baum of Skidmore College, Saratoga Springs, New York. They have performed similar research for Massachusetts. Their report, The Operation of the Guaranteed Student Loan Program in Minnesota, 1977-1985, is attached. This summary describes the purpose of the study, provides background on data sources and limitations, summarizes the key findings of the contractors' report, and presents Board staff conclusions and recommendations.

PURPOSE

The objective of the study was to develop a picture of the Guaranteed Student Loan Program borrowers in Minnesota. The study addresses two emerging concerns: debt levels and defaults. Debt levels are a concern because of their possible impact on future life decisions of borrowers. Defaults are a concern because of their cost to the federal government and their negative impact on those borrowers who default. The study does not directly address a third concern: debt burden, which compares debt level with the ability to repay. The conclusion section of this summary, however, comments on this issue.

BACKGROUND

The Guaranteed Student Loan Program, the largest federal financial aid program, was established in 1965. Forty-six billion dollars were lent between 1977 and 1985 nationwide. In Minnesota, the volume of the Guaranteed Student Loan program for the same period was \$1.5 billion, or slightly more than 3 percent of the total. In Minnesota, students can obtain GSLs from private lenders, such as banks or savings and loans, and from the Coordinating Board.

A guarantee against default is provided by a guarantee agency recognized by the federal government. The guarantee agency pays the lender the principal and interest amounts on loans that the borrower cannot or will not repay. The federal government reimburses the guarantee agency 80 to 100 percent of its claims depending on the agency's default experience. The guarantee agencies are responsible for developing the processes to minimize defaults. The designated guarantee agency for Minnesota is the Higher Education Assistance Foundation. It guarantees most of the GSLs made to Minnesota students.

DATA SOURCES

In 1987, a study released by Federal Funds Information for States, a joint service of the National Governors' Association Center for Policy Research and the National Conference of State Legislatures, raised questions concerning default rates of Guaranteed Student Loan borrowers.

Earlier, the Coordinating Board could rely on its own experience as a lender to provide information and guidance for state level decisions. Since 1980, the Coordinating Board's market share as a lender to students has dropped from 47 percent to less than 10 percent. This limited base makes it difficult for the state to rely solely on the Coordinating Board's

experience. For the past few years, staff have been working to develop alternative sources of data.

Working with the Federal Funds Information for States, the Coordinating Board gained access to the U.S. Department of Education's data base. This source includes a summary of each borrower's record derived from data that guarantee agencies must regularly submit to the Department of Education. From this data base the Coordinating Board obtained information about each borrower listed as attending a Minnesota post-secondary institution or as residing in Minnesota.

The contractor analyzed the 500,000 records in the data file. Loan records were merged to obtain a single record for each borrower. The information presented in this summary is based on the 345,000 borrowers who attended Minnesota institutions between 1977 and 1985. The following section summarizes the contractors' report.

DATA LIMITATIONS

Although the data provide a useful snapshot of activity under the GSL Program, the data base available for the study did not provide some potentially important information for policy consideration. It does not provide insights into the relationship between Guaranteed Student Loans and other loans. It provides only the last date a loan was made, not when the loan went into repayment or how much of a loan was paid before defaulting.

The report shows the timing involved in the Guaranteed Student Loan program. The time it takes for a group of borrowers to enter repayment is long. Some of the students who last borrowed in 1977 still had not entered repayment in 1986, for example. The time it takes for a loan to be classified as "in default" after the borrower makes the last payment can be two

years or more. This suggests that default rates for the two to three most recent years are too incomplete to be used for analysis.

SUMMARY OF FINDINGS FROM CONSULTANTS' REPORT

This section summarizes findings from the contractors' report.

Average Debt Levels

The average cumulative amount of Guaranteed Student Loans, by type of institution attended, held by borrowers in repayment whose last loan was approved in 1984, is as follows:

Technical Institutes:	\$2,700
Community Colleges:	2,800
State Universities:	4,000
University of Minnesota:	5,000
Private Four-Year Institutions:	5,700
Private Two-Year Institutions:	2,900
Graduate/Professional:	6,700

As of 1984, almost all the borrowers who reported the last institution attended as a technical institute, community college, or private two-year institution had a Guaranteed Student Loan debt of less than \$7,500.

About 10 percent of the undergraduates attending a state university or the University of Minnesota and 15 percent attending private four-year institutions had a Guaranteed Student Loan debt of more than \$7,500.

About 22 percent of graduate and professional students had a Guaranteed Student Loan debt over \$7,500.

Growth in Debt Levels Compared to Growth in Tuition

Borrowing by students attending four-year institutions has been increasing faster than increases in tuition while for students attending two-year institutions borrowing has been increasing more slowly than increases in tuition.

Distribution of Borrowers

Between 1977 and 1985, the distribution of the 318,000 undergraduate borrowers, by institution attended at the time their last loan was approved, was as follows:

Technical Institutes:	24%
Community Colleges:	7%
State Universities:	17%
University of Minnesota:	20%
Private Four-Year Institutions:	18%
Private Two-Year Institutions:	15%

In Fall 1986, the distribution of undergraduate students, based on the data reported to the Coordinating Board, was as follows:

Technical Institutes:	16%
Community Colleges:	18%
State Universities:	20%
University of Minnesota:	19%
Private Four-Year Institutions:	16%
Private Two-Year Institutions:	11%

Between 1977 and 1985, based on the student status at the time the last loan was approved, there were 27,000 graduate and professional student borrowers attending Minnesota institutions. They accounted for eight percent of all borrowers.

Default Rates

The Guaranteed Student Loan default rate has been declining since 1977. The decline has decreased by different amounts for each system. The overall decline, however, has been from a default rate of 28.7 percent in 1977 to 19.2 percent in 1980.

The dollar volume of Guaranteed Student Loan defaults, however, is increasing, due to the increasing number of borrowers and total loan volume.

The default rates of the 1983 group of Guaranteed Student Loan borrowers by type of institution last attended are:

Technical Institutes:	18.0%
Community Colleges:	17.8%
State Universities:	8.1%
University of Minnesota:	6.2%
Private Four-Year Institutions:	5.3%
Private Two-Year Institutions:	16.4%

HECB STAFF CONCLUSIONS

- o A review of cumulative GSL debt levels does not show excessive borrowing. For example, a Guaranteed Student Loan of \$7,500 would require monthly payments of no more than \$95 per month. For a person earning \$16,000 per year, the lower end of average starting salaries for liberal arts graduates, \$95 a month, is 7.1 percent of gross income. While there is no conclusive agreement on the definition of excessive loan burden, payments of less than \$100 per month and less than 10 percent of income usually are accepted as reasonable.
- o The distributions of borrowers and students suggest that relatively more students attending technical institutes and private two-year institutions borrow than students attending other types of institutions.
- o Proportionally fewer students attending community colleges borrow than other students. Part of this difference can be explained by the way the borrowers were classified. Each borrower was assigned an institution based on the last loan approved. Transfer students show up as attending four-year institutions rather than a community college.
- o Differences in the default rates between borrowers attending two-year institutions and four-year institutions raise questions about why borrowers default. Students from lower income families are assisted by federal and state scholarship and grant programs. Tuition levels at two-year institutions are lower than at four-year institutions. Yet, students attending two-year institutions borrow more frequently and are more likely to default than other students.

RECOMMENDATIONS AND RATIONALE

Based on the findings and conclusions of this study, the Higher Education Coordinating Board recommends that it:

1. Encourage all two-year post-secondary institutions within the state, and the few four-year institutions with comparatively high default

rates, to develop strategies for reducing defaults by their students. To assist in this effort, the Board should sponsor training symposia for representatives of these institutions to help them identify ways in which their institutions can work effectively to reduce defaults without reducing access to post-secondary education.

Rationale: The downward trend in default rates systemwide and statewide indicates that default rates are not a crisis in Minnesota. Yet the pronounced difference in default rates between borrowers who attended two-year and four-year institutions suggests reason for some concern and concerted effort. Many factors that contribute to higher default levels are well beyond the control of educational institutions. Because two-year institutions enroll a disproportionate share of students from economically and educationally disadvantaged backgrounds, these institutions will almost certainly face the toughest task of ensuring success for their students. Yet there are ways in which these institutions can help reduce the risk of future failure and associated loan defaults. HECB staff have been impressed with the training program recently initiated by the Minnesota Association of Private Post-secondary Schools for institutional managers and financial aid administrators. By making this training available to all two-year post-secondary schools, in addition to continuing its past efforts to help contain defaults, the Board would help these institutions better understand how they can help reduce the likelihood of default among their students.

The best strategy for reducing defaults, without doubt, is to provide students with an education that pays off. Several national reports have indicated instances of students being enrolled in programs for which they lack appropriate preparation; as a result, they often drop out with little to show for the experience but loan debts. In cases where students do complete programs, they may find that jobs related to the preparation

program are not available. Consequently, such students may be either unable or unwilling to repay their loans; they feel shortchanged by their educations. Part of the Board's training would be devoted to address how institutions might enhance the likelihood of success.

2. Work actively at the federal level to develop policies that provide incentives for post-secondary institutions to develop efforts to control defaults by rewarding reduced default experience, penalizing institutions that prove unwilling or unprepared to address the issue, and assuring individual institutions greater discretion in pursuing institutional remedies.

