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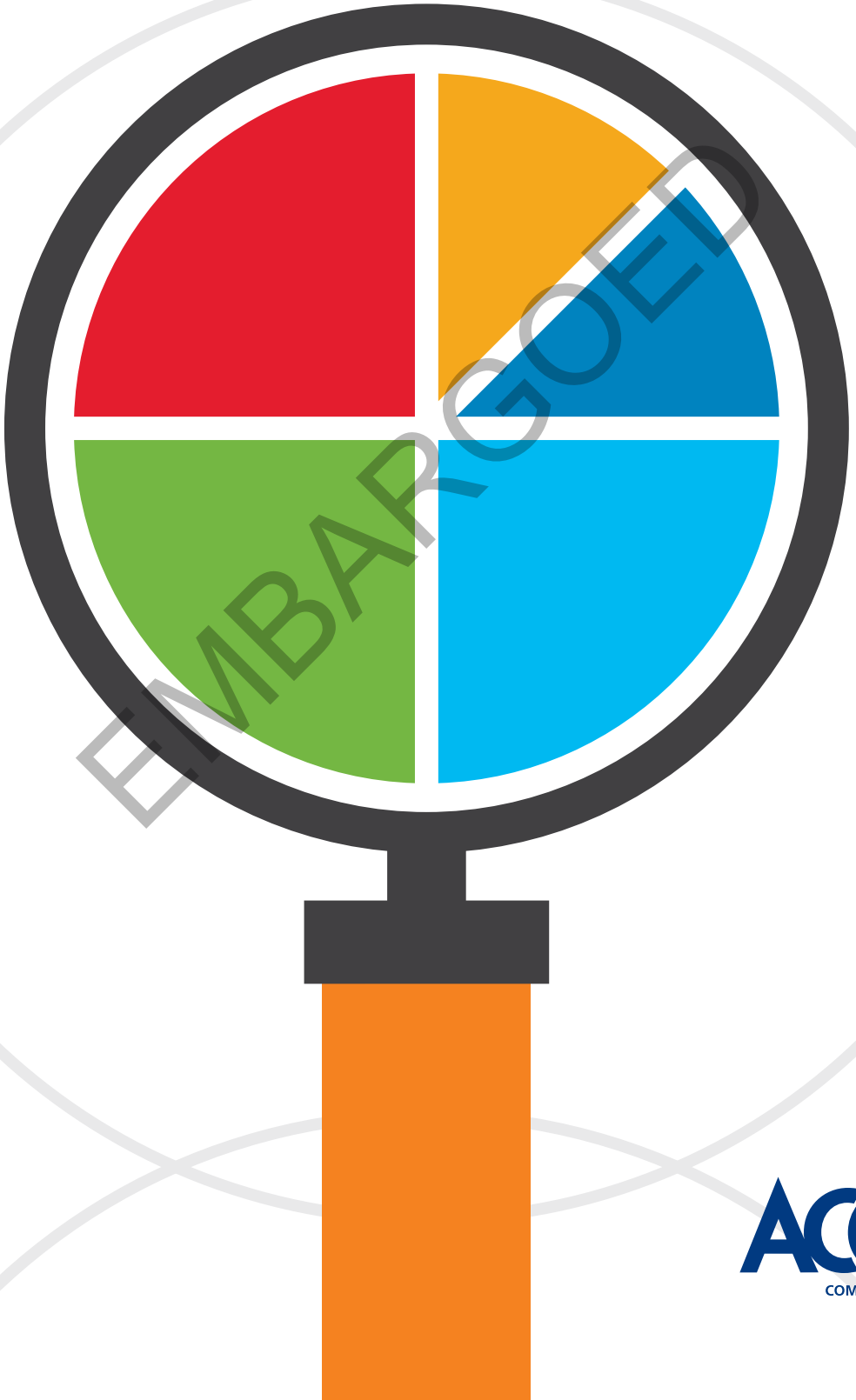
A CLOSER LOOK AT THE TRILLION

BORROWING, REPAYMENT, AND DEFAULT AT IOWA'S COMMUNITY COLLEGES



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Acknowledgements

This report was researched and written by **Colleen Campbell**, who serves as senior policy analyst at the Association of Community College Trustees (ACCT) and **Nicholas Hillman, Ph.D.**, assistant professor of Educational Leadership and Policy Analysis at the University of Wisconsin – Madison.

We could not have completed this report without the vision of ACCT Vice President for Public Policy and External Relations Jee Hang Lee, who provided guidance, insight, and recommendations, as well as our colleagues at ACCT and the University of Wisconsin. We also appreciate the time, attention, and technical expertise of Laurie Wolf of Des Moines Area Community College, and Judith Witherspoon and Hailey Neds of EdFinancial Services. We are also grateful to Ben Miller, Debbie Cochrane, and Kevin James, who took time to review drafts of this paper and offered their feedback. Thanks also to former ACCT Policy Analyst Bryce McKibben, who co-authored this publication's predecessor, *Protecting Colleges and Students*. Finally, we appreciate the contributions of data, will, and expertise from the trustees, presidents, financial aid administrators, institutional researchers, and other staff at the Iowa community colleges. This report would not have been possible without their assistance.

ACCT is a non-profit educational organization of governing boards, representing more than 6,500 elected and appointed trustees who govern over 1,100 community, technical, and junior colleges in the United States and beyond. These community professionals, business officials, public policy leaders, and leading citizens offer their time and talent to serve on the governing boards of this century's most innovative higher education institutions and make decisions that affect more than 13 million students annually. For more about ACCT, see **www.acct.org**.

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September 2015

Suggested citation: Campbell, C. and Hillman, N. (September 2015). *A Closer Look at the Trillion: Borrowing, Repayment, and Default at Iowa's Community Colleges*. The Association of Community College Trustees. Washington, D.C.

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Foreword from the President and CEO

Reauthorization of the Higher Education Act (HEA) offers an opportunity to reflect on where we are and where we want to be. Title IV programs are the cornerstone of the HEA, and for 50 years student aid has helped finance postsecondary education for millions of students. Community colleges are key promoters of access and serve as the place where many students begin their college journeys, return for additional skills, and realize that a better future is indeed within reach.

Despite being some of the more affordable institutions in the country, the cost of attending a community college may present a barrier to enrollment. When grant aid does not suffice, federal student loans provide an important source of financing to community college students. Although community college students typically borrow less than students at colleges and universities in other sectors, community college borrowers frequently struggle to repay their loan debts. Debt from community colleges makes up a small portion of the $1.18 trillion in outstanding federal student loan debt, but our borrowers are the largest student body in the country and deserve our focus and attention.

A Closer Look at the Trillion takes a deep and concentrated look into our sector – how students borrow and repay their debt, and what obstacles they face along the way. Using data from the National Student Loan Data System (NSLDS) and our institutions, this report identifies troubling trends in repayment and default on federal student loans that were previously left to anecdote. Using these data, we provide recommendations to institutions and trustees interested in reducing their default rates and promoting overall student success.

This report also gives context to conversations about institutional accountability. This report coincides with the release of FY2012 cohort default rates and federal policy discussions on risk-sharing. Many proposals being discussed could limit students' access to aid and penalize open-access institutions like community colleges. We wholeheartedly believe that serving students well is central to the missions of community colleges; unfortunately, accountability policies that are not data-informed or carefully considered could undermine their intention and ultimately inhibit access and success – not promote them. We hope federal policymakers will use this important and timely analysis to improve the financial aid system to be more efficient, transparent, and manageable for borrowers and institutions and to realize our shared goal of improving the outcomes of all students.

J. NOAH BROWN
President and CEO, Association of Community College Trustees

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Executive Summary

This report provides an unprecedented look at borrowing and repayment of federal student loans by community college students. Using student-level data from Iowa community college borrowers who entered repayment in FY2011, we examine the complexities that students face when trying to repay their federal loans.

Community colleges are among the most affordable options for today's college students, yet enrollment and living costs still present barriers for many. These barriers are greatest for working-class students who, without financial aid, may not be able to enroll at all. Student loans provide an important source of financing, but many students are having difficulties repaying these debts. This report investigates why this is the case, but goes even further by using new data to identify patterns in community college borrowing, degree completion, academic progress, repayment, and loan servicing to gain a fuller view of student loan default.

Our data allow us to look beyond the three-year cohort default rate window to examine repayment trends four and one-half years after borrowers enter repayment. In Iowa, 7,680 of 27,675 students (27.8 percent) in the FY2011 repayment cohort[1] defaulted on their loans by January 2015. Most of these students enrolled for short periods of time, did not complete a credential, and borrowed small amounts. Although we cannot state why students struggled to repay their debt, we are able to identify challenges that arise from an overly complicated repayment system. This report highlights some of the trends we observed within the data and concludes with strategies colleges and policymakers should consider to promote better repayment behavior and fewer defaults. Although these data only represent one cohort of borrowers in Iowa, the issues we identify are ones that affect the sector as a whole, and the policies we recommend for improving students' outcomes are broadly applicable, not just to community colleges, but all postsecondary institutions.

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Key Findings

1) Students who borrow the least are the most likely to default.

While it seems rational to assume that high debt loads are the cause of default, our data show that this simply is not the case. Nearly half of all defaulters in our sample borrowed less than $5,000, and most borrowed less than $10,000. The problem is not necessarily the amount of debt that students take on, but how that debt is managed after enrollment. With better outreach from institutions, simplified federal programs, and better loan servicing, default among community college students can be significantly reduced.

[1] These are borrowers who entered repayment between October 1, 2010 and September 30, 2011.

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2) Many defaulters take no action on their debt – no deferment, forbearance, or payment.
A significant portion of defaulters (43.3 percent) do not postpone their payments using deferment or forbearance or make a payment before going into default. This behavior is likely driven by the complexity of the repayment system and lack of information about debt burdens and repayment obligations. Most default occurs within a year of entering repayment, and few borrowers rehabilitate their defaulted debt even after four and one-half years of being in repayment. To improve upon these trends, students must have access to better information about not just receiving loans, but also repaying them. Institutions must provide better financial counseling to students, and loan servicers should do much more to help students navigate the early stages of repayment.

3) A large number of borrowers are not progressing or completing a credential.
Progression and completion have often been linked to loan repayment outcomes, and our analysis shows just how important these factors were for borrowers in Iowa. Sixty percent of defaulters earned less than 15 credits and nearly 90 percent of defaulters did not earn a credential. While issues with progression and completion can be especially difficult for community colleges to mitigate given their open-access missions, institutions, states, and the federal government must adopt innovative policy solutions to promote academic preparedness and progression, and to curb borrowing in the early stages of postsecondary enrollment.

4) Institutions lack access to complete information and a user-friendly way to analyze loan data, making default management unnecessarily difficult.
The National Student Loan Data System (NSLDS), which contains information on all federal student loans and most federal grants,[2] allows financial aid administrators access to important information on the institution's student loan portfolio. However, NSLDS reports allow financial aid administrators little flexibility for data retrieval, student record pages are difficult to interpret, and the system includes no information related to servicer behavior. These issues make counseling students and managing a loan portfolio very difficult, and a lack of data on servicers makes appeals, challenges, and data-informed accountability almost impossible. Better information in NSLDS – and access to that information for financial aid administrators – will allow both students and institutions to achieve better outcomes.

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[2] NSLDS includes information on the Federal Pell, SMART, TEACH, and Academic Competitiveness Grants.

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Background

Federal loans are a vital source of financing for students at community colleges. Although public two-year institutions are some of the most accessible and least expensive colleges in the country, finances are still a barrier for many students who may not have enough money on hand, either through savings or income, to cover the tuition, fees, books, supplies, and living expenses associated with college enrollment. Federal and state grant aid is almost never enough to financially support a student's education, especially for working-class students whose incomes are already stretched thin and who may be balancing work and family commitments. Because of these pressures, students turn to loans to help pay for the opportunity to have a better future.

Approximately 17 percent of public two-year college enrollees borrow federal loans—far less than those at four-year public (48 percent), non-profit (60 percent), and for-profit (71 percent) colleges.[3] While the community college borrowing rate has grown over time, students at community colleges have a lower borrowing rate and less debt, on average, than students in other sectors. For example, in 2011-12, 59 percent of associate degree recipients at public two-year institutions did not borrow, compared to 12 percent of those at for-profit institutions.[4] Furthermore, 28 percent of for-profit associate-earners borrowed more than $30,000 in debt, compared with 4 percent of associate degree completers at public two-year institutions.[5]

While most community college borrowers are able to repay their student loan debt, a growing share face difficulties, which can lead to delinquency or default. There are many reasons for negative repayment outcomes, and this report highlights trends found in data from 16 Iowa community colleges. To begin, we offer a brief introduction to federal student loan programs and the federal government's Cohort Default Rate (CDR) policy, which is designed to hold college accountable for loan defaults. Next, we present key findings, followed by recommendations for policy and practice.

