

Student Loan Default Rates

The last few years Montana as a whole has had one of the lowest cohort default rates in the nation.

- 1.8% and 2.8% for the most recent years
- The state's low default rate is often driven by the numbers at Bozeman and Missoula
- Smaller campuses rates have historically been volatile due to the smaller numbers in the denominator of the calculation
- Two year campuses rates are higher due to populations served

Historical default rate data is from the Federal Family Education Loan Program, (FFELP) which was replaced by the Direct Loan Program July 1, 2010.

Under the FFELP our low default rate was a result of:

- Local servicing
- GSL management made default prevention a focus and committed resources in line with agency mission of access and affordability
- GSL had the resources to lease a student loan system that focused on default prevention
- GSL had funding that enable it to staff 15 people in the default prevention area who focused on helping borrowers know their options and stay out of default

Current Environment is a new playing field

- Direct loans serviced by national servicers with no vested interest in Montana
- No funding for guarantors to provide default prevention, burden being placed upon schools by Department of Education as schools are held accountable for their cohort default rates
- Rates in the late 80's early 90's were high with national servicing and no default prevention locally done by GSL
- Default rates are increasing under the Direct Loan Program
- Student debt loads are at an all-time high, nearly \$23,000

Why do we care about default rates?

Students Lose:

- Eligibility for Title IV aid lost
- Payment Deferment and Forbearance options lost
- Subject to collection costs and tax offsets and garnishments

Schools Lose:

- Additional administrative burdens for schools if rate is greater than 10%, including having to delay loan disbursements to new students for 30 days, which puts a cash flow burden on the students and the campus
- If default rate is 25% or greater a formal default management plan must be written and implemented by the school
- If default rate is 25% or greater for three consecutive years, then school loses eligibility for all Title IV aid, including Pell grants
- School default rates included as part of scorecard by Department of Education when students are researching potential schools

Next Steps

Determine what can we do as a system to help prevent defaults?

- Default Prevention – after the fact campaigns to help students know their options
- Financial Literacy Education – preemptive education and counseling to students prior to borrowing

Need to educate student - borrowers

- Managing finances
- Managing debt
- Financial literacy and budgeting