Rationale: It is not unreasonable for federal policy to penalize institutions that fail to act responsibly in helping to curb defaults. But such penalties should focus on the relatively few institutions that prove unwilling and unprepared to address the issue. To engage institutions effectively in default prevention, the federal government must also develop incentives for reducing defaults and rewards for institutions that succeed. Incentives will work much more effectively than penalties for the vast majority of schools with relatively high default rates, which are willing to work toward reduced defaults, but do so within the context of a strong commitment to broad access to post-secondary opportunities. Furthermore, if institutions are to be held accountable, they must have the discretion to take action that they deem to be necessary, and federal law needs to be changed to grant institutions such discretion.

NOTE: National studies, previous work by the Coordinating Board, and current discussions at the federal level provide a sound basis to develop other strategies for reducing student loan defaults. Based on these various sources of information and activity, the Higher Education Coordinating Board recommends that it:

3. Continue to make the case within Minnesota for strong state scholarship and grant support for students, including part-time and returning students, from low-income backgrounds in order to avoid the need for excessive borrowing by these students.

Rationale: The relatively low debt levels reflected in this study, both in terms of average debt and portions of the student borrowing population with high debt levels, suggest that excessive borrowing is not at present a major problem for most students in Minnesota. Limiting the need for students to borrow will help contain future default rates.

Yet the default levels reflected in research around the country suggest that students from low-income backgrounds are those most likely to experience difficulty in loan repayment. "The design for shared responsibility," which represents current Minnesota financial aid policy, is well designed to mitigate against excessive borrowing and deserves continued strong state support.

It assumes that the cost of attendance can be met by a reasonable contribution from students and parents, grant aid, borrowing, work, savings, and other assistance. Grants are a key to assuring educational access. But this must be access to likely success. Any type of financial aid has little real value unless it helps the student succeed in a quality educational program and one leading to a productive future.

4. Work actively at the federal level to develop policies that reduce the borrowing need of economically disadvantaged students by increasing the availability of federal student grant assistance, including aid for part-time and returning students.

Rationale: The rationale here is the same as offered in recommendation three.

5. Support the Higher Education Assistance Foundation (HEAF) in its ongoing review of institutions with high levels of borrowing and default and with problems administering their institutional responsibilities within the Guaranteed Student Loan program. As allowed under current law, HEAF is encouraged to limit, suspend, or terminate eligibility for institutions that prove unwilling or unprepared to address the issue.

Rationale: In Minnesota, the Higher Education Assistance Foundation, a non-profit corporation, has been designated by the U.S. Secretary of Education, on the recommendation of the governor, to act as the state's guarantee agency for the federal Guaranteed Student Loan program. Therefore, the state must rely on HEAF to address policy issues regarding the GSL program and to implement actions that are in the state's best interests. In the past, many guarantee agencies have been reluctant to restrict institutional eligibility for GSL borrowing. Recently, however, HEAF, the New Jersey Guarantee Agency (a state agency), and some other guarantee agencies, have begun to audit the GSL borrowing in institutions with abnormally high levels of borrowing and default, and have imposed a range of sanctions on those few institutions with indefensible practices. This procedure appears to have substantial merit, and this recommendation supports HEAF's continued leadership in working aggressively to help institutions better understand their responsibilities in the Guaranteed Student Loan program.

6. Work actively at the federal level to: a) develop policies that allow the state designated guarantee agency within each state with the authority to eliminate eligibility for those institutions that prove unwilling and unprepared to address the issue, and b) encourage the U.S. Secretary of Education to support institutional eligibility sanctions imposed by state designated guarantee agencies and prevent other guarantee agencies from approving loans for students attending an institution that has been designated as ineligible by the state designated guarantee agency.

Rationale: Recommendation five discusses the rationale for asking the state guarantee agencies to examine more carefully the degree of effort to manage or control defaults in post-secondary institutions whose students borrow and default at high rates. Today, however, federal law does not grant guarantee agencies much authority to do this. For example, guarantee

agencies are expressly prohibited from terminating institutional eligibility based solely on high default. Federal law should be changed to provide the guarantee agencies with greater discretion. Furthermore, today such action by a responsible guarantee agency could be countermanded by another guarantee agency. This has happened in New Jersey, where some institutions were declared ineligible after a rigorous audit process, only to be granted eligibility by another guarantee agency. If agencies are to act responsibly, they must have the authority to do so. HEAF has indicated that it will not contradict any other state-designated guarantor's determination of institutional eligibility; it is appropriate that other guarantors accept the same constraints. The 1986 Higher Education Act Amendments appeared to correct this dilemma by providing the Secretary of Education with the authority to review a guarantor's eligibility determination, and if in agreement, to send a bulletin preventing other guarantors from approving loans to students at ineligible institutions. But to date this has not been occurring.

The Operation of the Guaranteed Student Loan Program
in Minnesota, 1977-1985

by

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April, 1988

This report was prepared for the Minnesota Higher Education Coordinating Board. The opinions expressed in the report, however, represent the views of the authors alone.

We would like to express our thanks to the Minnesota Higher Education Coordinating Board advisory committee for their suggestions. We especially thank Dr. Gerald Setter for his invaluable assistance.

The Operation of the Guaranteed Student Loan
Program in Minnesota, 1977-1985

This report describes the Guaranteed Student Loan (GSL) program as it operated in Minnesota from 1977 to 1985. We focus specifically on two aspects of the GSL program: default rates and total debt accumulated by individual students. Both of these areas have been the subject of considerable concern in recent years as loan volume has grown rapidly and as the costs of loan default have become an increasing share of Federal appropriations for the GSL program. In 1986, the Federal government appropriated \$1.3 billion for GSL defaults; this was 36% of total appropriations for the GSL program.

Between 1977 and 1985, the GSL program provided almost \$1.5 billion dollars in loans to students at Minnesota institutions (or to Minnesota residents attending out-of-state schools). This represents slightly more than 3% of the \$46 billion lent nationwide over the same period (Table 1). Mirroring the national pattern, the GSL program grew rapidly in Minnesota between 1977 and 1985. Borrowing in 1981 was ten times the 1977 level. After GSL eligibility requirements were tightened in 1981, borrowing dipped slightly. But by 1983, loan volume in Minnesota exceeded the 1981 level and it has grown steadily since.

In describing the GSL program in Minnesota, we use the "dump tape" data which are provided by all guarantee agencies to the U.S. Department of Education on a semi-annual basis.

Table 1

The Growth of the GSL Program
in Minnesota and in the U.S.

Loan Volume by Guarantee Agencies
(millions of current dollars)

<u>Year</u>	<u>United States</u>	<u>Minnesota</u>
(1)	(2)	(3)
1977	\$1,037	\$ 23
1978	1,485	44
1979	2,443	76
1980	4,336	117
1981	7,397	223
1982	6,004	194
1983	6,794	234
1984	7,875	271
1985	8,884	296
Total	\$46,253	\$1,478

Source: Col. (2): U.S. Government Accounting Office,
Guaranteed Student Loans, GAO/HRD-86-57
(Washington: July, 1986)

Col. (3): Computations by the authors from "dump
tape" provided by MHECB (see text p. 1-2).

The structure of this report is as follows. Section I outlines the overall research strategy which guided our empirical analysis. Section II provides a detailed description of the data base and points out the limitations of the available data. In Section III, we present and discuss our findings. The last section of the report contains conclusions and suggestions for future research.

Section I - Research Strategy

As noted above, we focus on two central analytic variables - default rates and cumulative GSL debt levels. Average cumulative debt levels are of concern to the higher education community because of the fear that borrowers may be forced to severely limit their occupational and lifestyle options in the years after they leave school.

The latest findings concerning the impact of loan repayment on the economic status of borrowers (Baum and Schwartz, 1988) suggest that many borrowers - perhaps 30% - do perceive a significant burden arising from their loan repayment. The actual economic impact of loan repayment on borrowers, however, does not yet seem to be very large. Holding other variables constant, those with high loan payments are not significantly less likely to own cars or homes or to live with their parents than those with low loan payments. Apart from the impact of loan repayment

on their current lifestyles, borrowers generally feel that the GSL program has significantly aided their access and choice in higher education.¹

On the national level, very little is known about the amount of GSL debt which is accumulated by individual borrowers over their postsecondary careers. Published data report the number and average size of GSL loans made each year, without distinguishing between students borrowing for the first time and those who might have borrowed several times in past years.² Using the "dump tape" data described in the next section, we can calculate the cumulative amount disbursed to each borrower.

Another issue of concern to policymakers is GSL default rates. GSL loans are typically made by commercial banks to individual students. These loans are then guaranteed by a private nonprofit guarantee agency which pays the commercial lender if the student defaults. The Federal government then reimburses the guarantee agency for the claims which it pays to the original lender (or to the current holder of the loan.)³

Most of the existing literature on default rates has focused on cumulative gross default rates, calculated as the total amount paid in default claims divided by the total value of loans which have come into repayment since the inception of the GSL program. In this status report, we present separate default rates (and cumulative debt levels) for each year from 1977 to 1985. The exact method used to calculate these "cohort" default rates is detailed in the next section.

Postsecondary education in Minnesota takes a variety of forms. About 80% of Minnesota's students attend public institutions. The five campuses of the University of Minnesota system enrolled 26% of all full-time postsecondary students in Minnesota in the fall of 1985 (MHECB, 1987). The state university system, consisting of seven four-year institutions, enrolled about 20% of postsecondary students. Vocational training, which reached about 23% of postsecondary students in 1985, is provided by an extensive set of public technical institutes. Community colleges, spread across the state, enrolled approximately 10% of postsecondary students.