Federal Student Loan Programs

Eligibility and Loan Types

To be eligible for a federal student loan, students must first file a Free Application for Federal Student Aid (FAFSA). After inputting information on income, assets, family size, and educational goals, each student receives a customized expected family contribution (EFC) on which aid eligibility is based. The U.S. Department of Education (ED, or the Department) uses the EFC to help colleges determine who has financial need—if the college's cost of attendance is greater than the student's EFC, then the student is eligible for federal need-based aid.[6]

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[3] U.S. Department of Education. *2011–12 National Postsecondary Student Aid Study (NPSAS:12) Student Financial Aid Estimates for 2011–12.* Table 3. http://nces.ed.gov/pubs2013/2013165.pdf and the authors' calculations using NPSAS:12 and variables FEDCUM1, T4LNAMT1 and SECTOR4, weighted by WTA000.

[4] The College Board (2014). *Trends in Student Aid.* Cumulative Debt of Associate Degree Recipients by Sector over Time. http://trends.collegeboard.org/student-aid/figures-tables/cumulative-debt-associate-degree-recipients-sector-time.

[5] Ibid.

[6] Terms used in this report can be found in the glossary on page 45.

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The Pell Grant is the federal government's main grant program, available to students who are enrolled at least half-time. The grant is targeted to lower-income students, and the maximum award is currently $5,775 per academic year.[7] In 2013-2014, approximately 33 percent of Pell Grants were distributed to students enrolled in community colleges, the same share that went to students attending public four-year institutions.[8]

The FAFSA also determines eligibility for federal loans. Students with financial need (after grant aid) are eligible for subsidized Stafford loans, which do not accrue interest while the student is enrolled in school, during a six-month grace period, or while in deferment. Students without need can borrow an unsubsidized Stafford loan, which accrues interest from the date the loan is disbursed.

Most student debt is distributed through the Stafford Loan program. All undergraduate and graduate students who meet basic eligibility criteria can borrow a Stafford loan, regardless of income. However, the federal government places limits on the amount students can borrow in any given academic year. It also caps the aggregate limit students can borrow over their lifetimes. The longer students stay enrolled, the greater their loan limits, as shown in Figure 1. Independent students – those who are over age 24, are married, have dependents, served in the armed forces or are an orphan or ward of the court – also qualify for greater loan amounts.

Besides Stafford Loans, other federal loans include PLUS, Perkins, and Consolidation Loans. Parents and graduate students who meet a minimum standard of creditworthiness may borrow a PLUS loan.[9]

Figure 1: Undergraduate Borrowing Limits for Federal Stafford Loans

Academic Level	Dependent Students	Independent Students
First year	$5,500	$9,500
	($3,500 of which can be a subsidized loan)	
Second year	$6,500	$10,500
	($4,500 of which can be a subsidized loan)	
Third year and beyond	$7,500	$12,500
	($5,500 of which can be a subsidized loan)	
Aggregate limit	$31,000	$57,500
	($23,000 of which may be in subsidized loans)	

Source: Office of Federal Student Aid, U.S. Department of Education. How much can I borrow? https://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized.

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[7] Office of Federal Student Aid, U.S. Department of Education. *How much money can I get?* https://studentaid.ed.gov/sa/types/grants-scholarships/pell.

[8] The College Board (2014). Trends in Student Aid. Percentage Distribution of Federal Aid Funds by Sector, 2013-14. http://trends.collegeboard.org/student-aid/figures-tables/percentage-distribution-federal-aid-funds-sector-2013-14.

[9] Although Parent PLUS loans are available to community college students, only one percent of all PLUS debt was borrowed by the parent of a community college student in the 2013-14 school year, and no students in our data had a PLUS loan. Perkins Loans are not included in our analysis because they are not included on NSLDS reports.

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Perkins loans are campus-based, meaning institutions are allocated funds based on a formula and disburse and service the loans to eligible students of their choosing. Consolidation Loans allow borrowers to combine several federal loans, which may simplify repayment by bringing all loans under one servicer and making the borrower eligible for a variety of repayment options, but also fix the student's interest rate and loan terms.[10]

FFEL vs. Direct Loans

Until 2010, the Office of Federal Student Aid (FSA) ran two federal loan programs: the Direct Loan (DL) program and the Federal Family Educational Loan Program (FFELP, or FFEL Program). Under DL, colleges originate and disburse loans using federal funds. Under FFELP, private lenders originated and disbursed federally guaranteed loans to students. The Student Aid and Fiscal Responsibility Act of 2009 (SAFRA), which was part of the Healthcare and Education Reconciliation Act of 2010 (HERA) terminated the FFEL program and required all institutions to switch to Direct Lending beginning in the 2010 academic year.[11] FFELP lenders were allowed to continue servicing existing loans, but ED also offered to repurchase and service them under the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Currently, FFELP loans comprise about one-third ($370.9 billion) of the $1.18 trillion in outstanding federal education debt.[12]

ED currently contracts with 11 different private companies and nonprofit organizations to service Direct Loans, and there are a multitude of FFELP servicers. Even within the Direct Loan program, the process of assigning students to one servicer is not automatic; instead, FSA sweeps NSLDS every two months to identify borrowers with multiple servicers, then assimilates them under one servicer.[13] Those who borrowed prior to 2010 may have both FFELP and Direct Loans, which means they make payments to multiple servicers unless they were purchased by the federal government.

The terms and conditions of FFELP loans and Direct Loans are not always the same. For example, borrowers with FFELP loans are not able to take advantage of certain repayment programs, such as the Pay As You Earn (PAYE) plan and Public Service Loan Forgiveness (PSLF), unless they consolidate their debt under the Direct Loan program.[14] Even though all new loans are originated in the DL program, the large number of FFELP loans still in repayment only adds to the complexity of an already complicated student-loan system and can make repayment challenging for borrowers with existing debt.

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[10] The loan term for consolidation loans is between 10 and 30 years.

[11] Public Law 111-152, section 2201. Termination of Federal Family Education Loan Appropriations. https://www.dol.gov/ebsa/pdf/healthcareandeducationreconciliationact.pdf.

[12] Office of Federal Student Aid, U.S. Department of Education (2015). Federal Student Aid Portfolio Summary. https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

[13] Fedloan Servicing. School FAQ. http://www.myfedloan.org/schools/training/school-faq.shtml#question8.

[14] Office of Federal Student Aid, U.S. Department of Education. Income-Driven Plans and Public Service Loan Forgiveness. https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven and https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service.

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Repayment Options

When borrowers enter repayment, they have several monthly payment plans available to them:

- **Standard:** Monthly payments are fixed at a certain amount over a 10-year period, with a minimum monthly payment of $50.
- **Income-driven:** Monthly payments are tied to the borrower's income and repaid for up to 25 years, after which the debt may be forgiven. Income-driven plans include the Income-Based Repayment Plan, Pay As You Earn Repayment Plan, and Income-Contingent Repayment Plan. Those who opt for an income-driven plan must submit proof of income at initial application and every year thereafter.
- **Graduated:** Monthly payments start out low and increase every two years until the loan is repaid, often on a 10-year amortization schedule.
- **Extended:** Monthly payments are small because the repayment period is extended beyond the standard 10-year window, up to 25 years, until the loan is totally repaid. This plan is only available to borrowers with higher levels of debt.
- **Alternative:** Monthly payments are determined by the servicer, with limits on how much payments can vary and a minimum monthly payment of $5. The maximum term for an alternative plan is 30 years.[15]

Before borrowers enter repayment, they are required to complete an exit counseling session during which they can select a payment plan. Borrowers who fail to complete this session are automatically placed in a standard plan. Borrowers are responsible for weighing their options and choosing which plan works best for them. Although income-driven, extended, and graduated plans could reduce monthly payments, they may also lead to more interest paid in the long run. Servicers are best suited to helping students weigh their options, as they can provide updated, specific information about payment amounts and processing timelines than financial aid administrators.

Postponements, Defaults, and Discharges

Students may also temporarily postpone their payments provided they meet certain criteria. Deferments may be granted to students in a variety of circumstances, including those who re-enroll in college, serve in the military, or who experience unemployment or temporary disability. When deferment is not available, debt may be placed into forbearance. Like deferment, forbearance postpones students' required monthly payments for reasons such as financial hardship. However, forbearances are less desirable than deferments, as subsidized loans accrue interest during a forbearance period but not during a deferment. In addition to students applying for forbearance, servicers may also put a borrower into an administrative forbearance if the borrower demonstrates willingness, but inability, to make payments.

These options can keep borrowers who are struggling to repay their loans out of default, especially in the case of income-driven repayment plans, which can be used as long as a borrower's income remains below a certain level relative to their debt. However, if the student does not seek or is not eligible for these options, she will enter default after failing to make a payment after 270 days.

When a loan defaults, servicers may attempt to contact the borrower for an additional 90 days. After that point, the debt is transferred to one of the Department of Education's 22 contracted collection agencies, which attempts to collect the unpaid debt, accrued interest, and any fees associated with the collection activities. The collection agency makes attempts to contact the borrower and may garnish her wages or income tax refund to pay off the loan. After default, the borrower becomes ineligible for any additional Title IV and the defaulted status remains on the student's credit history for up to seven years.

Little recourse remains to students who default, and for those who attempt to resolve their defaulted status,

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[15] Office of Federal Student Aid, U.S. Department of Education (2011). Loan Repayment Plans. Presentation given at the 2011 Federal Student Aid Conference in Las Vegas, Nevada. http://ifap.ed.gov/presentations/attachments/41LoanRepaymentPlansV1.pdf.

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the process is long and complex. The best option for resolving a default is rehabilitation, in which the borrower makes nine consecutive, on-time, voluntary payments, which brings the loan to a "current" status and removes the default from the student's credit record. If the student has debt that is not in default, he may consolidate it with a defaulted loan after three consecutive, voluntary payments, which creates a new consolidation loan that is in good standing.[16] The borrower may also choose to pay the loan in full. For all of these options, the borrower is also responsible for paying outstanding interest and collection fees, and in cases of consolidation or payment in full, the default remains on the borrower's credit history for seven years.[17]

Borrowers may only discharge their debt under dire circumstances. Those who declare bankruptcy must prove to the court that repaying the loan would cause undue financial hardship in order for their loans to be forgiven.[18] They may also ask the Department of Education to discharge the loan in cases of identity theft, if their institution engages in fraud, or if the institution closes while the student is enrolled. The only other circumstances under which student loan debts may be forgiven totally are death or total and permanent disability.

Institutional Accountability and Federal Policy

While students carry the greatest financial burden for their debts, colleges are also held accountable for helping students avoid default through the federal Cohort Default Rate (CDR), which is defined by the Higher Education Act. The CDR tracks student default for three years after students enter repayment. Figure 2 illustrates the fiscal year 2011 (FY2011) rate, this includes students who entered repayment between October 1, 2010 and September 30, 2011 (the 2011 federal fiscal year) and defaulted at any point between October 1, 2010 and September 30, 2013 (FY2011, 2012, and 2013).

The national average CDR is 13.7 percent, though this figure is higher (20.6 percent) among public two-year colleges (Figure 3). This disparity may exist because community colleges and their students face unique challenges: the institutions typically have fewer resources to allocate toward counseling and default prevention; students are more likely to drop out or take breaks in their education; and students may enroll and borrow without being prepared for postsecondary education. For example, community college students are more likely than four-year college students to be the first in

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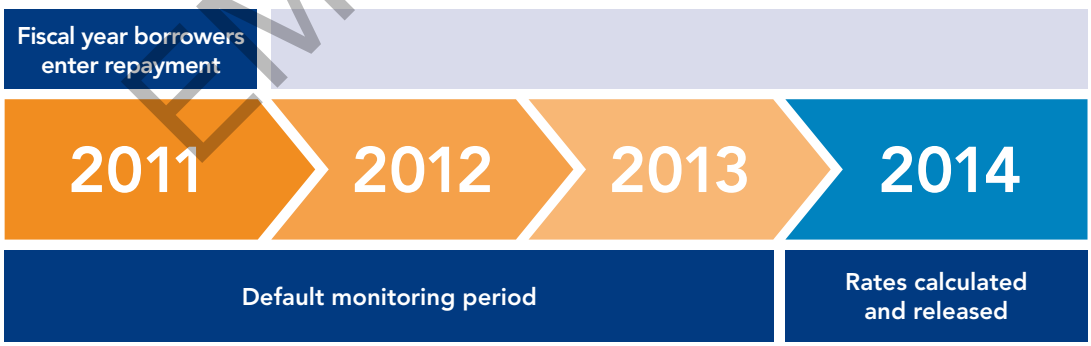
Figure 2: FY2011 Cohort Default Rate Calculation



[16] Office of Federal Student Aid, U.S. Department of Education. Getting Out of Default. https://studentaid.ed.gov/sa/repay-loans/default/get-out.

[17] U.S. Department of Education. Direct Consolidation Loans: Frequently Asked Questions. http://loanconsolidation.ed.gov/help/faq.html#rehabit.

[18] Office of Federal Student Aid, U.S. Department of Education. Discharge in Bankruptcy. https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation#discharge-in.

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their families to attend college,[19] putting them at a relative disadvantage with respect to navigating higher education, as they do not have the benefit of receiving advice and guidance based on their parents' and other family members' experiences. Community college borrowing cohorts are also relatively small—sometimes just a few dozen students borrow even if the college enrolls thousands of students. As a result, the outcomes of just a few students sometimes can significantly increase the CDR since it is not weighted by a college's borrowing rate, even when the higher-than-average CDR is not representative of the greater student body.