Despite the central role of public education in Minnesota, there is an active private sector consisting of a number of prestigious four-year schools as well as an array of private two-year schools, proprietary schools (including schools of cosmetology and business technology) and hospital-based schools of nursing and medical technology.

Because of the wide assortment of institutions in Minnesota, we provide a description of the GSL program by type of school. For students who borrowed to finance their undergraduate education, results are presented for each of six different institutional types. The six categories are:

- (1) Technical Institutes
- (2) Community Colleges
- (3) State Universities
- (4) University of Minnesota System
- (5) Private Four-Year Colleges and Universities
- (6) Private Two-Year, Proprietary and Hospital-based Schools

All "graduate/professional" students, regardless of the school they attended, are treated as a distinct group since their circumstances are markedly different, on average, from those of undergraduate students.

In Appendix C, results are also presented for two other groups of undergraduates: (a) Minnesota students attending out-of-state schools which have reciprocity agreements with the state of Minnesota and (b) Minnesota students attending all other out-of-state schools.

The substance of the report is Tables 5 through 7, presented in Section III, which show the time pattern of average cumulative GSL debt levels and GSL default rates, by school type. The next section discusses the data used to construct those tables.

Section II - Description of the Data

The vast majority of GSL loans are issued by banks and then guaranteed by private, nonprofit guarantee agencies. The guarantee agencies keep a record of the guaranteed loans in their "total loan master file". Once every six months, the guarantee agencies provide the U.S. Department of Education (DOE) with a subset of the information in their master files. That data - called the "dump tape data" here - are provided according to a set of protocols specified by DOE in a procedures manual (DOE, 1982).

The particular data set used in this report was provided by the Minnesota Higher Education Coordinating Board.⁴ The data

for Minnesota contain approximately 500,000 records. There is a record for each student who borrowed from the GSL program in order to attend a Minnesota institution, and for each Minnesota resident attending an out-of-state school.⁵ The variables used in this report are briefly described in Appendix A and described in greater detail in the procedures manual.

The first step in analyzing the dump tape data for Minnesota is to categorize all of the records by institutional type and by the year in which the last loan was approved.⁶

"Institutional type" is determined by the school number of the school listed on the borrower's "most recent" GSL application. A list of the schools in each category appears in Appendix B.

Table 2 categorizes borrowers by type of school attended and by the year of last loan approval. All records for which the date of last approval was prior to 1977 or after 1985 were excluded. Also excluded from the table are students attending out-of-state schools.

Over the 1977-85 period, the technical institute sector had the largest number of borrowers; about 22% of all loans were made to students at technical institutes. But the fastest growing sector was the University of Minnesota system where the number of borrowers was ten times larger in 1985 than in 1977. Table 2 shows steady growth in the use of the GSL program in all sectors, with the exception of graduate and professional students.

Table 2

Number of Borrowers by Year and School Type*
Minnesota Residents and Those Attending Minnesota Institutions

Year	Undergraduate Students						Graduate/ Professional Students	All Students
	Tech. Inst.	Comm. Coll.	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1977	2,128	501	1,358	1,200	1,702	1,217	1,276	9,382
1978	3,606	739	1,966	1,839	2,539	2,424	2,201	15,314
1979	5,025	1,233	3,259	3,847	3,696	3,414	3,290	23,764
1980	7,453	2,072	5,140	6,486	4,897	4,163	4,221	34,432
1981	9,048	3,552	8,054	10,670	8,448	6,368	6,148	52,288
1982	10,026	3,036	6,830	7,723	7,094	6,904	2,161	43,774
1983	11,276	3,309	7,080	9,453	7,650	7,751	2,255	48,774
1984	12,350	3,627	8,744	9,791	9,483	7,263	2,622	53,880
1985	14,010	4,439	10,591	12,114	11,764	7,410	2,554	62,882
Total	74,922	22,508	53,022	63,123	57,273	46,914	26,728	344,490

Source: Computations by the authors from data provided by MHECB.

* The record of each student is categorized by the year in which the last loan was approved ("year") and by the type of school last attended ("school type").

Table 2 also indicates the impact which the tightening of GSL regulations in 1981 had on borrowing in 1982. At the state universities, at the University of Minnesota, at the four-year private schools and especially among graduate and professional students, there was a sharp drop in the number of GSL borrowers in 1982. All sectors had recovered their 1981 levels by 1985 with the exception of graduate/professional students.

Description of Variables

The variables contained on the dump tape are considerably less detailed than the information typically available to the guarantee agency. For example, each guarantee agency has access to the current status of each loan which it has guaranteed. The guarantee agency thus knows, for each loan and for each individual:

- (a) cumulative amounts borrowed by each individual;
- (b) the school specified on each loan application;
- (c) the date each loan came into repayment;
- (d) the amount repaid (principal and interest);
- (e) the date that each loan was declared in default (if it was).

These data, taken together, can provide the guarantee agency with a detailed look at its portfolio. The omission of a significant portion of this information from the dump tape creates a number of problems for our empirical analysis, especially in calculating default rates.

For calculating cohort default rates, it would be better to categorize loans by the year in which they matured (when the borrower was scheduled to begin repayment) rather than by the date of last approval. The data include a variable called "most

recent loan status date" which represents the date on which the borrower's "loan status" was established. For those who are currently in repayment, this is the date that we would like to use - the date on which the loan matured. But for loans classified as "paid in full" or as "in default", we know the date on which they were given that classification rather than the date on which the loan matured. Thus we cannot use the "date of loan maturation" in studying default rates since we do not have that information for all borrowers.

There are two other major problems with using the dump tape data to describe the GSL program:

- (1) No information is available on any repayment which has been made on a loan regardless of loan status. We have no knowledge, for example, of payments made prior to default or after default;⁷
- (2) Many of the variables on the tape (including loan status, residency, and school code), refer to the "most recent" loan made to the individual. We know, for example, if the person's "most recent" loan is in default but we do not know the status of any other loans they might have taken.

The remainder of this section describes how we use the dump tape data to calculate cumulative debt levels and default rates. We first describe what information we would like to use, if it were available, and then discuss the constraints placed on the analysis by the available data.

Cumulative Amount Disbursed

In principle, we would like to capture two distinct concepts. First, we would like to know how much was borrowed by each individual over the course of his or her postsecondary career (the cumulative amount disbursed). Second, for borrowers

who are no longer in school, we would like to know the amount that they currently owe; this amount may be smaller than the amount disbursed by the amount repaid but larger by the amount of accrued interest.

As implied by point (1) above, however, only the "cumulative amount disbursed" is available on the dump tape. Thus we have accurate information on the cumulative amount disbursed to each individual, but cannot calculate outstanding debt levels. Consider a borrower whose most recent loan was approved in 1982. We know the cumulative amount disbursed to that individual and we know the current (i.e., October 1, 1986) status of their most recent loan. But we do not know how much that borrower has repaid, the size of his monthly payment or the mix of interest and principal owed.

Because of these limitations, we computed only the average cumulative amount of GSL disbursements by institutional type and by year of last approval. Specifically, for each institutional type and year of last approval category, we added up the cumulative amounts disbursed to borrowers in the category and divided by the number of borrowers in that category.

Default Rates

The limitations of the dump tape data are more evident for studying default rates than they are for studying cumulative debt levels.

A commonly accepted measure of the default rate is the gross "matured paper" default rate. The numerator for this default rate

is the total amount of claims paid on defaulted loans. The denominator includes the total value of all loans which have ever "matured" or come into repayment. While the total amount of claims paid is available to the guarantee agencies, it is not reported on the dump tape. The best available alternative is to use (for each school type/year of last approval category) the sum of all "cumulative amounts disbursed" to those in default as the numerator of the default rate. Any amount repaid by those who eventually default must be ignored, as must any accrued interest.

The extent to which we overestimate default rates because of the omission of dollars paid on defaulted loans is unclear. Some studies have found that most borrowers who default do so before making any payments. A New York study (New York State Higher Education Services Corporation, 1974) found that of those who eventually defaulted, only 15% had made any payments on their loans. Similarly, a study of Virginia borrowers revealed that 27% of defaulters had made some payment before defaulting (Ehlenfeldt and Springfield, 1984). On the other hand, evidence from California (California Postsecondary Education Commission, 1985) indicates that almost all borrowers had made some payments, with 99% making at least one payment. We have no way of estimating a comparable figure for Minnesota from the data available.

Another factor causing us to overestimate actual default rates is the increasing importance of post-default collections. Between 1978 and 1986, collections on previously defaulted GSLs

rose from \$71 million to \$420 million nationwide. The growth rate of these collections during this period was greater than the rate of growth of loans entering default status (Wolfe, Osman and Miller, 1987, pp. 3-4).

A second problem is created by the fact that we know the loan status only of the "most recent" loan. That is, borrowers are classified as "defaulters" in this report if their most recent loan is classified as "in default". The problem is that a borrower might be in default on her most recent loan but not on any other loan; conversely, she might not be in default on her most recent loan but might be in default on all other loans. Again, the best available alternative is to add the "cumulative amount disbursed" to the numerator of the default rate for all those whose most recent loan is in default.