Colleges with high CDRs risk facing federal sanctions. If a college's CDR is above 30 percent for three consecutive years, or 40 percent in a given year, it will lose eligibility to disburse Direct Loans and Pell Grants for three years.[20] To avoid sanctions, a college must establish a default prevention taskforce to identify causes and solutions to the high default rate. After bringing its CDR below the sanction threshold, the clock restarts and the college will not lose its aid. However, if the college fails to reduce its CDR levels, it will remain ineligible until the sanction period ends. Colleges may appeal or challenge CDRs if they enroll few borrowers (29 or fewer), have a low participation rate, if they serve a high proportion of low-income students, if incorrect data were used to calculate the rate, or if loans were improperly serviced.

Although keeping borrowers out of default is an important task, default management requires a significant financial and time investment from institutions.[21] Many institutions with low default rates have staff or an entire department dedicated to default prevention, but community colleges are often unable to invest in such resources. Some institutions have turned to third-party contractors to help manage their default rates, and others have left the federal student loan program entirely. However, institutions may limit access to students when they leave the loan program, as it removes a significant student financial resource. Additionally, students may turn to private loans, which are only available to those with good credit (and often require a co-signer), offer less generous terms to students, and have fewer repayment and forgiveness options than federal debt. We hope this report will provide institutional leaders with the information and strategies they need to participate in the federal loan program, effectively manage their default rates, and promote student success.

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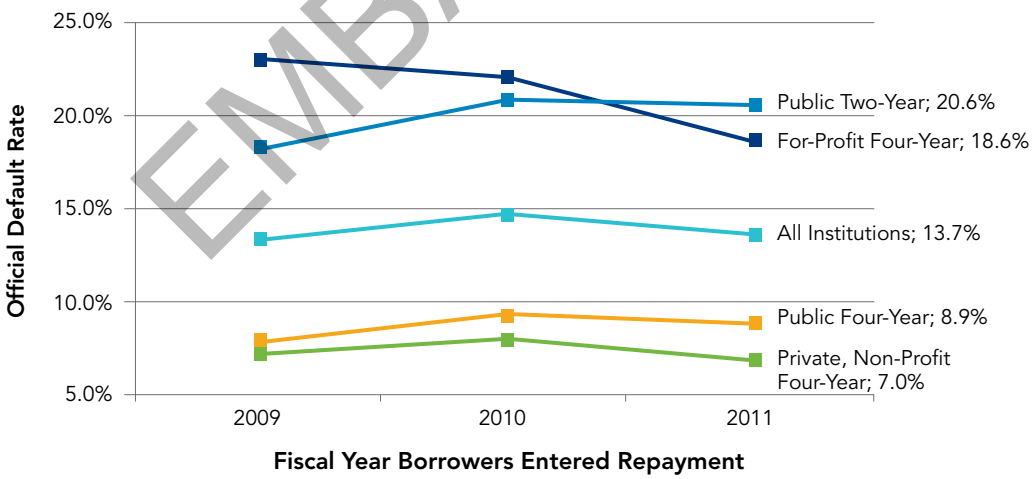
Figure 3: Official 3-Year Cohort Default Rates, by Sector



Source: Office of Federal Student Aid, U.S. Department of Education (July 26, 2014). *Comparison of FY 2011 Official National Cohort Default Rates to Prior Two Official Cohort Default Rates.* http://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf.

[19] Authors' calculations using Beginning Postsecondary Students (BPS:04/09) variables FSECTOR and PAREDUC, weighted by WTB000.

[20] Schools above the 40 percent threshold only lose access to Direct Loans for that year and maintain access to Pell Grants.

[21] Lacey, K. (August 2014). Driving college loan defaults down. University Business. http://www.universitybusiness.com/article/driving-college-loan-defaults-down.

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A Closer Look at the Data

Loan data in this report are from the National Student Loan Data System (NSLDS), the central database for administering federal loans and most federal grants. NSLDS contains billions of loan records for millions of federal aid borrowers and grant recipients and exists to complete business processes related to the student loan program. Few entities have access to the system; the Department of Education, loan servicers, institutions, and federal lenders/guaranty agencies may query individual records using a borrower's social security number, date of birth, and last name, and students may view their loan information through a separate student-access portal. Financial aid administrators may also access individual student records and request reports from the system, which contain pre-defined data only for debt associated with the administrator's institution of employment.

The loan data in this report were obtained from two NSLDS reports: the School Portfolio Report (SPR) and Loan Record Detail Report (LRDR).[22] The SPR gives a current view of the repayment status of loans associated with the school and allows institutions to conduct ongoing management of their loan portfolios. The LRDR serves a different purpose; this report is pushed to institutions at the end of the CDR period and allows colleges to analyze their rates and determine if the data are correct (see Figure 4 for a simple comparison of the reports). The 16 Iowa community colleges requested these reports in January 2015 and appended student data (such as Pell Grant receipt and completion status) to give additional context to the loan data. All information presented reflects the status of loans as of January 2015, unless otherwise noted.

All loan amounts and total debt figures in this report only take into account Stafford loans borrowed from Iowa community colleges and that went into repayment in FY2011. Perkins loans are not included because they are not included on the NSLDS reports, and none of the students in the sample had PLUS debt.

Although the results in this report pertain to one cohort of borrowers in Iowa, the trends we identify are ones that affect the sector as a whole. Furthermore, the policies and practices for decreasing default rates and increasing students' opportunities for success are broadly applicable, not just to community colleges, but all postsecondary institutions. To read more about the intricacies of the data and how the analyses were conducted, see Appendix A.

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Figure 4: Comparing the FY2011 SPR and LRDR Data

LRDR	• Borrowers who went into repayment in FY2011 • 36 months of repayment activity
SPR	• Borrowers who went into repayment in FY2011 • 52 months of repayment activity

[22] Report layouts can be found http://ifap.ed.gov/nsldsmaterials/attachments/NSLDSSchoolPortfolioFileLayoutSCHPR1FW.pdf and http://www.ifap.ed.gov/DefaultManagement/guide/attachments/CDRGuideCh2Pt3pt4.pdf.

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A Closer Look at Iowa's Community Colleges

This report is the first of its kind to examine student-level data for an entire state's cohort of community college borrowers. Like community colleges across the country, Iowa's 16 colleges serve multiple missions and enroll a diverse array of students. These institutions are located in every corner of the state and serve 15 distinct regions (see Figure 5),[23] including metropolitan areas, small towns, and rural communities.

Community colleges play a large role in Iowa's postsecondary landscape: 33,000 more students enrolled in community colleges than in the state's public four-year universities in 2013 (93,700 versus 60,000, respectively).[24] On average Iowa's community colleges charge relatively high tuition and fees, an average of $4,541, compared to the national average of $3,347.[25] However, those are not the only costs students face. Living costs, books and supplies, and transportation all contribute to making college enrollment at any institution more expensive. Nationally, community college students can expect their cost of attendance to be about $16,325[26]– almost $11,000 more than a maximum Pell Grant covers.

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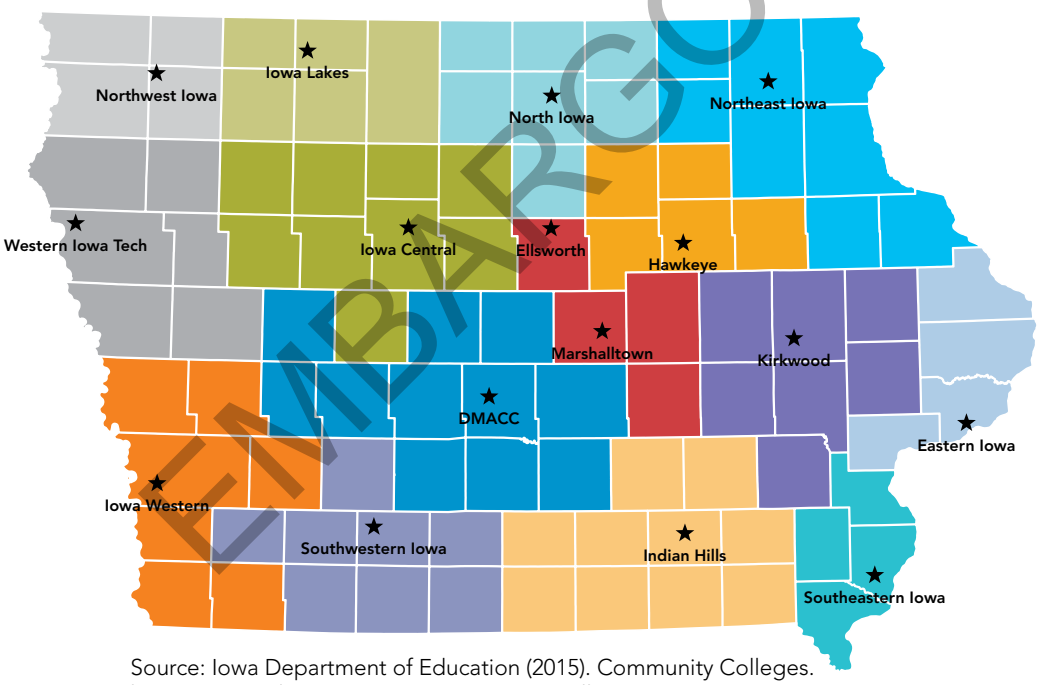
Figure 5: Map of Iowa Community College Districts and Institutions, by County



Source: Iowa Department of Education (2015). Community Colleges. https://www.educateiowa.gov/community-colleges.

[23] Some counties are serviced by multiple community colleges. For example, both Western Iowa Tech and Northwest Iowa community colleges serve Cherokee County, not reflected in Figure 1. Also, some community colleges have multiple locations, like Eastern Iowa Community Colleges that consists of Clinton, Muscatine, and Scott Community Colleges (however, they share a program participation agreement with the U.S. Department of Education and are thus treated as one institution for CDR purposes).

[24] Authors' analysis using the Integrated Postsecondary Education Data System (IPEDS). Data are enrollment figures from fall 2013.

[25] College Board. *Trends in College Pricing 2014*. http://trends.collegeboard.org/college-pricing/figures-tables/2014-15-in-district-tuition-fees-public-two-year-state-five-year-percentage-change. Digest of Education Statistics, Table 330.20: http://nces.ed.gov/programs/digest/d14/tables/dt14_330.20.asp?current=yes

[26] College Board. *Trends in College Pricing 2014*. Average Estimated Undergraduate Budgets, 2014-15. http://trends.collegeboard.org/college-pricing/figures-tables/average-estimated-undergraduate-budgets-2014-15.

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Approximately 45 percent of Iowa's community college students borrow[27] – two and one-half times the national average of 17 percent. Most of Iowa's colleges also have cohort default rates above the national average for public two-year institutions. Figure 6 describes selected institutional characteristics of Iowa's community colleges. For summary statistics for the data in this report, see Appendix B.

Figure 6: Enrollment and Aid Receipt at Iowa's Community Colleges

Institution Name	Total Fall Enrollment	Percent of Undergraduate Students Receiving a Pell Grant	Percent of Undergraduate Students Borrowing a Federal Loan	FY2011 Cohort Default Rate
Des Moines Area Community College (DMACC)	20,167	38%	42%	28.7%
Eastern Iowa Community College District	8,694	47%	40%	21.0%
Ellsworth Community College	1,034	44%	52%	23.2%
Hawkeye Community College	5,809	37%	52%	20.3%
Indian Hills Community College	4,604	57%	62%	29.7%
Iowa Central Community College	5,697	33%	38%	22.4%
Iowa Lakes Community College	2,574	34%	42%	21.5%
Iowa Western Community College	6,861	40%	57%	20.1%
Kirkwood Community College	15,076	35%	44%	24.6%
Marshalltown Community College	2,101	39%	39%	28.7%
North Iowa Area Community College	3,207	41%	59%	20.2%
Northeast Iowa Community College	5,201	35%	39%	22.9%
Northwest Iowa Community College	1,628	26%	31%	11.7%
Southeastern Community College	3,225	57%	42%	23.5%
Southwestern Community College	1,573	42%	45%	21.4%
Western Iowa Tech Community College (WITCC)	6,331	38%	49%	24.3%

Note: All figures are for the most recent year available.

Source: National Center for Education Statistics (NCES), U.S. Department of Education. Integrated Postsecondary Education Data System (IPEDS).

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[27] Calculation by the authors using the Integrated Postsecondary Education Data System (IPEDS), number of all undergraduate students receiving federal student loans, 2012-13.

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A Closer Look at Enrollment and Borrowing

According to the School Portfolio Report (SPR) data, 27,675 students entered repayment during the 2011 federal fiscal year. Our analyses follow these students through January 2015, 52 months after the beginning of the FY2011 CDR period. From these data, we find the average student borrowed $8,287 to attend at least one Iowa community college. Figure 7 shows that average debt is not necessarily correlated with tuition and fees. For example, though Indian Hills has the second-lowest tuition and fees in the state, it has the highest average debt at $9,599.[28]

Enrollment and Completion

One of the more practical challenges campuses face with default management deals with student mobility. Community college students are highly mobile and may attend several institutions during their academic careers, including other Iowa community colleges. While Iowa community colleges are geographically distant from one another, a nontrivial number of students borrowed from multiple colleges.