The "matured paper" rate correctly ignores all borrowers who are still in school or in the post-schooling grace period.⁸ In calculating default rates in this report, we also exclude such borrowers.

To summarize, the default rates reported here are calculated according to the following procedure. In the numerator, we sum up the "cumulative amounts disbursed" to those who have defaulted on their "most recent" loan. The denominator is the sum of "cumulative amounts disbursed" to those whose "most recent" loan is in repayment, paid in full, in default or deferred because of death or disability. Default rates are calculated separately for each institutional type and each year of last approval.

Section III - Discussion of Findings

In this section, we present the results of our analysis of the dump tape data. The section is divided into two subsections. In the first, we illustrate an important factor - the timing of GSL default and repayment - which must be borne in mind as we interpret the tables showing cumulative debt levels and default rates. The second subsection contains the tables themselves, as well as a discussion of the major points of interest.

The Timing of Default and Repayment

The major policy questions which drive our concern about the GSL program are: (a) whether cumulative debt levels are so high that they imperil the economic welfare of borrowers in repayment; and (b) whether default rates are so high that restrictions should be placed on the GSL eligibility of some institutions or some students. Most discussions of these two questions refer to cumulative debt levels and default rates at a single point in time. The GSL program, however, operates over a long time span. For example, individuals who borrow in their first year of college, and start repaying the GSL five years later (six months after graduating from a four-year program), might not finish repaying the loan until 16 years after the money was disbursed.

Table 3 provides a sense of the timing of GSL repayment. In this table, we focus exclusively on those who last borrowed from the GSL program in 1977. There were roughly 10,000 individuals whose last loan was approved in 1977 (line 1, column 4). Of

Table 3

Repayment Experience of Borrowers Whose
"Most Recent" Loan was Approved in 1977

1986 Loan Status of Loans Approved in 1977

	Paid in Full	In Default	In Repayment	Total
Total Number	5,023	2,363	2,251	9,637
Percent	52.1	24.5	23.4	100.0

Breakdown of Loans Approved in 1977 According to
Year in Which They Received Classification

Year When Loan Status Was Assigned	1986 Loan Status of Loans Approved in 1977			
	Paid in Full	In Default	In Repayment	Total
	(1)	(2)	(3)	(4)
1977	6	1	1	8
1978	63	10	89	162
1979	349	194	266	809
1980	362	754	388	1,504
1981	512	505	506	1,523
1982	759	355	438	1,552
1983	894	294	270	1,458
1984	1,367	133	153	1,653
1985	584	82	87	753
1986	127	35	53	215
Total	5,023	2,363	2,251	9,637

Source: Computations by the authors from data provided by MHECB.

those, more than 50% had paid their loans in full by 1986. Virtually none of the borrowers whose last loans were approved in 1977 were still in deferment in October of 1986.

A key insight from Table 3 is that when we look at 1977 loans from the perspective of 1986, ten years later, almost 25% of GSLs are still in repayment (line 1, column 3) and are thus still "at risk" of default.⁹

The dump tape indicates when the loan was given its current classification. This information allows us to "track" the repayment process. The second panel of Table 3 indicates the year in which the 1977 borrowers were given their current classification. For example, of the 9,637 students who borrowed in 1977, 2,363 had been classified as "in default" by October, 1986. Of these 2,363, 505 were given their "in default" classification in 1981 (panel 2, line 5, column 2).

The second panel of Table 3 indicates that borrowers are still going into default a number of years after loan approval. Of all the 1977 loans classified as "in default" in October 1986, 25% were not classified as "in default" until 1983 or later.

At any point within the last seven or eight years, there are a significant number of borrowers, mostly students at four-year schools, who are still in deferment. Table 4 shows the proportion of borrowers in deferment, as of October 1986, by the year of last approval. For example, of those who last borrowed in 1982 to attend the University of Minnesota, 12% were still in deferment

Table 4

Proportions of Borrowers in Deferment, by Year of Last Approval
University of Minnesota and Graduate/Professional Students

Proportion in Deferment

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	0.00	0.01	0.01	0.01	0.01	0.01	0.01
1978	0.00	0.01	0.01	0.01	0.01	0.01	0.01
1979	0.00	0.01	0.01	0.02	0.02	0.01	0.02
1980	0.00	0.01	0.01	0.03	0.03	0.02	0.04
1981	0.00	0.01	0.04	0.08	0.05	0.01	0.06
1982	0.01	0.02	0.10	0.12	0.10	0.01	0.12
1983	0.01	0.07	0.19	0.22	0.20	0.02	0.26
1984	0.11	0.26	0.42	0.42	0.46	0.07	0.46
1985	0.70	0.78	0.83	0.86	0.88	0.55	0.85

Note: "In deferment" refers to students who are currently in school (as of October 1, 1986) or who are in the post-schooling grace period.

Source: Computations by the authors from data provided by MHECB.

as of 1986. Table 4 illustrates that students at two-year schools are "in repayment" much more quickly than students at four-year schools. Almost one-half of the students in private two year schools are out of deferment one year after last approval.

The fact that many GSL loans are "alive" for such a long time creates a number of problems in interpreting the available data. The most important problems occur in the context of measuring default rates. In principle, there is a "true" default rate for any cohort of borrowers. In any given year, a certain volume of GSL loans are disbursed. At some point in the future, fifteen to twenty years after disbursement, all of those loans will be either paid in full, in default or deferred because of death or disability. The "true" default rate will be the ratio of dollars defaulted (claims paid) divided by the dollars originally lent.¹⁰

The majority of GSL loans have been disbursed in the recent past so that the "true" default rate for most of the dollars provided by the program will not be known until the mid-1990s at the earliest.

In calculating default rates before all loans are either paid in full or defaulted, the date at which the loan came into repayment takes on increased importance. When calculating default rates for the early to mid-1980s using loan status data from 1986, the difference between "dating" a loan by the year of last approval (as we do) and dating the loan by the year in which the loan matures must therefore be kept in mind.

If those still in deferment are more likely to default after the maturation of their loans than those not in deferment, then the default rates calculated here will be too low. If they are less likely to default than those not in deferment, the calculated default rates will be too high.¹¹

This is simply an illustration of the general problem of calculating default rates for loans which are currently being repaid or which are still in deferment. Some of those currently in deferment will default but so will some of those currently in repayment. This problem diminishes, but does not vanish, over time as the number of borrowers in deferment falls and as more borrowers approach the end of their repayment period. As can be seen in the Table 3 above, almost 25% of defaults on loans approved in 1977 occurred in 1983 and after.

The last timing problem is created by the administrative process through which a loan comes to be classified as "in default". Put simply, it takes a long time for a loan to be declared in default even if no payment is ever made on that loan.

To illustrate, consider a borrower who takes a GSL in August of his or her last academic year, with no intention of ever paying off the loan. It will be 15 months later, in December of the following year, before the borrower's post-schooling grace period expires and the loan is scheduled to come into repayment. When another 120-180 days has passed without any payment being made, the holder of the loan will be able to classify the loan as being in default. After a period in which the lender is expected

to exercise "due diligence" in trying to collect on the loan, the lender can file a claim with the guarantee agency. The guarantee agency will then declare the loan "in default" but has additional time before it must pay the default claim. Even in a relatively straightforward case, almost two years can pass from the date of disbursement to the date when the default claim is paid.

The practical implication of the delay between nonpayment on a loan and the classification of the loan as "in default" is that many 1984 or 1985 loans (categorized by the "date of last approval") are actually in default but have not yet been so classified. Therefore, the 1984 and 1985 "default rates" are very likely to be substantially higher than those reported here.

Cumulative Debt Levels and Default Rates by
Institutional Type and by Year of Last Approval

Tables 5 through 7 present cumulative debt levels (in current dollars) and default rates for undergraduates in each of six institutional types and for graduate/professional students (regardless of what school they attended). For each institutional type, cumulative debt levels and default rates are presented for each year 1977 through 1985. As noted above, the "year" of a loan is determined by the date of last approval since the date of loan maturation is unavailable.

Table 5 contains the average cumulative debt levels for four groups of borrowers: (1) all borrowers; (2) borrowers in repayment; (3) borrowers who have defaulted; and (4) borrowers who have paid in full.

Table 5

Average Cumulative GSL Disbursements, 1977-1985
Minnesota Residents and Those Attending Minnesota Institutions

All Borrowers

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	\$1,410	\$1,561	\$1,548	\$1,807	\$1,773	\$1,761	\$3,369
1978	1,628	1,836	1,916	2,057	2,292	2,026	4,731
1979	1,802	1,973	2,265	2,340	2,730	2,294	5,970
1980	2,011	2,158	2,645	2,746	3,159	2,456	6,675
1981	2,351	2,501	3,049	3,199	3,669	2,798	8,009
1982	2,416	2,646	3,358	4,650	4,914	2,848	6,555
1983	2,559	2,753	3,798	5,107	5,375	2,972	6,967
1984	2,619	2,734	3,674	4,957	4,963	2,990	6,633
1985	2,617	2,715	3,484	4,640	4,667	2,921	6,214

Borrowers in Repayment

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	\$1,870	\$1,925	\$1,833	\$2,100	\$1,994	\$2,215	\$3,859
1978	2,237	2,328	2,403	2,505	2,714	2,570	5,185
1979	2,189	2,311	2,647	2,573	3,018	2,637	6,162
1980	2,264	2,354	2,863	2,898	3,333	2,649	6,528
1981	2,566	2,684	3,248	3,347	3,817	2,957	7,588
1982	2,623	2,824	3,569	4,873	5,178	3,023	6,424
1983	2,650	2,868	4,053	5,332	5,854	3,070	6,742
1984	2,689	2,839	4,007	5,047	5,651	3,018	6,714
1985	2,471	2,341	3,449	4,811	4,745	2,875	5,526

Table 5
(continued)

Average Cumulative GSL Disbursements, 1977-1985
Minnesota Residents and Those Attending Minnesota Institutions

Borrowers Who Have Defaulted

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	\$1,446	\$1,582	\$1,612	\$1,873	\$2,028	\$1,620	\$3,628
1978	1,700	1,901	1,998	1,863	2,306	1,863	4,966
1979	1,807	1,971	2,414	2,404	2,769	2,145	6,485
1980	1,982	2,112	2,767	2,630	3,268	2,337	6,993
1981	2,246	2,346	2,785	2,960	3,491	2,609	7,592
1982	2,318	2,453	3,187	3,687	4,945	2,558	7,326
1983	2,411	2,414	3,592	3,857	4,971	2,700	8,112
1984	2,347	2,363	3,349	3,898	4,444	2,714	6,151
1985	2,246	*	*	*	*	2,480	*

Borrowers Who Have Paid In Full

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	\$1,292	\$1,370	\$1,309	\$1,442	\$1,447	\$1,602	\$2,437
1978	1,363	1,440	1,310	1,441	1,627	1,768	3,239
1979	1,346	1,308	1,303	1,505	1,731	1,866	4,919
1980	1,294	1,303	1,392	1,661	2,067	1,781	7,345
1981	1,462	1,543	1,776	1,971	2,617	2,150	9,978
1982	1,319	1,382	1,561	3,115	3,404	2,129	4,597
1983	1,544	1,590	1,564	2,584	2,890	2,334	4,084
1984	1,642	1,724	2,045	3,063	3,388	2,309	*
1985	1,504	*	*	*	*	*	*

Source: Computations by the authors from data provided by MHECB.

Average cumulative debt levels in Minnesota have been rising over time. The rate of increase is different, however, for two-year and four-year schools. For two-year schools, average debt increased more slowly than tuition levels. For two of the three types of four-year schools, by contrast, borrowing increased faster than tuition. The exception is state universities where average debt levels rose almost as fast as tuition. The following table shows the percentage increases in tuition versus the percentage increases in average cumulative debt levels for all borrowers.

Increases in Tuition versus Increases in
Average Cumulative Debt Levels 1977-1985

Type of School	Ratio of 1985 Tuition to 1977 Tuition	Ratio of 1985 Average Debt to 1977 Average Debt
	(1)	(2)
Technical Institutes ¹	280	185
Community Colleges	223	174
State Universities	263	225
University of Minnesota	225	257
Private Four-Year Schools	223	263

¹ For technical institutes, the ratio shown is for 1979-1985.

Source: Column 1 - Report to the Governor and the 1987 State Legislature, MHECB, Table I.21, p.34
Column 2 - See Table 5, Panel 1

The first set of numbers in Table 5 represent the average cumulative amounts of debt incurred by all borrowers, regardless of loan status.

In this group, average cumulative debt levels in 1985 were

considerably lower at two-year schools than at four-year schools. In 1977 and 1978, the "gap" between cumulative debt levels at the two- and four-year schools was relatively small. But since debt levels grew at a slower rate in the two-year schools than in the four-year schools, the gap has increased considerably over time. A four-year education is clearly more expensive than a two-year one, but that difference in price has only recently been reflected in average cumulative debt levels.

Cumulative debt levels seem to be falling slightly in 1984 and 1985. But this is probably due to the fact that we are looking at all borrowers in panel 1, including those in deferment. Those in deferment include first and second year students who have not yet finished borrowing from the GSL program.

The second panel shows the average cumulative debt levels for those borrowers who are now in repayment. The amounts owed by those in repayment are typically greater than those reported for all borrowers for two reasons. First, as noted below and shown in the third and fourth panels of Table 5, those "in default" and "paid in full" have lower average cumulative debts than those in repayment. Since those borrowers are included in "all borrowers" but not in "borrowers in repayment", the averages for "all borrowers" are pushed down. Second, as noted above, "all borrowers" also includes those "in deferment" who may currently have low cumulative debts.

Overall, however, the average cumulative debt levels

reported for those in repayment are biased downward because of the exclusion of the borrowers who are still in deferment. Those still in deferment are likely to end up with higher average debt levels than those in repayment (even though they may have low current indebtedness).

The averages reported for 1985 should be interpreted with extreme caution since relatively few students whose last loans were approved in 1985 are in repayment by October of 1986. There is a slight drop in average debt levels in 1984. While this may reflect an actual drop in average cumulative debt levels, it is more likely that the 1984 borrowers who are still in deferment have higher average debt levels than those who are already in repayment.

Prior to 1984, there is a steady rise in the average cumulative debt burdens for those in repayment, similar to the increases reported for all borrowers.

It has been commonly assumed that the average debt accumulated by defaulters is less than the average debt accumulated by those in good standing. The basis for that assumption is the thought that defaulters spent less time in school (because they are more likely to leave school before completing a program of study) and therefore accumulate less debt.¹² The third panel of Table 4 shows average cumulative debt levels for defaulters. They are uniformly less than cumulative debt levels for borrowers in repayment; the average debt levels for defaulters are typically about 75-90% of the debt levels for

all borrowers.

A number of borrowers are classified as "paid in full". For loans approved in 1982, for example, roughly 6.5% had been paid in full by 1986. About 10% of those attending two year schools had paid off their loans compared to about 5% of those attending four-year schools. Not surprisingly, the average cumulative debt accumulated by those who paid their loans in full was considerably smaller (about 55-60%) than the overall average.

Average cumulative debt levels, as shown in Table 5, indicate the overall scope of borrowing from the GSL program in Minnesota. From a policy point of view, however, we might be particularly concerned about borrowers who are incurring large debts.

Table 6 shows the proportion of borrowers with relatively large cumulative debt levels. The first panel shows the proportion of borrowers, by year and school type, whose cumulative GSL debts are greater than \$5,000. The table reveals that the problem of heavy cumulative debt levels is largely a problem facing students at four-year schools. In 1983, for example, roughly 5% of all those who borrowed to attend two-year institutions had cumulative GSL debt levels above \$5,000. By contrast, between 25% and 40% of students at four-year schools had cumulative debts greater than \$5,000.

Table 6

Average Cumulative GSL Disbursements, 1977-1985
Minnesota Residents and Those Attending Minnesota Institutions

Proportion of All Borrowers with Cumulative Debts Greater than \$5,000

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	0.00	0.00	0.01	0.02	0.02	0.00	0.06
1978	0.00	0.00	0.01	0.02	0.02	0.00	0.27
1979	0.00	0.01	0.03	0.03	0.08	0.01	0.39
1980	0.00	0.01	0.06	0.05	0.13	0.02	0.46
1981	0.02	0.04	0.11	0.10	0.18	0.04	0.54
1982	0.02	0.05	0.18	0.26	0.32	0.05	0.41
1983	0.02	0.06	0.24	0.31	0.37	0.05	0.42
1984	0.02	0.05	0.21	0.27	0.32	0.06	0.35
1985	0.02	0.04	0.17	0.22	0.26	0.05	0.32

Proportion of All Borrowers with Cumulative Debts Greater than \$7,500

	State Univ.	U. of Minn.	Private 4-Year	Graduate/ Professional
<u>Year</u>	(1)	(2)	(3)	(4)
1979	0.00	0.00	0.00	0.28
1980	0.00	0.00	0.00	0.34
1981	0.01	0.02	0.04	0.44
1982	0.04	0.13	0.16	0.29
1983	0.08	0.17	0.20	0.31
1984	0.07	0.16	0.16	0.26
1985	0.07	0.13	0.15	0.22

Proportion of All Borrowers with Cumulative Debts Greater than \$10,000

	State Univ.	U. of Minn.	Private 4-Year	Graduate/ Professional
<u>Year</u>	(1)	(2)	(3)	(4)
1979	0.00	0.00	0.00	0.15
1980	0.00	0.00	0.00	0.16
1981	0.00	0.00	0.00	0.23
1982	0.01	0.06	0.06	0.14
1983	0.01	0.08	0.07	0.18
1984	0.02	0.07	0.05	0.16
1985	0.01	0.06	0.04	0.12

The second panel of Table 6 shows the proportion of all borrowers with cumulative debt levels greater than \$7,500.¹³ Substantial numbers of undergraduate borrowers (10%-20%) had debt levels greater than \$7,500 in the 1980s. Graduate and professional students have borrowed large amounts in greater proportion. In 1983, almost 30% of graduate and professional students had cumulative debts greater than \$7,500.

The third panel of Table 6 shows the proportion of all borrowers with cumulative debt levels greater than \$10,000. Relatively few (less than 10%) undergraduates borrowed more than \$10,000 from the GSL program, although the proportion of such borrowers is increasing over time. The proportion of graduate students borrowing more than \$10,000 is between 15% and 20% in recent years.