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Figure 7: Debt Loads for Students in the FY2011 Cohort, by College

Institution Name	2013-14 Tuition and Fees	Borrowers who went into repayment in FY2011	Average Debt for FY2011 Cohort
Des Moines Area Community College (DMACC)	$4,170	5,650	$7,566
Eastern Iowa Community College District	$4,384	1,975	$8,120
Ellsworth Community College	$4,296	388	$7,713
Hawkeye Community College	$4,228	2,394	$8,132
Indian Hills Community College	$3,720	1,833	$9,599
Iowa Central Community College	$4,710	1,878	$7,654
Iowa Lakes Community College	$5,516	969	$8,494
Iowa Western Community College	$4,560	1,702	$6,999
Kirkwood Community College	$4,060	5,878	$8,524
Marshalltown Community College	$4,296	540	$7,901
North Iowa Area Community College	$4,703	964	$7,086
Northeast Iowa Community College	$4,564	1,402	$8,473
Northwest Iowa Community College	$5,460	366	$7,385
Southeastern Community College	$4,590	910	$7,636
Southwestern Community College	$4,800	476	$7,631
Western Iowa Tech Community College (WITCC)	$3,624	1,398	$6,881

Note: The debt in this table represents loans borrowed while enrolled at the community college and does not include debt from other institutions. In cases in which a student enrolled at more than one college, the student's debt from each college is counted only as debt associated with that institution. Loans are therefore unduplicated, while students are duplicated.

Source: National Student Loan Data System (NSLDS) and the U.S. Department of Education's Integrated Postsecondary Education Data System (IPEDS).

[28] All debt figures in this report represent borrowers with at least one loan in repayment between October 1, 2010 and September 30, 2011 (FY2011). The debt fields contain loans borrowed from Iowa community colleges that went into repayment in FY2011, excluding consolidation loans.

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Figure 8: FY2011 Borrowers, by Number of Iowa Community Colleges Attended

Number of Colleges Attended	Number of Borrowers	Percent of Borrowers	Average Debt
1	26,694	96.5%	$8,106
2	923	3.3%	$12,718
3	51	0.2%	$19,754
4	5	<0.1%	$25,065
5	2	<0.1%	$43,909
Total	27,675	100.0%	–

Source: National Student Loan Data System (NSLDS).

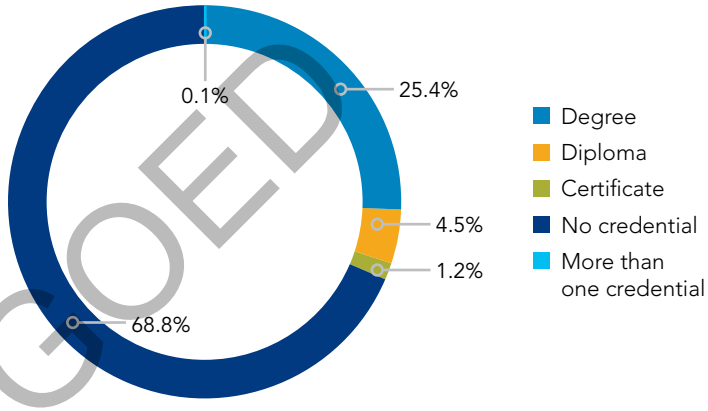
Figure 8 shows that borrowers who attended multiple community colleges tend to carry higher debt levels. For example, the 923 borrowers who attended two colleges carried debt loads approximately $4,600 higher than those who attended just one institution, though this may be because these borrowers were enrolled for a longer period of time, on average, than borrowers who attended one institution. Aid administrators must keep track of whether their borrowers carry debts from other campuses, as their repayment trajectory may be more complicated due to their multiple periods of enrollment and possible participation in FFELP and DL.

Completion

Completion rates at community colleges are challenging to calculate. Rates such as the IPEDS graduation rate only count first-time, full-time students, which account for a small portion of the community college population. Many students who enroll in community colleges seek to transfer to a four year institution without completing a credential, and their outcomes are infrequently counted as a "success" in published graduation rates. Furthermore, as open-access institutions, community colleges are a place where many students try college for the first time, unsure if they want to pursue a credential. In spite of these challenges, community colleges must serve their students well, and promoting completion is part of that role.

Non-completion is significant among the FY2011 Iowa community college cohort (Figure 9).

Figure 9: FY2011 Borrowers, by Completion Status



Source: Iowa community colleges' student information systems.

Overall, 68.8 percent of borrowers in our data left college before earning a credential.[29] One-quarter (25.4 percent) of all borrowers completed an associate degree, and 5.7 percent earned either a diploma or certificate. Less than one percent of borrowers—15 in all—earned more than one credential. It is important to note that these data only represent borrowers who earned a credential at Iowa community colleges. While we can estimate that 30.7 percent of borrowers (8,511) and 30.3 percent of non-completers (5,779) used an in-school deferment after borrowing at an Iowa community college, we cannot tell if those borrowers earned a credential from a subsequent institution, or the sector and level of their next institution.

[29] Of those borrowers, 21.9 percent subsequently used an in-school deferment, though we cannot tell if those students completed their next educational program.

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When students leave college without earning a credential, they are more likely to default.[30] In fact, authors of a 2010 literature review of default trends called secondary and postsecondary attainment "perhaps the strongest predictors of loan default."[31] There are many reasons why students fall behind on their payments, and many of those factors may also be associated with failure to complete a credential. Although open-access institutions may struggle to help their students to progress and complete, they must adopt campus-wide policies to promote completion.[32] By increasing completion rates, institutions can not only improve their students' post-enrollment opportunities, but also decrease the incidence of default.

Loans in Repayment

Although Iowa's community colleges have a high overall borrowing rate, most students borrow only one or two loans. More than 55 percent of borrowers had two or fewer loans over the course of their enrollment, while only two percent of borrowers had ten or more loans (Figure 10).

Figure 10: FY2011 Borrowers, by Number of Loans Borrowed

Number of Loans	Number of Borrowers	Percent of Borrowers
1	5,468	19.8%
2	10,336	37.3%
3	3,287	11.9%
4	3,858	13.9%
5	1,581	5.7%
6	1,293	4.7%
7	596	2.2%
8	479	1.7%
9	240	0.9%
10	210	0.8%
11+	327	1.2%
Total	27,675	100.0%

Source: National Student Loan Data System (NSLDS).

Note that students may borrow more than one loan in a semester or year—for example, a subsidized loan and an unsubsidized loan. More than two-thirds of borrowers in the FY2011 cohort borrowed both a subsidized and an unsubsidized loan (68.3 percent), and almost half of those students—44.7 percent—only enrolled up to their freshman year.[33] Overall, 66.8 percent of Iowa's FY2011 borrowers did not progress beyond their freshman year, according to borrowers' academic level in NSLDS.

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[30] Gross, J. P.K., Cekic, O., Hossler, D., & Hillman, N. (2010) What Matters in Student Loan Default: A Review of the Research Literature, *Journal of Student Financial Aid*: Vol. 39: Issue. 1, Article 2. http://publications.nasfaa.org/jsfa/vol39/iss1/2.

[31] Ibid, page 25.

[32] For a list of publications and resources for encouraging student success, see Appendix C.

[33] It is worth noting that students identify their academic level on the FAFSA, and financial aid administrators are responsible for updating this information if it is incorrect. However, inaccuracies may not be corrected if the student does not request her full loan eligibility.

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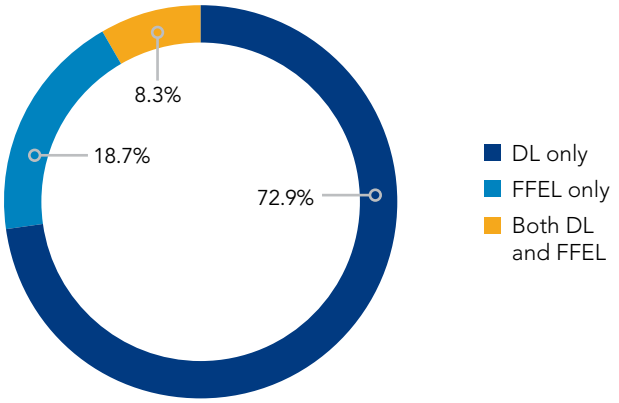
FFEL vs. DL Borrowers

Almost three-quarters of FY2011 borrowers only had Direct Loans (Figure 11). Another fifth only had FFELP loans, and less than 10 percent had both FFELP and Direct Loans. With such a high proportion of borrowers in the Direct Loan program, Iowa community college students are able to take advantage of a broad array of income-driven repayment and loan forgiveness options. These options are only available to FFELP loan holders if they consolidate their debt into the Direct Loan program. These options may, in theory, increase the likelihood of positive repayment trends in the FY2011 repayment cohort. We will see later that this is not the case.

Figure 11: FY2011 Borrowers, by Loan Program



Source: National Student Loan Data System (NSLDS).

Debt Loads

The students in our sample accumulated relatively small debt loads over the course of their community college enrollment, with almost three-quarters (71.9 percent) borrowing less than $10,000. Figure 12 shows the number and percent of borrowers within each debt bin, as well as the breakdown of borrowers by dependency status, which impacts how much students can borrow in a given year.

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Figure 12: FY2011 Borrowers, by Debt Level and Dependency Status

Debt Range	Number of Borrowers	Percent of Borrowers	Percent who are Dependent Students	Percent who are Independent Students
Less than $5,000	10,475	37.9%	45.3%	53.4%
$5,000 to $9,999	9,412	34.0%	42.0%	56.9%
$10,000 to $14,999	4,095	14.8%	35.8%	63.6%
$15,000 to $19,999	1,869	6.8%	20.6%	79.1%
$20,000 or more	1,824	6.6%	3.6%	95.9%
Total	27,675	100.0%	38.3%	60.6%

Note: These figures do not count debt borrowed from other institutions – only Iowa community colleges. The proportion of dependent and independent borrowers do not sum to 100 percent because some students are missing a dependency status.

Source: National Student Loan Data System (NSLDS) and Iowa community college student information systems.

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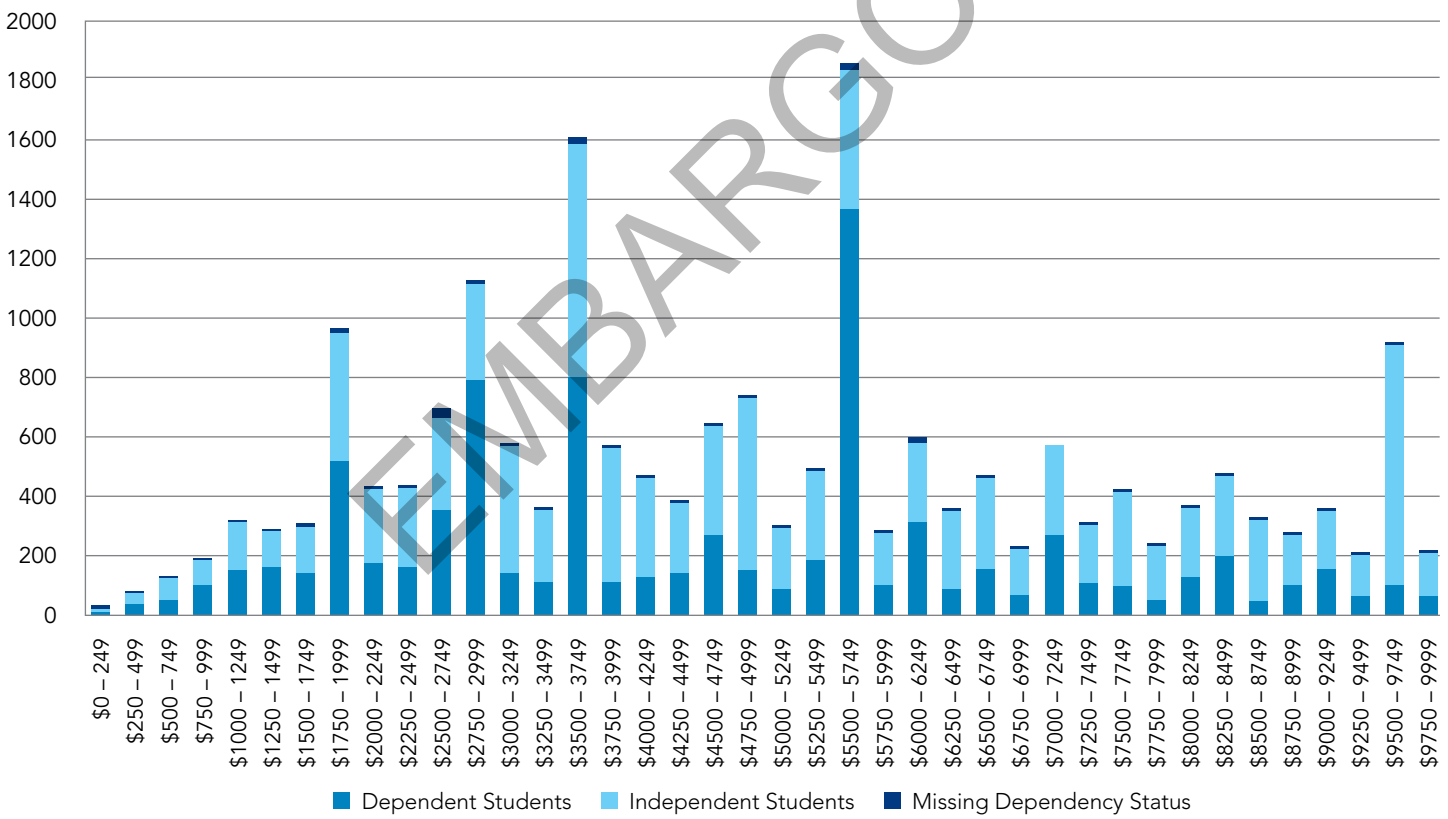
Figure 13 shows a more discrete distribution of gross debt for those borrowing less than $10,000. What first stands out are the spikes at $1,750, $2,750, $3,500, $5,500, and $9,500. These numbers correspond to the one-semester and one-year borrowing limits for borrowers with only a subsidized loan ($1,750 and $3,500), dependent students who borrow both a subsidized and an unsubsidized loan ($2,750 and $5,500), and independent students who borrow a subsidized and an unsubsidized loan ($9,500).