Default Rates

Table 7 shows default rates for the various years and for students at various categories of schools. The two panels of the Table reflect two different definitions of default rates. The top panel shows the cumulative amounts disbursed to defaulters divided by the total amount of matured loans. Subject to the caveat that we know only the amounts disbursed to defaulters rather than amounts owed by defaulters, these rates are the gross matured paper default rates. The lower panel show the number of defaulters divided by the number of those whose loans have matured. Since, as shown in Table 5, defaulters borrow less than nondefaulters, the default rates in the lower panel should be

Table 7

GSL Default Rates, 1977-1985
Minnesota Residents and Those Attending Minnesota Institutions

Definition #1 - Volume of Loans in Default / Volume of Loans Issued

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	29.1	31.1	19.3	16.2	17.7	20.5	13.5
1978	28.0	27.1	16.5	14.9	14.1	24.4	11.0
1979	25.4	23.2	16.5	14.7	13.2	22.9	8.1
1980	22.9	23.5	13.2	11.7	10.9	22.2	7.4
1981	22.3	20.2	9.4	9.7	7.4	21.1	4.9
1982	23.9	24.0	10.2	8.4	8.0	21.5	6.7
1983	18.0	17.8	8.1	6.2	5.3	16.4	7.0
1984	7.1	7.5	3.6	2.4	1.9	7.2	2.3
1985	1.1	*	*	*	*	1.1	*

Definition #2 - Number of Loans in Default / Number of Loans Issued

	Tech. Inst.	Community Colleges	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
<u>Year</u>	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1977	28.3	30.9	18.5	15.7	15.4	22.3	13.1
1978	26.7	26.1	15.8	16.4	14.0	26.4	10.4
1979	25.3	22.8	15.4	14.3	13.0	24.5	7.4
1980	23.2	24.0	12.6	12.2	10.6	23.3	7.1
1981	23.3	21.5	10.3	10.5	7.8	22.7	5.1
1982	24.9	25.8	10.8	10.6	8.1	23.9	5.8
1983	21.1	20.1	8.9	8.3	6.1	18.0	5.8
1984	8.0	8.8	4.3	3.1	2.4	7.9	2.5
1985	1.2	*	*	*	*	1.3	*

Source: Computations by the authors from data provided by MHECB.

greater than those in the top panel. In fact, the default rates in the two panels are fairly close to each other, with the "dollar" default rates in the top panel usually being slightly smaller than the "person" default rates in the lower panel.

The closeness in the two sets of rates suggests that the approximation of "dollar" default rates obtained by using the number of defaulters rather than the amounts on which they defaulted is not dramatically incorrect.

There are three notable points to be made about the default rates in Table 7. First, there is a consistent pattern in default rates across types of schools. Students at two-year schools - technical institutes, community colleges, private two-year colleges and proprietary schools - have default rates which are considerably higher than the default rates for students at the four-year schools - state universities, the University of Minnesota system and private four-year schools. In 1981 and 1982, for example, the default rates at the two-year schools are at least double the default rates at the four-year schools; the default rates at the two-year schools are all over 20% while the default rates at the four-year schools, with one minor exception, are all 10% or under.¹⁴

This result should not be overemphasized because of the different timing of repayment (and default) at two-year versus four-year schools. At a single point in time, loans to students at two-year schools have been in repayment longer than loans to students at four-year schools so that the number of two-year

defaulters is therefore likely to appear higher even if the underlying "true" default rates were the same. The disparity between the default rates is so large, however, that timing is unlikely to account for the entire difference.

Second, default rates seem to be falling. The evidence for this tentative conclusion is only partly drawn from Table 7. Table 7 shows generally falling default rates for students at each type of school, but it is unclear how much of this fall is "real" since, especially in later years, the length of time needed for a loan to be classified as "in default" is quite long.

For example, the default rates for later years - 1983, 1984 and 1985 - are unrealistically low. The reason is the time between the date when a loan is issued and the date when it will be declared "in default". As noted above, the minimum length of time between loan approval and default is about 18 months.

To look more closely at this issue, we calculated a slightly different set of default rates. For each year 1977-1980, we calculated a set of "constant repayment" default rates that excluded borrowers who came into repayment more than four years after their date of last approval.¹⁵ That is, relatively late maturing loans are excluded from the denominator of the default rates. For 1978, only loans maturing in 1981 or before are included; for 1979, only those maturing in 1982 or before are included. We stop in 1980, including loans maturing in 1983 or before. We cannot go further since the corresponding 1981 rate would include loans maturing in 1984, loans which are unlikely to

be classified "in default" even if no payment had been made.

These "constant repayment" default rates provide some evidence concerning the trend in default rates over time. In particular, they suggest that default rates may be falling over time.¹⁶

The system-wide "constant repayment" default rates are:

1977	28.7
1978	27.2
1979	22.7
1980	19.2

indicating a decline over this period.¹⁷

A last point concerning Table 7 is that the default rates for borrowers attending different types of schools have decreased by different amounts over time. The technical institutes and community colleges had default rates of around 30% in 1977; by 1982, these rates were less than 25%. Students at private two-year schools have about the same default rates in 1982 as they had in 1977. The default rate for the state university system fell by one-half from around 20% to around 10%. The rate for the those attending the University of Minnesota system went from over 15% down to about 8.5% while the rate for private four-year schools dropped by more than one-half over the period. As noted above, though, comparisons across school types should be viewed with caution since the timing of loan repayment and default may vary across the school types.

Conclusions

In this "status report" on the GSL program in Minnesota, we have focused on two measures - average cumulative debt levels and default rates. These variables were calculated for each type of institution and for each year, 1977-1985.

In reporting on the operation of the GSL program, it is critical that the long term nature of the program be kept in mind. At any point in time, many borrowers are still in deferment which means that cumulative debt levels, for any given year of last disbursement, are not yet final. Furthermore, in calculating default rates, we must keep in mind that those who are still in deferment have not yet been "at risk" of default and those who are in repayment are still at risk of default. "True" default rates cannot be known until 15-20 years after the date of disbursement. Last, it can take more than two years before a loan is declared in default even if no payment is ever made on that loan. This means that default rates for the most recent two or three years will always be greatly underestimated.

The report on average cumulative debt levels over time is interesting because very little is known about average cumulative debt levels. The primary finding of interest, aside from a first look at the levels themselves, is that average cumulative debt levels are rising faster than tuition levels in the four-year schools but slower than tuition levels in the two-year schools.

With regard to the default rates, we find that there is a

substantial difference between students at two- and four-year schools, with default rates for those attending two-year schools roughly double those for students at the four-year schools.

While the dump tape data provide us with an invaluable source of information, especially concerning average cumulative debt levels, they are flawed by the omission of key information concerning the dates of loan maturation and the amounts which have been paid on GSL loans. Any future study would be considerably improved if access to that information could be provided.

Appendix A

Variable Definitions

The data used in this report are a subset of the nationwide "dump tapes" provided by the guarantee agencies to the Federal government. The source for our description of the variables in that data set is DOE (1982). All quotations are from that source.

1. Cumulative Amount Disbursed - "the cumulative amount disbursed to student at the originating lender and held by the current holder." Multiple records will exist if the student borrowed from more than one lender or if the student borrowed from the same lender but the loans are now held by different firms. In this report, we have combined all multiple records into a single record for each individual at a given type of institution. Individuals may still have multiple records if they borrowed at different types of school and from different lenders.
2. Status of Most Recent Loan - this variable indicates the status of the student's most recent loan and "reflect[s] the most recent loan status for the student as indicated by the current holder of the loan."
3. DE School Code - this code was used to categorize all schools into the six categories reported in the text. See Appendix B for the list of all schools which were categorized. The correspondence between the school names and the school numbers was drawn from DOE (1987).
4. Current Academic Year - this variable was used to define a "graduate/professional" student so that those students could be separately categorized. The variable represents "the student's most recent academic year".
5. Beginning Period of Loan or Date of Last Approval - this variable was used to "date" each loan. The date refers to "the last loan received at the originating lender."
6. Most Recent Loan Status Date - this is, in general, the date on which the student was given their current loan status. "If the status of the most recent loan has been indicated as either in-school or in-grace, the date ... provided would be the date of the commitment for the most recent loan provided to the student ... If the student's record has been reported as in default ... the date to be provided would be the date the loan was purchased from the lending institution."

Appendix B

The following list divides Minnesota schools listed in the Alphabetic List of Educational Institutions (Washington: Department of Education, 1987) into the following categories:

- (1) Technical Institutes
- (2) Community Colleges
- (3) State Universities
- (4) The University of Minnesota
- (5) Private Four-Year Colleges and Universities
- (6) Private Two-Year Schools; Proprietary Schools; Hospital-based Medical Technology and Nursing Schools
- (7) Schools with inactive school numbers (see below)

While these categories are largely self-explanatory, several points should be made.

First, category 7 is intended to include schools which have closed or which have had their GSL eligibility terminated. However, some schools will appear in category 7 if they have a school number which was "not used for GSL program." In practice, there are very few individuals with loans from these schools.

Second, in the findings presented in the report, "graduate/professional" students are combined into a separate category. The schools which these students attended appear in this list in what I felt was the most appropriate category.

Category 1 - Technical Institutes

Albert Lea AVTI
Alexandria AVTI
Anoka AVTI
Austin AVTI
Bemidji AVTI
Brainard AVTI
Canby AVTI
Dakota County AVTI
Detroit Lakes AVTI
Duluth AVTI
East Grand Forks AVTI
Eveleth AVTI
Faribault AVTI
Granite Falls AVTI
Hibbing AVTI
Hutchinson AVTI
Jackson AVTI
Mankato AVTI
Minneapolis AVTI
Moorhead AVTI
Pine Technical Institute (Pine City AVTI)
Pipestone AVTI
Red Wing AVTI
Rochester AVTI
St. Cloud AVTI
St. Paul AVTI
Staples AVTI
Suburban Hennepin AVTI
The 916 AVTI (Northeast Metro)
Thief River Falls AVTI
Wadena AVTI
Willmar AVTI
Winona AVTI

Category 2 - Community Colleges

Anoka-Ramsey CC
Austin CC
Brainard CC
Fergus Falls CC
Hibbing CC
Inver Hills CC
Itasca CC
Lakewood CC
Mesabi CC - Eveleth Campus
Mesabi CC - Virginia Campus
Mesabi CC
Minneapolis CC
Normandale CC
North Hennepin CC
Northland CC
Rainey River CC
Rochester CC
Vermilion CC
Willmar CC
Worthington CC

Category 3 - State Universities

Bemidji State University
Mankato State University
Metropolitan State University
Moorhead State University
Southwest Minnesota State College
St. Cloud State University
Winona State University

Category 4 - University of Minnesota

U of M All
U of M Central Office
U of M College of Pharmacy
U of M College of Veterinary Medicine
U of M Duluth
U of M Extension
U of M Hospital and Clinic Dietetic
U of M Hospital School of X-Ray Technology
U of M Mayo Graduate School
U of M Minneapolis
U of M Minneapolis - St. Paul Main
U of M Morris
U of M School of Dentistry
U of M School of Public Health
U of M Southern School of Agriculture
U of M St. Paul
U of M Technical College Waseca
U of M Technical Institute Crookston
U of M Medical School
U of M School of Medicine
U of M MacPhail School of Performing Arts

Category 5 - Private Four-Year Colleges and Universities

Augsburg College
Bethel College & Seminary
Bethel College
Bethel Theological Seminary
Carleton College
College of St. Catherine
College of St. Scholastica
College of St. Theresa
College of St. Thomas
Concordia College at Moorhead
Concordia College - St. Paul
Dr. Martin Luther College
Gustavus Adolphus College
Hamline University
Hamline University School of Law
Luther Theological Seminary (Luther Northwestern)
Macalester College
Mayo Clinic School of Physical Therapy
Mayo Medical School
Mayo School of Nurse Anaesthesia
Minneapolis College of Art & Design
Minnesota Bible College
North Central Bible College
Northwestern College of Chiropractic
Northwestern College
Pillsbury Baptist Bible College
School of Associated Arts
St. Benedicts
St. Johns University
St. Marys College (Winona)
St. Olaf College
St. Paul Bible College
St. Paul Seminary
United Theological Seminary of the Twin Cities
William Mitchell College of Law

Category 6 - Private Two-Year Schools
 Proprietary Schools
 Hospital-based Medical Technology and Nursing Schools

Academy Beauty College
 Academy of Accountancy
 Academy of Hair Design Inc
 Bethany Lutheran College & Theological Seminary
 Brooks Beauty School
 Control Data Institute
 Cosmetology Training Center-Minneapolis (Central Ave.)
 Cosmetology Training Center-Mankato
 Cosmetology Training Center-Rochester
 Cosmetology Training Center-Minneapolis (Ewing)
 Cosmetology Training Center-Richfield
 Cosmetology Training Center-Faribault
 Cosmetology Training Center-St. Paul
 Crosier Seminary JC
 Duluth Business University
 Duluth Cosmetology Career Center
 Duluth West Cosmetology Career College
 Dunwoody Industrial Institute
 Fern's Beauty College
 Florian School of Cosmetology
 Globe College of Business
 Golden Valley Lutheran College
 Hairdresser's Educational Center
 Hastings Beauty School
 Hibbing Cosmetology Career Center
 Horst Education Center (Horst International Ed)
 ITT Technical
 Lakeland Medical-Dental Academy
 Lowthian College
 Lynn's Institute. of Cosmetology
 Maxim's Beauty Academy
 McConnell School
 Medical Institute of Minnesota
 Michael's Scientific School of Cosmetology
 Minneapolis Barber School
 Minneapolis Business College
 Minneapolis Drafting School
 Minnesota Cosmetology
 Minnesota Institute of Medical & Dental Careers
 Model College of Hair Design
 Moler Barber School of Hairstyling
 National Education Center - Brown Institute Campus
 Northwest Technical Institute
 Northwestern Electronics Institute

Category 6 - Private Two-Year Schools
 Proprietary Schools
 Hospital-based Medical Technology and Nursing Schools
 (continued)

Oak Hills Bible Institute
 Oliver Thein Beauty School
 Rasmussen Business College, Minneapolis
 Rasmussen Business College, Mankato
 Rasmussen School of Business
 Ritter St. Paul Beauty College
 Robinson Beauty School-Brooklyn Park
 School of Communication Arts
 Scott Lewis/Florian School Cosmetology
 St. Cloud Beauty College
 St. Cloud Business College
 St. Mary's JC (College of St. Catharine's)
 St. Paul Barber
 Twin Cities Opportunity Industrialization Center
 Vera-Duane School of Hair Design
 Virginia Cosmetology Career Center

Abbott Northwestern School of Nursing
 Bethesda Lutheran Medical Center - Rad. Tech.
 Central Mesabi Medical Center School of Anaesthesia
 Charles I. Miller Hospital School of X-Ray Technology
 Fairview General Hospital School of Nursing
 Fairview Hospital School of X-Ray Technology
 Fergus Falls St. Hospital - Chem Dep. CTP
 Hennepin Med. Center School of Rad. Tech
 Hennepin County Medical Center School of Medical Technology
 Hibbing General Hospital School of X-Ray Technology
 Methodist-Kahler School of Nursing
 Metro Medical Center School of Rad Tech
 Minneapolis School of Anesthesia
 Minneapolis VA Hospital School of Anesthesia
 Minneapolis VA Hospital School of Rad-Tech
 Naeve Hospital School of Rad Tech
 North Memorial Medical Center School of X-Ray Technology
 Northwestern Hospital School of Anaesthesia
 Northwestern Hospital School of Nursing
 Northwestern Hospital School of X-Ray Technology
 Rice Memorial Hospital School of X-Ray Technology
 Rochester School of Practical Nursing
 St. Barnabas Hospital School of X-Ray Technology
 St. Cloud Hospital School of Nursing

Category 6 - Private Two-Year Schools
Proprietary Schools
Hospital-based Medical Technology and Nursing Schools
(continued)

St. Cloud Hospital School of X-Ray Technology
St. Lukes Hospital School of Med-Tech
St. Lukes Hospital School of X-Ray Technology
St. Olaf Hospital School of X-Ray Technology
St. Paul Ramsey Dietetics Intern.
St. Paul-Ramsey School Nuranes
St. Paul-Ramsey Pgm Med Tech
Swedish Hospital School of X-Ray Technology
Winona Medical Secretary School

Category 7 - Closed, Never Opened, Eligibility Terminated,
Never Eligible, School Number Never Used

Abbott Hospital School of Nursing
 Agassiz Valley School of Nursing
 Airline Personnel Training by Humbolt
 Apostolic Bible Institute
 Art Instructions School-Home Study
 Bethel College & Seminary Central Office
 Bethesda Lutheran Medical Center - Nursing
 Brooks School of Barbering
 Central Baptist Theological Seminary
 College of St. Clare
 College of St. Theresa - Assisi Heights
 College of St. Theresa - St. Marys
 Corbett Junior College
 Crystal Shamrock Inc.
 Eitel Hospital School of X-Ray Technology
 Electronic Computer Programming Institute
 Elkins Institute in Minneapolis
 Fairlakes CC
 Fairmount Cmty Hosp School of X-Ray Technology
 Fairview Deaconess
 Flight Training Center - Commercial Flight Only
 Grand Rapids AVTI
 Hennepin Co. Gen Hosp. Sch. of Nursing
 Humbolt Institute Resident Division
 Institute of Med-Tech
 Instrument Flight Training Inc
 Johnson Academy of Beauty Culture
 Lake Line Helicopters Comm Flight
 Lake Region Hospital School of X-Ray
 Lea College
 Loretto Hospital School of Rad-Tech
 Lutheran Deacon Hospital School of X-Ray
 Mankato Comercial College
 Mankato School of Beauty
 Marquette University Jesuit College
 Meeker County Mem School of X-Ray Technology
 Mesaba Aviation, Inc
 Methodist Hospital School of Nursing
 Methodist Hospital School of X-Ray Technology
 Metropolitan CC - Centennial (Minneapolis)
 Metropolitan CC - Central
 Metropolitan Med Center School Med Tech
 Midway Hospital School of Rad-Tech
 Minnesota JC
 Minnesota State JC System

Category 7 - Closed, Never Opened, Eligibility Terminated,
Never Eligible, School Number Never Used