Twenty-five percent of all borrowers can be found in these spikes, and the dependency status of those borrowers suggests that many students are "maxing out" their semester and annual loan limits. However, borrowing at the semester or annual maximum is not typical, as 75 percent of students in the FY2011 cohort do not borrow at the maximum amounts. Unfortunately, we do not have access to any data that would enable us to determine why this is the case. It could be that students are only borrowing to meet certain costs, or that they intended to borrow their full eligibility then dropped out before the end of the semester or year. Others may have been able to cover their full cost of attendance without needing the maximum loan amount.

Figure 13: FY2011 Borrowers with Less than $10,000 in Gross Debt, by Total Borrowed and Dependency Status



Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

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Loan Statuses

A loan status describes the borrower's current stage of repayment. For example, while students are enrolled, their status is "Loan Originated." Once a student leaves college (or drops below half-time), her loan status changes to "In Grace," signifying she is in the grace period and will soon enter repayment. When the grace period ends, the loan status becomes "In Repayment" unless the servicer approves a deferment or forbearance.

Figure 14 shows the loan statuses of borrowers in the FY2011 Iowa community college repayment cohort. The "multiple" category includes borrowers who have at least two different loan statuses. This can occur if a borrower has more than one servicer or if she consolidates only some of her loans (but not others).

A student may also default on one of her loans but remain in good standing on other debt; in this scenario the borrower is counted in the "defaulted" group.

The majority of borrowers are either in repayment or default. Some paid in full while nearly as many are in active forbearance or deferment. Approximately 4 percent have multiple statuses, while a few more consolidated all of their debt. A small number of borrowers had their loans discharged by the loan servicer for reasons such as the student's death, permanent disability, or Chapter 13 bankruptcy.[34] While this figure only provides an overview of the statuses of loans, it gives us some insight into the various ways students manage their debt upon leaving college.

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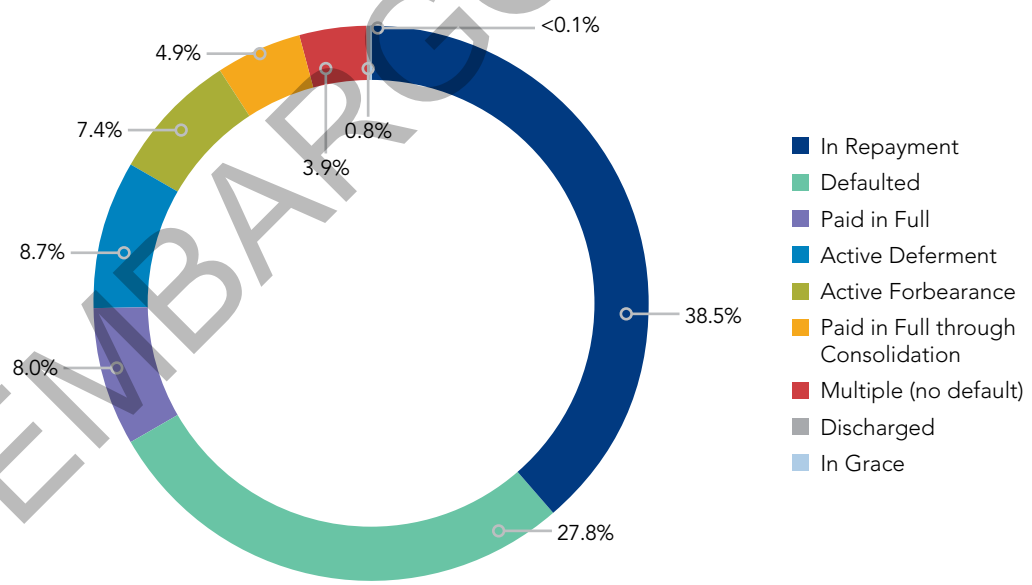
Figure 14: FY2011 Borrowers, by Loan Status



Source: National Student Loan Data System (NSLDS).

[34] See Appendix A for more information on the specific loan statuses included in these groups.

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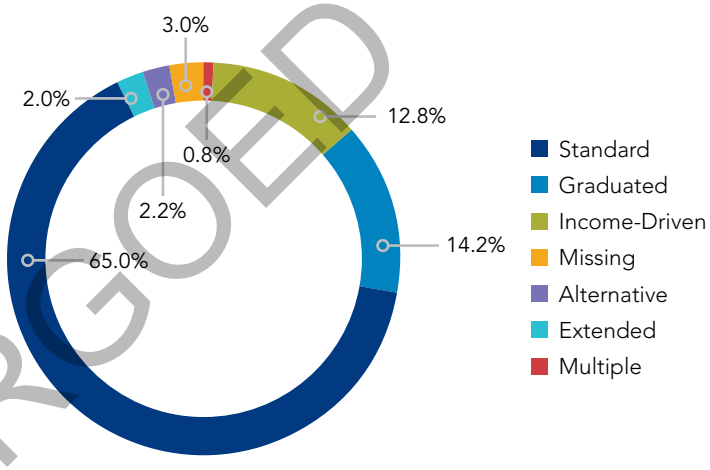
Repayment Plans

Almost two-thirds of borrowers in the FY2011 cohort with an "In Repayment" status are in a standard plan (Figure 15). Graduated plans are the next most common, accounting for 14.2 percent of borrowers. Slightly fewer (12.8 percent) use an income-driven repayment plan, and even fewer use extended and alternative repayment plans (2.2 and 2.0 percent, respectively). Three percent of the sample are missing repayment plan data, due to the fact that FSA does not require FFELP servicers to report these data. Additionally, less than one percent of borrowers use multiple repayment plans, often because they have multiple types of debt (such as FFEL and DL), a combination of consolidated and non-consolidated debt, or multiple servicers.

Unfortunately, the data to which we have access does not offer insights into students' rationales for choosing among the various repayment plan options. It is possible that students opt to enroll in graduated plans over income-driven plans because income-driven plans have a barrier to entry, in that students must apply to participate. It is also possible that those with very low borrowing amounts are not eligible for income-driven plans because their loan balances are too low or their incomes are too high. Students also may not know that they have different repayment plans available to them. Regardless of the situation, it is important for borrowers to have access to loan counseling from their institution before they borrow and from their servicer after they borrow so they are able to make an informed decision about their repayment plan.

Figure 15: FY2011 Borrowers with an "In Repayment" Loan Status, by Payment Plan



Source: National Student Loan Data System (NSLDS).

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A Closer Look at Default

Now that we have a reviewed the overall trends in borrowing and repaying loans, we focus our attention on those who defaulted. Our data follow students beyond the official cohort default rate period, through January 2015. This adds an additional 16 months of repayment behavior to the cohort default rate data, which enabled us to investigate repayment behavior after the CDR period ended.[35]

With Loan Record Detail Report (LRDR) data, we can derive a borrower-based FY2011 CDR for Iowa's community colleges of 24.5 percent (27,587 students and 6,762 in default).[36] However, this only describes the default rate as of September 30, 2013. When we use the School Portfolio Report (SPR), which follows borrowers until January 2015, the default rate increases by 3.3 percentage points, to 27.8 percent (7,680 defaulters of 27,675 borrowers).[37] The difference is notable: just sixteen months after the close of the CDR period, the default rate increases by 13 percent.

Across all postsecondary institutions, defaulters tend to carry about half as much debt as all college graduates.[38,39] Our analysis of Iowa's community college students reveals a similar pattern, with defaulters often carrying lower balances than the average borrower. Of students who defaulted, more than three-quarters borrowed less than $10,000 and almost half borrowed less than $5,000. This finding is consistent with analyses conducted by other researchers, including those from the Federal Reserve Bank of New York, which studied default trends across all sectors.[40]

Figure 16: FY2011 Default Rates, by Debt Level

Debt Range	Number of Borrowers	Number of Defaulters	Percent of Defaulters	Default Rate
Less than $5,000	10,475	3,318	43.2%	31.7%
$5,000 to $9,999	9,412	2,566	33.4%	27.3%
$10,000 to $14,999	4,095	930	12.1%	22.7%
$15,000 to $19,999	1,869	392	5.1%	21.0%
$20,000 or more	1,824	474	6.2%	26.0%
Total	27,675	7,680	100.0%	27.8%

Source: National Student Loan Data System (NSLDS).

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[35] It also means that our figures differ somewhat from the figures in the official FY2011 cohort default rate.

[36] This figure is calculated from the Loan Record Detail Report (LRDR) submitted to the authors by the Iowa community colleges.

[37] The SPR cohort increases by 76 borrowers, which accounts for updates that occurred after the LRDR cohort period closed. Although our designation of default in this report includes statuses that are not counted in the numerator of the official CDR, our designation only adds 13 borrowers, which would translate to an "official" rate of 27.7%.

[38] The Institute for College Access and Success (November 2014). Student Debt and the Class of 2013. http://ticas.org/sites/default/files/legacy/fckfiles/pub/classof2013.pdf.

[39] New America (May 15, 2015). Atlas: Problems with Debt – Default Rates, Collection. http://atlas.newamerica.org/federal-student-loan-default-rates.

[40] The Federal Reserve Bank of New York found that the default rate for FY2009 students who borrowed between $1,000 and $5,000 is 34 percent. Liberty Street Economics (February 19, 2015). Looking at Student Loan Defaults through a Larger Window. http://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html#.Vb-LjPNVhBe.

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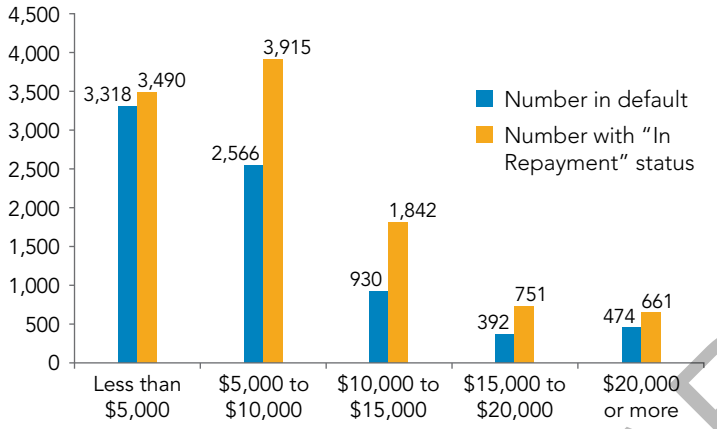
At these low debt levels, there are almost as many borrowers in default as there are in repayment. Figure 17 compares the two most common loan statuses for borrowers in our dataset—those who are in active repayment and those who have defaulted. Although there are about 3,000 more borrowers with an "In Repayment" status as with a defaulted status, there are nearly as many defaulters as repayers in the "Less than $5,000" category.

Figure 17: FY2011 Borrowers with an "In Repayment" Status Compared to Borrowers with a Defaulted Status



Source: National Student Loan Data System (NSLDS).

In Figure 18, we see that default rates for borrowers with less than $10,000 in debt do not follow the borrowing trends in Figure 13 (see page 18). That is, default rates do not spike at one-semester or one-year borrowing limits or follow a consistent trend.

Why are so many students defaulting, with no discernable pattern, on such small debt loads? The monthly payment for those loans of less than $5,000 is, at most, a little over $50 per month on a standard repayment plan. While this amount may be difficult to pay for those who are unemployed or have very low incomes, there are several postponements and repayment plans available to them. It is possible that the students may not know they borrowed loans or the terms of their debt, or that they did not contact their servicer to make a payment despite completing entrance counseling and a master promissory note. It is also possible some students refused to repay their debt. However, there may be other factors at play. In the next section, we examine the characteristics of students who default in search of correlations that can help institutions better understand and serve their borrowers.

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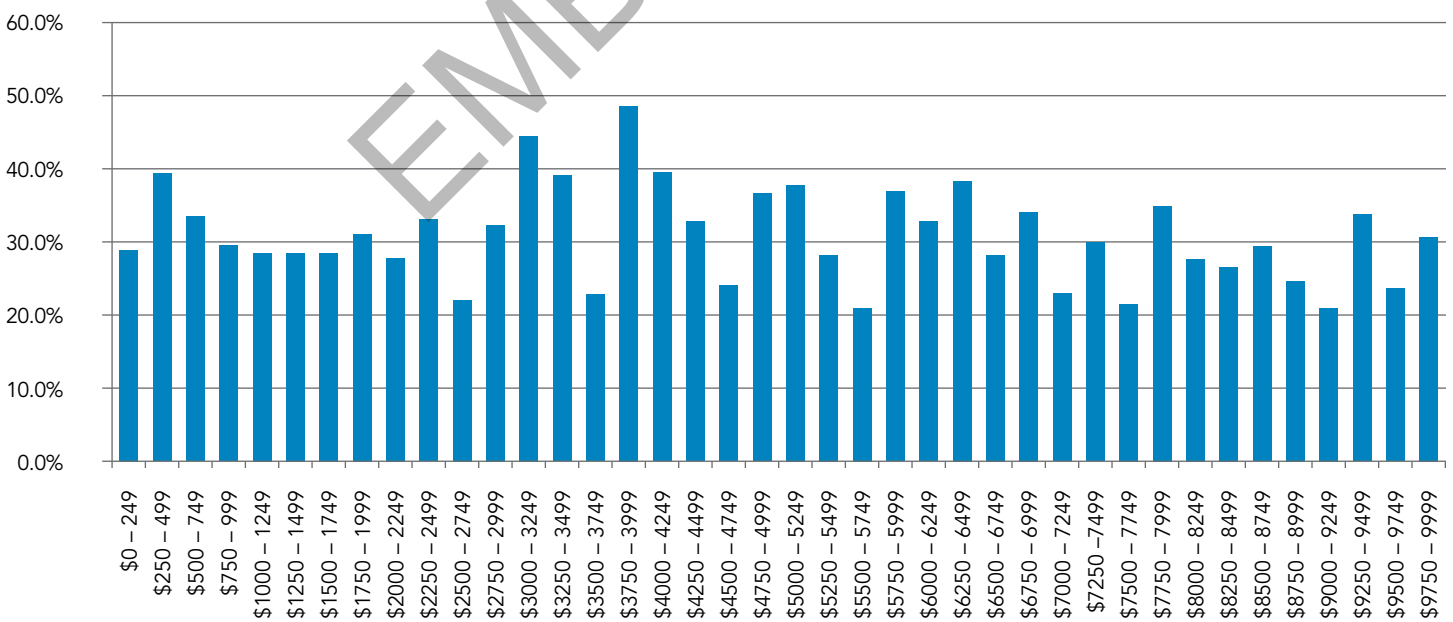
Figure 18: FY2011 Default Rates for Borrowers with Less than $10,000 in Gross Debt, by Total Borrowed



Source: National Student Loan Data System (NSLDS).

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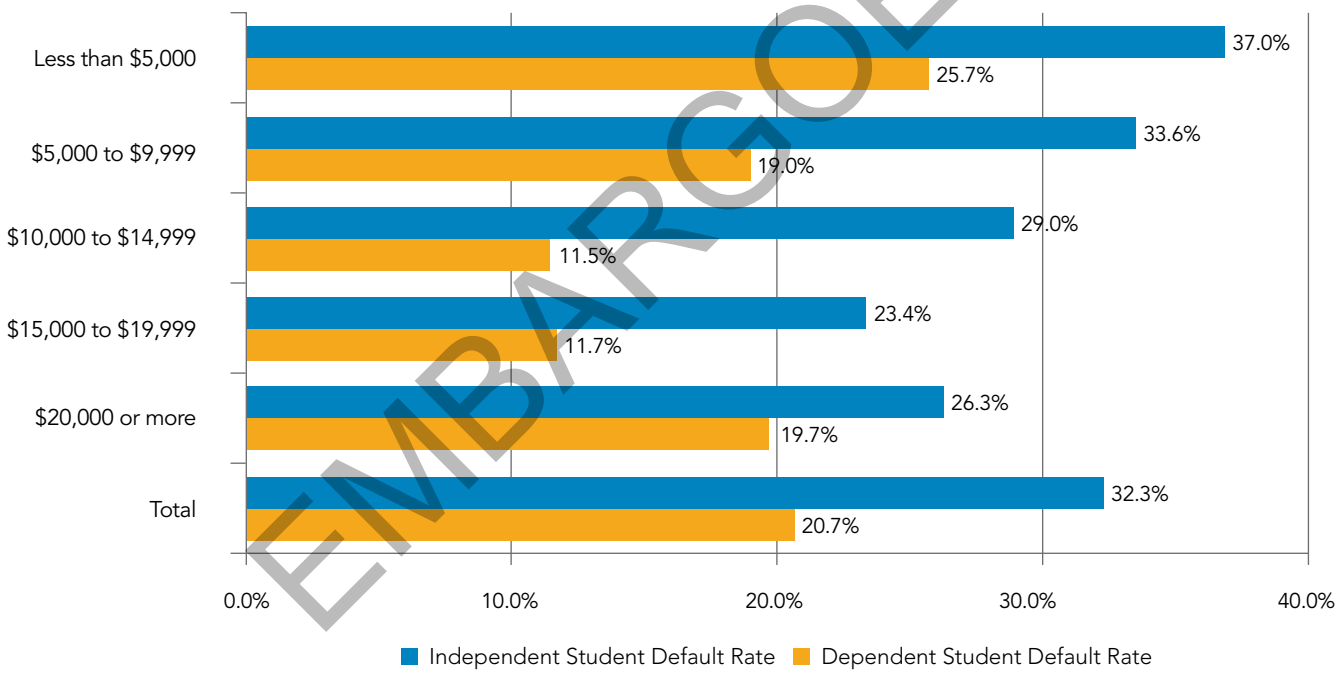
The Student: Factors Associated with Default

Dependency Status

Our data show that independent borrowers have consistently higher default rates than dependent borrowers, regardless of the amount borrowed (Figure 19).

Students typically qualify as independent if they are 24 or older, married, have dependents, or are enrolled in a graduate program. They may also qualify if they are emancipated minors, orphans, wards of the court, in legal guardianship, or homeless or at risk of homelessness.[41] The criteria associated with being independent may also indicate a person who is more likely to experience delays or obstacles to postsecondary enrollment, which could also affect persistence and completion. While not all independent students can be considered "post-traditional" students, it is notable that these borrowers default at higher rates than dependent students, who are more likely to be "traditional" college students. Institutions should consider the supports they provide to independent borrowers so as to prevent higher rates of default in this population, and consider ways to support post-traditional students more broadly.

Figure 19: FY2011 Default Rates, by Gross Debt and Dependency Status



Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

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[41] Office of Federal Student Aid, U.S. Department of Education. Dependency Status. https://studentaid.ed.gov/sa/fafsa/filling-out/dependency.

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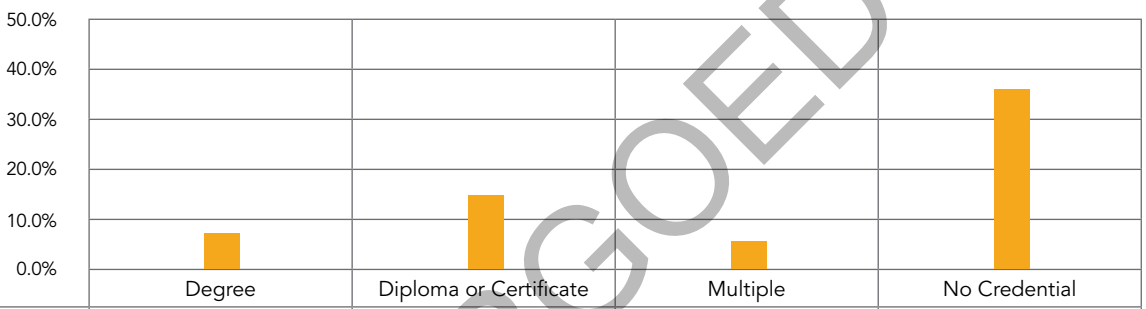
Credits and Credentials Completed

Not all students enroll with the intent of earning a degree, yet, as previous research suggests, completing a credential is strongly associated with avoiding default.

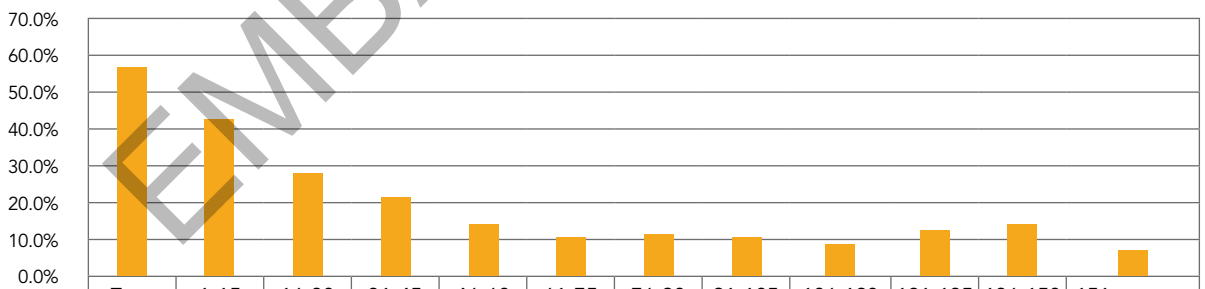
Figures 20 and 21 show that nearly 90 percent of all defaulters left college with debt but no credential, and that nearly 60 percent of all defaults are concentrated among students who earned less than fifteen credit hours.[42] The default rate for borrowers who earned no credential is 35.9 percent; of these non-completers, those who earned fewer than 15 credits have a 47.8 percent default rate. Conversely, students who earned the most credits tend to default at the lowest rates, even if they did not earn a degree.[43] Furthermore, non-completers who subsequently used an in-school deferment have a default rate of 18.6 percent, suggesting that students who transfer default at lower rates, even when they do not earn a credential at a community college. These statistics demonstrate that persistence and completion are the most important outcomes for students and are especially important in helping them avoid default.

Figure 20: FY2011 Default Rates, by Completion Status



	Degree	Diploma or Certificate	Multiple	No Credential
Default Rate	8.5%	15.6%	6.7%	35.9%
Percent of Defaulters	7.8%	3.3%	<0.1%	88.9%

Figure 21: FY2011 Default Rates, by Credits Earned



	Zero	1-15	16-30	31-45	46-60	61-75	76-90	91-105	106-120	121-135	136-150	151 or more
Default Rate	58.0%	42.5%	28.5%	21.3%	14.8%	10.8%	11.0%	10.5%	9.3%	11.5%	12.8%	7.6%
Percent of Defaulters	26.1%	33.4%	15.1%	8.5%	5.3%	5.4%	3.3%	1.4%	0.7%	0.4%	0.2%	0.1%

Source: Iowa community colleges' student information systems and the National Student Loan Data System (NSLDS).

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[42] Fifteen credits is a "momentum point" correlated with completion identified in prior research. Leinbach, D. T. & Jenkins, D. (2008). Using longitudinal data to increase community college student success: A guide to measuring milestone and momentum point attainment. http://ccrc.tc.columbia.edu/publications/research-tools-2.html.

[43] That is not to say that students should earn so many credits without receiving a credential – colleges should implement policies that award credentials to students who successfully complete this much coursework, as these credentials can help students in the workplace.

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Other Aid Received

The federal Pell Grant program is one of the most important sources of aid for low-income students. At Iowa community colleges, 66 percent of FY2011 borrowers received a Pell Grant. On average, these students borrowed more ($8,705) than non-Pell students ($7,639). This is consistent with previous research:[44] Pell students likely have fewer financing resources to help them enroll and persist in college and must borrow even at lower-cost community colleges.

Unfortunately, Pell students not only borrow more; they also default at higher rates than non-Pell students. However, students who receive Pell Grants are also more likely to be low-income, independent, first-generation college-goers, and less academically prepared than their peers,[45] factors that increase their risk of dropping out. As borrowers who do not complete a credential are more likely to default, Pell students face a higher risk of experiencing negative repayment outcomes. Navigating the aid system is a challenging task made even more complicated when a student is the first in her family to attend college or is juggling multiple responsibilities, and those who are Pell-eligible may not have the guidance or support that can encourage completion of a postsecondary credential. The factors correlated with completion could also come into play when avoiding default. Younger students or those from higher-income families can rely on their parents for help with loan repayment and finding jobs after college, luxuries often unavailable to working-class students.

Figure 22 highlights the a notable gap in default rates between FY2011 Pell and non-Pell borrowers and completers. Although a default rate gap exists between Pell and non-Pell borrowers (16.5 percentage points), there is a larger gap between Pell borrowers and Pell completers (20.6 percentage points). These data demonstrate that non-completion and default often go hand in hand for both Pell and non-Pell borrowers, but that completion can make a substantial difference in a student's likelihood of success. One of the best ways for institutions to decrease default rates is to increase completion rates, and to target those initiatives to the entire student body.