Mounds Midway School of Nursing
Mt. Mary College
Mt. Mary College - Mankato Campus
Mt Sinai Hosp. School of Rad Tech
Nazareth Hall College & Seminary
Nelson-Ryan Flight Service
New Ulm School of Practical Nursing
Northwest Institute of Medical Lab Tech
NW and Abbott Hospital School of Rad Tech
Owatonna City Hospital School of X-Ray Technology
Palmer Writers School - Home Study
Pillsbury Bible College
Riverview CC
Robinson Beauty School
Sales Training of Twin Cities
Sawyer School
Southeast Metropolitan State Jr. College
St. Ansgor Hospital School of X-Ray Technology
St. Barnabas Hospital School of Nursing
St. Barnards Hospital School of Nursing
St. Cloud Hospital School of Anesthesia
St. Francis Hospital School of Nursing
St. Francis Hospital School of X-Ray Technology
St. Gabriels School of Nursing
St. Johns Hospital School of X-Ray Technology
St. Joseph JC
St. Josephs Hospital School of X-Ray
St. Lukes Hospital School of Nursing
St. Mary's Hospital School of Rad Tech
St. Mary Hospital School of Anesthesia
St. Mary Hospital School of Rad Tech
St. Mary Hospital School of X-Ray Technology
St. Marys School of Nursing
St. Olaf Hospital School of Anesthesia
St. Paul-Ramsey School of Nursing
Swedish Hospital School of Nursing
Thunderbird Aviation
United Hospital Miller Div Med Tech
Veterans Administration Hospital School of Nuclear Med Tech
Virginia Municipal Hospital School of X-Ray Technology
Wings Inc
Worthington Municipal Hospital School of X-Ray Technology

Appendix C

This Appendix provides average cumulative debt levels and defaults for (a) schools which have reciprocity agreements with the state of Minnesota and (b) all other out-of-state schools.

Table C1

Average Cumulative GSL Disbursements, 1977-1985
Schools with Reciprocity and All Other Out-of-State Schools

All Borrowers

	Schools w/ Reciprocity	All Other Out- of-State Schools
<u>Year</u>	(1)	(2)
1977	\$1,843	\$2,045
1978	2,135	2,351
1979	2,509	2,620
1980	2,923	3,037
1981	3,454	3,495
1982	3,901	4,481
1983	4,490	4,640
1984	4,516	3,520
1985	4,125	3,800

Borrowers in Repayment

	Schools w/ Reciprocity	All Other Out- of-State Schools
<u>Year</u>	(1)	(2)
1977	\$2,260	\$2,499
1978	2,631	2,838
1979	2,802	2,941
1980	3,146	3,255
1981	3,654	3,709
1982	4,240	4,923
1983	4,877	5,052
1984	5,173	3,406
1985	4,402	3,047

Table C1
(continued)

Average Cumulative GSL Disbursements, 1977-1985
Schools with Reciprocity and All Other Out-of-State Schools

Borrowers Who Have Defaulted

	Schools w/ Reciprocity	All Other Out- of-State Schools
<u>Year</u>	(1)	(2)
1977	\$1,906	\$1,930
1978	1,957	2,082
1979	2,348	2,371
1980	2,736	2,641
1981	3,370	3,008
1982	3,487	3,240
1983	4,477	3,178
1984	4,065	2,532
1985	*	2,466

Borrowers Who Have Paid In Full

	Schools w/ Reciprocity	All Other Out- of-State Schools
<u>Year</u>	(1)	(2)
1977	\$1,315	\$1,671
1978	1,456	1,662
1979	1,712	1,745
1980	1,750	2,164
1981	2,007	2,496
1982	1,970	2,626
1983	2,370	2,190
1984	2,790	2,276
1985	*	2,425

Table C2

GSL Default Rates, 1977-1985
 Schools with Reciprocity and All Other Out-of-State Schools

Default Rate Definition #1 - Dollars of Loans in Default /
 Dollars of Matured Loans

	Schools w/ Reciprocity	All Other Out- of-State Schools
<u>Year</u>	(1)	(2)
1977	18.8	19.1
1978	12.7	17.9
1979	12.0	17.7
1980	10.8	12.4
1981	8.4	10.5
1982	8.7	11.4
1983	7.7	9.4
1984	3.0	6.4
1985	*	1.0

Default Rate Definition #2 - Number of Loans in Default /
 Number of Matured Loans

	Schools w/ Reciprocity	All Other Out- of-State Schools
<u>Year</u>	(1)	(2)
1977	18.0	20.2
1978	13.8	20.0
1979	12.7	19.4
1980	11.5	14.3
1981	8.7	12.3
1982	10.0	15.9
1983	8.1	13.8
1984	3.8	8.4
1985	*	1.2

Notes

1. The Baum and Schwartz findings are based on a survey of borrowers whose loans were guaranteed by the Massachusetts Higher Education Assistance Corporation. Since Massachusetts is not representative of the US, these results should be generalized to states other than Massachusetts only with great caution.
2. Hansen (1987) gathers together the available evidence on cumulative debt levels. She reports that average indebtedness from all sources for students completing four-year undergraduate programs was \$6,700 in public schools and \$9,000 in private schools. She cites Davis (1985) who reported an increase in GSL indebtedness (for college seniors in Pennsylvania) from \$3,698 in 1975 to \$7,100 in 1983. A new study from the American Council on Education (Henderson, 1987) finds that cumulative GSL indebtedness for four-year students has more than doubled since 1977. This "more than doubling" is consistent with the findings in Table 5 below.
3. This description is considerably oversimplified. In fact, default claims by holders and lenders are increasingly likely to be denied by the guarantee agencies. In addition, the Federal government makes reimbursement conditional on the guarantee agency achieving low "trigger" default rates.
4. The data were provided to MHECB by Federal Funds Information for States (FFIS). MHECB asked FFIS for all records pertaining to Minnesota residents or to borrowers attending Minnesota schools. These records were drawn from the latest available dump tape (September 30, 1986).
5. There are multiple records for the same individual if the individual borrowed from more than one lender. In general, these records have been combined so that there is one record for each person. (An exception is that multiple records may exist for students who attended different types of schools and borrowed from different lenders.) That one record contains the sum of all "cumulative amounts disbursed"; the remaining information in the record pertains to the most recent loan. In addition, there are a small number of loan records for non-Minnesota residents attending non-Minnesota schools. All of these loans, however, were guaranteed by the Minnesota guaranty agency.

6. One of the variables on the tape is the "beginning period of [most recent] loan or date of last approval". See Appendix A for a description of this variable.
7. An exception is that, for the last loan received, the dump tape indicates whether or not that loan has been paid in full.
8. There are several ways for a borrower to be "in deferment". If a borrower is still in school, they are classified as in deferment. For six months after leaving school, borrowers are in the post-schooling grace period and their loan payments are deferred. Borrowers who are still in school or in the post-schooling grace period are considered "in deferment" in this report. In addition, however, loan repayments may be deferred after repayment has begun if the borrower suffers death or disability or unusual hardship.
9. Of course, the default claims may be fairly small if the borrower has been in repayment for a long period of time.
10. In this discussion, we are ignoring any interest accrued or repaid. In practice, we have no information about such interest so it must also be ignored in our empirical work.
11. The latter seems somewhat more likely since, holding year of last approval constant, those still in deferment are likely, on average, to have more education and therefore higher earnings than those not in deferment. If higher earnings is correlated with lower probabilities of default, the excluded group will have a lower default rate than those currently included.
12. Marchese (1986) found that 54% of defaulters spent less than one year in college and NYSEHC (1984) reported lower debt levels for defaulters as compared to nondefaulters.
13. Virtually none of the borrowers who attended two-year schools had debt levels greater than \$7,500 so such borrowers are excluded from the second (and third) panel of Table 6. Similarly, the years 1977 and 1978 are excluded because very few borrowers had cumulative debt levels greater than \$7,500 in those years, regardless of school type.
14. The fact that default rates for students from two-year schools are higher than default rates for students from four-year schools is consistent with the findings of other researchers. It is important to note, however, that the type of institution attended may not be the factor determining whether or not borrowers default. The personal characteristics of students attending two-year schools

differ systematically from those of other students and it may be these personal characteristics which lead to default. A number of studies have found that personal characteristics such as current family income and race - which are not available on the dump tape - are correlated with default. Wilms, Moore and Bolus (1987) tested the relative importance of personal and "financial aid office" characteristics as factors leading to default. They found that whether or not the student completed his or her program was the single most important predictor of default.

15. For example, of those who borrowed in 1977, Table 3 indicates that 1,507 or 67% came into repayment (i.e., were classified as "in repayment") in 1981 or after.
16. Two telephone conversations also provide support for the notion that default rates are declining. Jerry Davis of the Pennsylvania Higher Education Assistance Authority noted that his calculations of default rates in Pennsylvania show a declining trend. Likewise, Joseph Cronin of the Massachusetts Higher Education Assistance Corporation said that trigger default rates in Massachusetts were low and falling.
17. The "constant repayment default for each type of school are:

	Tech. Inst.	Comm. Coll.	State Univ.	U. of Minn.	Private 4-Year	Two-Year Private	Grad./ Prof.
1977	31.7	37.9	25.8	25.7	23.6	27.5	27.8
1978	30.6	32.0	24.9	24.9	21.3	32.5	17.9
1979	28.3	27.7	20.5	21.7	18.0	27.9	10.7
1980	25.0	27.8	16.4	17.1	13.6	25.6	9.1

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