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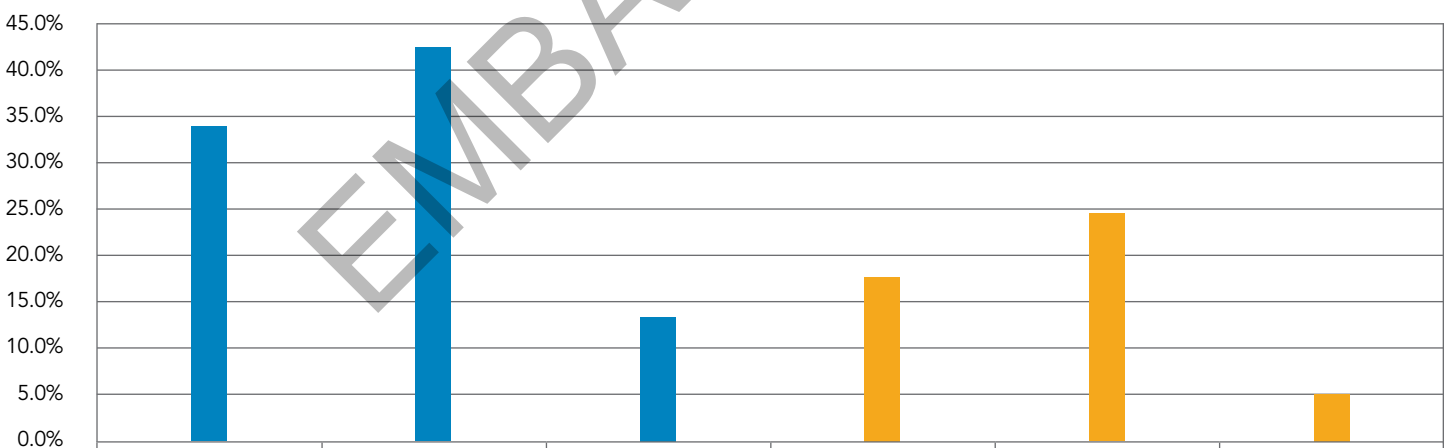
Figure 22: FY2011 Default Rates, by Pell Eligibility and Completion Status



	All Borrowers	Non-Completers	Completers	All Borrowers	Non-Completers	Completers
	Pell Students			Non-Pell Students		
	34.2%	42.4%	13.6%	17.8%	24.7%	5.2%

Source: Iowa community colleges' student information systems and the National Student Loan Data System (NSLDS).

[44] The Institute for College Access & Success (2014). Quick Facts about Student Debt. http://ticas.org/sites/default/files/pub_files/Debt_Facts_and_Sources.pdf.

[45] Fastweb. Profile of Pell Grant Recipients Quick Reference Guide. http://www.finaid.org/educators/ProfileofPellGrantRecipients.pdf.

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The Debt: Factors Associated with Default

The FY2011 cohort has allowed us to identify student characteristics associated with default and understand how institutions may help students successfully repay their debt. Now, we look to characteristics of the loans for further clues and identify institutional and federal policies that can help keep students out of default.

When we examined students' default dates, we observed that 57.5 percent of all defaulted borrowers (4,954) defaulted before October 1, 2012, one year into the CDR period. Many of these defaults were long-lasting: only 20.5 percent of those borrowers (1,018) rehabilitated their debt before January 2015, and of those rehabilitators, 8.2 percent (83) defaulted again.[46] These findings led us to investigate students' repayment behavior before default, as so many defaults in such a short period of time suggests many defaulters are taking little to no action on their debt.

Postponements and Payments

Forbearance and deferment can help borrowers avoid default by postponing payments during periods of postsecondary enrollment, military service, or financial hardship. Despite the availability of these options, too many students still become delinquent and default on their loans. Figure 23 compares the postponements used by borrowers with a defaulted status and borrowers with an "In Repayment" status. For defaulters and repayers, forbearance is more common than deferment, while using both deferment and forbearance is much more common with borrowers in repayment than borrowers in default. The incidence of borrowers using no postponement differs substantially among the groups: more than twice as many defaulters did not use a deferment or forbearance (58.5 percent compared to 28.3 percent). These data suggest that borrowers in active repayment are more likely to take advantage of postponement options than defaulters, though we cannot determine why that is the case.

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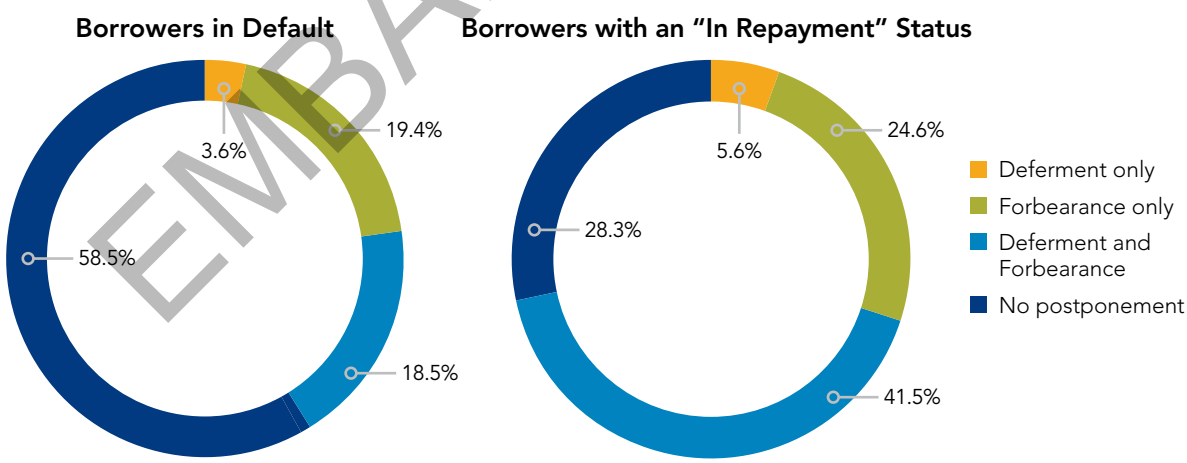
Figure 23: FY2011 Borrowers, by Postponements Used and Loan Status



Note: The use of forbearance may be understated in both samples because FFEL servicers are not required to report forbearance information.

Source: National Student Loan Data System (NSLDS).

[46] The denominator on this statistic is 8,617, which represents the number of borrowers who experienced default before January 2015.

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While many defaulters do not postpone payments on their loans, others never make a payment in the first place. Figure 24 shows that two-thirds of defaulted borrowers had no payments on record.

Figure 24: FY2011 Defaulters, by Number of Payments Made

Payments Made	Number of Defaulters	Percent	Average Debt
No Payment	5,115	66.6%	$7,493
At Least One Payment	2,565	33.4%	$8,191
Total	7,680	100.0%	–

Note: The incidence of payments may be underreported because FFEL servicers are not required to report payment information.

Source: National Student Loan Data System (NSLDS).

All told, when we examine postponements and payments together, we observe that 43.3 percent of all defaulters (3,325) neither used a postponement nor made a payment on their debt.

These data should be interpreted with caution, as FFEL servicers are not required to report forbearance or payment information to NSLDS. However, most of the borrowers with at least one FFEL loan in our data (78.2 percent) had a federal servicer, which means their payments and forbearances would be captured in the data.[47] Furthermore, we conducted the same analysis on the Direct Loan portion of the data and observed almost exactly the same result. These facts lead us to believe that the number of borrowers not making payments or using a forbearance are not grossly overestimated.

Why might such a large proportion of defaulters take virtually no action on their debt? Considering that research shows that students often under-estimate how much they borrow—and some do not know they borrowed[48]—we suspect an information gap is driving much of the non-payment problem.[49] It is also possible students did not know the terms of their debt, believing they had more flexible repayment options or that they did not have to repay their debt if they did not complete their program. It is also possible that their servicer did not have contact with the borrower because it lacked the borrower's updated contact information or did not conduct due diligence. It is also possible the borrower did not respond to servicer correspondence.

The explanations are many, and only through outreach can financial aid administrators and servicers determine causes and solutions to these issues. While colleges play an important role in helping students avoid default, the federal government and servicers are also responsible for ensuring a smooth repayment process. Unfortunately, when complications arise, students are the ones to shoulder the burden of repayment and they are the ones who bear the ultimate consequences of default.

Repayment Plans

It is a common assumption that defaulted borrowers cannot meet minimum monthly payments on their loans—after all, 270 days of delinquency is required before a "default" status is reached. This assumption would help explain why two-thirds of FY2011 defaulters in Iowa failed to make even one payment on their debt. However, this conventional wisdom does not hold when looking at the payment plans borrowers used at the time of default.

Figure 25 tells us that over 7,100 borrowers—*93 percent of all defaulters*—were enrolled in a standard repayment plan when they entered default, and that the default rate was highest for borrowers in a standard plan. We also see higher default rates for Pell borrowers in most payment plan groups with a notable exception – Pell borrowers using income-driven repayment plans have nearly the same default rate as all borrowers using an income-driven option.

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[47] These FFEL loans were likely purchased under ECASLA and were therefore assigned to ED servicers.

[48] FDR Group (February 2015). Taking Out and Repaying Student Loans: A Report On Focus Groups With Struggling Student Loan Borrowers. http://dev-edcentral.pantheon.io/wp-content/uploads/2015/03/FDR_Group_Updated.pdf.

[49] See: Brown, M., Haughwout, A., Lee, D., & Van Der Klaauw, W. (2014). Do we know what we owe? A comparison of borrower-and lender-reported consumer debt. New York, NY: Federal Reserve Bank of New York. http://www.newyorkfed.org/research/staff_reports/sr523.html

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Figure 25: FY2011 Default Rates, by Payment Plan

Repayment Plan Type	Total Borrowers	Total Defaulters	Default Rate	Pell Borrowers	Pell Defaulters	Pell Default Rate
Standard	20,684	7,140	34.5%	12,722	5,371	42.2%
Graduated	2,639	342	13.0%	1,602	244	15.3%
Income-Driven	1,984	63	3.2%	1,311	44	3.4%
Multiple	274	33	12.0%	166	26	15.7%
Extended	355	12	3.4%	178	9	5.1%
Alternative	407	27	6.6%	253	16	6.3%
Missing	1,332	63	4.7%	588	42	7.1%
Total	27,675	7,680	27.8%	16,820	5,752	34.2%

Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

It is possible that the number of borrowers in the income-driven group were undercounted, as borrowers may have been enrolled in an income-driven plan and failed to reapply, thus being pushed back into a standard plan.[50] However, the lack of enrollment in other payment plans suggests defaulters who could have opted for other plans did not do so, and were therefore enrolled in the plan that offered the highest monthly payments. More outreach and simpler options could induce more students to enroll in different repayment plans, allowing them to effectively manage their debt.

Types of Default

Default is an umbrella term that encompasses many different loan statuses. Although most defaults are unresolved, which means the student has not yet attempted to ameliorate the defaulted debt, there are many other types of default. Figure 26 shows the number of defaults according to these alternative statuses, most of which demonstrate an attempt to resolve the default.

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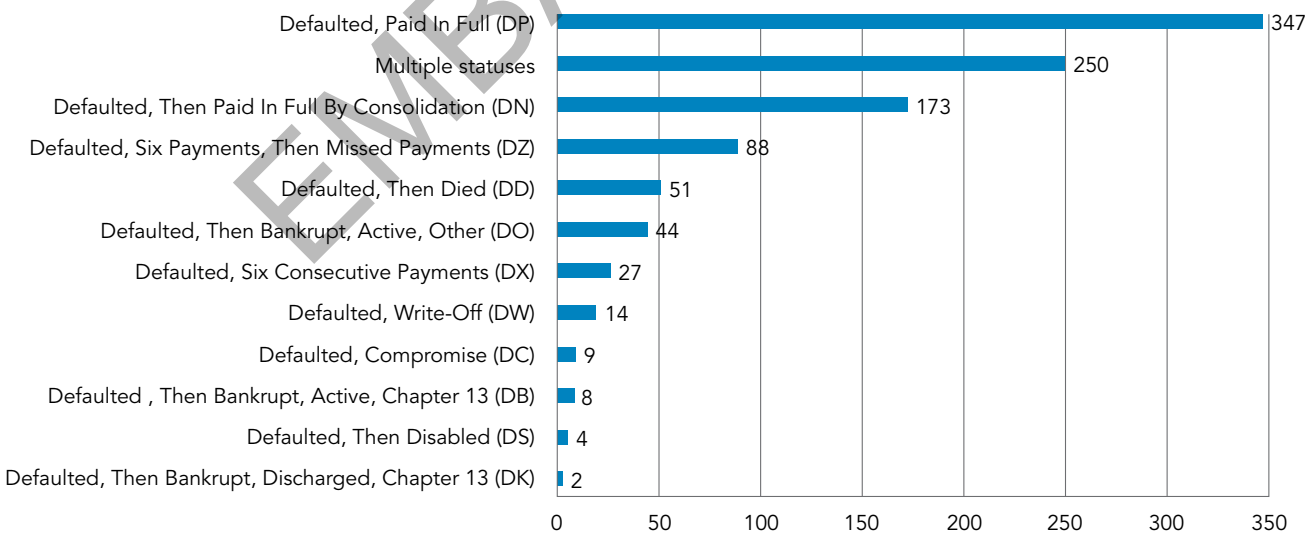
Figure 26: FY2011 Defaulters, by Loan Status, Excluding "Default, Unresolved"



Note: The "multiple" category is a grouped status that includes multiple defaulted statuses or loans with defaulted and non-defaulted statuses.
Source: National Student Loan Data System (NSLDS).

[50] While we cannot determine if this occurred with Iowa community college borrowers, the Department of Education published data in May 2015 showing that 56.7 percent of borrowers in income-driven plans did not recertify their applications on time. http://www2.ed.gov/policy/highered/reg/hearulemaking/2015/paye2-recertification.pdf.

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Here, we see that 4.6 percent of defaulters simply pay their loans in full to get out of default. However, paying off the loan does not clear the default from their credit reports. To clear their credit records, borrowers must rehabilitate their debt. If a defaulter simply pays the balance (plus collection costs and fees), the default remains on her credit report and the borrower is still counted in the college's CDR numerator.[51] But if a defaulter rehabilitates her debt, she will end up paying more in the long run than if she simply paid her debt in full.[52] Due to the design of the CDR policy, colleges have an incentive to *discourage* students from paying their loans in full after default. While the theory of action is logical – if a borrower demonstrates her ability to make consistent payments, she will be less likely to default – not all borrowers who rehabilitate their debt stay out of default.

Rehabilitation of Defaulted Debt

When borrowers rehabilitate their debt, the default is removed from their credit report, they become eligible for Title IV aid, and, if they rehabilitate within the CDR period, they are removed from the numerator of the default rate. When we analyzed the School Portfolio Report (SPR) data, we saw that 8,617 borrowers defaulted on their debt at some point in time, 18.4 percent of whom (1,560) rehabilitated their defaulted debt. Figure 27 shows the loan status of those rehabilitated borrowers. As of January 2015, sixty-one percent of rehabilitators (966) had an "In Repayment" status,19.2 percent (304) were either in an active deferment or forbearance, and 14.3 percent (227) defaulted again.

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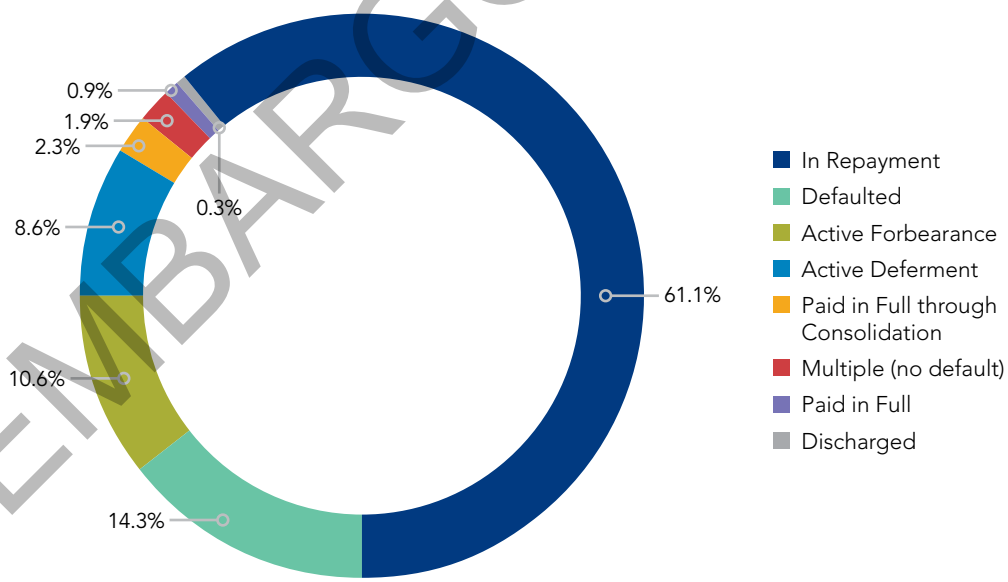
Figure 27: FY2011 Rehabilitators, by Loan Status



Source: National Student Loan Data System (NSLDS).

[51] The "Defaulted, Paid in Full" status may also signify borrowers whose defaulted debt was totally repaid through wage or income tax return garnishment. With the number of loan statuses that exist in NSLDS, it is surprising that this situation does not have its own loan status.

[52] In both cases, borrowers once again become eligible for Title IV aid should they want to re-enroll in college. See http://www.ifap.ed.gov/sarmaterials/attachments/appc02.pdf.

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We can infer from these figures that those who default are not necessarily incapable of repaying their loans. Again, it is possible that there was a lack of communication about their debt and repayment obligations, or that they did not know how to make payments. Borrowers in this sample who rehabilitated their debt may have also faced administrative issues caused by ED's oversight of its default management system contractor, Xerox (formerly ACS Education Solutions). According to a 2014 Government Accountability Office Report, rehabilitations not were processed between October 2011 and April 2012, and the backlog was not resolved until January 2013. These delays could have caused rehabilitated borrowers in our sample to not receive appropriate benefits until long after their rehabilitation occurred.[53]

The responsibility for mitigating these situations lies with the institution, the servicer, and the federal government, all of which can use various modes of communication to contact the student regarding payment options. Institutions would do well to focus their outreach on encouraging positive repayment behavior early and often, and servicers should reach out to borrowers while they are enrolled and during the grace period in order to inform borrowers of their responsibilities and options.

Loan Servicers

Loan servicers are the primary facilitators of student-loan repayment. They are responsible for outreach to borrowers while they are in college, during the grace period, and during repayment. Servicers are also required to contact borrowers as they become delinquent and perform "skip-tracing," in which they attempt to contact borrowers through many avenues, often using data from a credit bureau. As making a connection with borrowers is often the first step toward resolving delinquency, skip-tracing is an important function for servicers. Despite the importance of servicer behavior, FSA does not make public documentation as to how frequently servicers are required to contact borrowers. This lack of information makes it difficult for institutions to gauge their own default management efforts and to know how to evaluate servicers of federal loans.

Once a loan goes into repayment, the servicer controls most of the NSLDS data related to a student's account. Servicers are responsible for updating NSLDS with current information on students' loans, including loan statuses, repayment plans, payments made, deferments and forbearances, and rehabilitation information. Despite the massive amount of control and responsibility for data and due diligence, a significant portion of servicer data is kept private, only available to institutions through a CDR servicing appeal, which is only available within a limited window of time.

This lack of information is due, in part, to servicer portfolio volume being based on competition. Servicers' performance—and compensation—is based on five metrics: a borrower satisfaction survey, the percent of borrowers in current status, the percent of borrowers over 90 days delinquent, the percent of borrowers in default, and a federal employee satisfaction survey.[54] The institutional satisfaction survey was eliminated from the metrics in 2015. While these metrics incentivize servicers to keep as many students as possible in a current, or non-delinquent, status, they also discourage servicers from sharing default management strategies for fear that they will be out-performed by their competitors. This creates a counterproductive set of incentives through which best practices are kept secret because servicers are vying for a greater portion of the federal loan portfolio.

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[53] Government Accountability Office (March 6, 2014). Better Oversight Could Improve Defaulted Loan Rehabilitation. http://www.gao.gov/products/GAO-14-256.

[54] Office of Federal Student Aid, U.S. Department of Education (December 2014). Federal Loan Servicing Update. Presentation given at the 2014 Federal Student Aid Conference in Atlanta, Georgia. http://fsaconferences.ed.gov/2014sessions.html.

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Figure 28: FY2011 Default Rates, by Servicer

Servicer	Total Borrowers	Defaulted Borrowers	Default Rate
ED/ACS	4,596	3,358	73.1%
Missing	65	28	43.1%
ED/PHEAA	8,699	1,899	21.8%
ED/Great Lakes	3,277	624	19.0%
ED/Nelnet	1,985	332	16.7%
Multiple	2,688	414	15.4%
FFEL (grouped)	709	39	5.5%
ED/Navient	2,334	90	3.9%
ED/TPD	73	2	2.7%
ED/VSAC	119	2	1.7%
ED/Granite State	184	3	1.6%
ED/Edfinancial	473	5	1.1%
ED/MOHELA	1,590	9	0.6%
ED/Cornerstone	69	0	0.0%
ED/Aspire	724	0	0.0%
ED/OSLA	14	0	0.0%
Total	27,599	6,805	24.7%

Note: These data are from the Loan Record Detail Report, which contains the student's servicer before the loan goes into default. The School Portfolio Report does not contain this information. The sample size is slightly different due to variations in the report specifications and how defaults are counted in the official CDR. The "multiple" group includes DL-only and FFELP/DL borrowers.

Source: National Student Loan Data System (NSLDS).

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With these issues in mind, we attempted to analyze servicer default rates for the FY2011 Iowa community college borrowers (Figure 28). The best source of information on servicers of defaulted debt is the Loan Record Detail Report because it preserves the most recent servicer of the borrowers' loans, even after the student defaulted. This information is not preserved in the School Portfolio Report, which we used for other analyses in this report, so the sample of students is slightly different.[55]

When we examine servicers' borrower-based default rates, one stands out for poor performance—ACS, the Department of Education's former servicer for the entire Direct Loan program. The Direct Loan servicing portions of PHEAA, Great Lakes, and Nelnet also have double-digit rates, and a small portion of loans are missing servicer information altogether.[56]

It is important to note that ACS's rate may be inflated because the FY2011 cohort was in repayment during two major shifts in the federal loan programs – the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) and the Student Aid and Fiscal Responsibility Act of 2009 (SAFRA). During the financial

[55] The most complete SPR field with servicer data combines servicer and guarantor. ED's Debt Management and Collection Services is the servicer for defaulted loans, so it is impossible to derive a reliable servicer default rate from these data. The reports have a slightly different total number of borrowers because of differences in the report specifications.

[56] Missing servicer information is associated with FFELP loans.

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crisis, the liquidity of some FFELP lenders was so limited that they could not make new Stafford or PLUS loans. ECASLA temporarily authorized ED to purchase FFELP loans, thereby providing the lender with liquidity to make new loans. While some purchased loans continued to be serviced by the FFEL servicers, others were brought into the Direct Loan portfolio and serviced by ED/ACS.[57] Furthermore, in 2010, SAFRA ended new FFEL loans, and ED contracted with four servicers in addition to ACS – Great Lakes, PHEAA, Nelnet, and Sallie Mae (collectively called TIVAS, or Title IV Additional Servicers), along with several other not-for-profit (NFP) servicers. During that transition, ACS redistributed a substantial number of loans in its vast portfolio to the TIVAS, so they would have a portfolio of debt to service. In addition, repurchased loans were allocated among the TIVAS, and new loans were assigned to the TIVAS or NFP servicers.[58]

ED's contract with ACS was set to expire on December 31, 2013, shortly after the close of the FY2011 CDR period.[59] An audit by ED's Inspector General found that Federal Student Aid did not appropriately oversee ACS (now Xerox) when it was building a new debt collections system.[60] Though the Department did not state that it severed its contract with ACS, Jeff Baker, director of the Policy Liaison and Implementation unit at FSA, said at the 2014 National Association of Student Financial Aid Administrators (NASFAA) conference that ACS's contract was not renewed due to improper handling of their servicing obligations.[61] The end of the contract meant that the loans in ACS's portfolio had to be redistributed among the other federal servicers. According to a letter from the Department of Education to financial aid professionals, ED delayed the transfer of borrowers who were applying for discharge, forbearance, deferment, or another status change, so the change could be resolved before a new servicer was assigned.[62] ED/ACS also reportedly held on to loans that were in late-stage delinquency or that otherwise at had a high risk of default so as not to artificially inflate the rates of the other federal servicers.

ACS's high default rate in our data reflects a period of transition in the federal student loan portfolio. Though it is difficult to determine exactly why ACSs' rate is so high, the incidence of default and multiple servicers suggests that the transition to 100 percent Direct Lending was initially difficult, and that it is challenging for institutions and borrowers to discern exactly what happened with all of those defaulted students.

"Split" Borrowers

A "split" borrower is a federal student loan borrower with more than one servicer. Also known as split-servicing, the incidence of one student having multiple servicers increased after the switch to 100 percent Direct Lending, as the Direct Loan portfolio was divided among the new federal servicers. Split-servicing complicates repayment for the borrower, who must make more than one monthly payment, and, in the case of students who use income-driven repayment, file more than one application for their repayment plan each year.

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[57] Public Law 110-227, Section 459a(c). Temporary Authority to Purchase Student Loans. http://www.gpo.gov/fdsys/pkg/PLAW-110publ227/pdf/PLAW-110publ227.pdf.

[58] Office of Federal Student Aid, U.S. Department of Education (September 16, 2009). Loan Servicing Information-Customer Service and NSLDS Information for Direct Loan and FFEL Purchased Loan Servicers as of September 2009. http://ifap.ed.gov/eannouncements/081609LoanServINSLDSnfoCustSer.html.

[59] Office of Federal Student Aid, U.S. Department of Education. ACS Education Solutions Contract. http://www2.ed.gov/policy/gen/leg/foia/acscontract1.pdf.

[60] See http://www2.ed.gov/about/offices/list/oig/auditreports/fy2015/a04n0004.pdf.

[61] New Jersey Association of Student Financial Aid Administrators (August 6, 2014). NASFAA Conference Review. http://njasfaa.org/b/general/nasfaa-conference-review/.

[62] Office of Federal Student Aid, U.S. Department of Education (August 19, 2013). Loan Servicing Information - Direct Loan Servicing Center (ACS) Transfer Update and Closure Plan. http://ifap.ed.gov/eannouncements/081613LSIDirectLoanServicingCenterACSTransferUpdateClosurePlan.html.

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Using information on the Loan Record Detail Report (LRDR), we found that default rate for split borrowers was ten percentage points lower than for those who had only one servicer (Figure 29).

Although we hypothesized that the comparatively complex payment obligations of split borrowers would lead to a higher default rate, this proved to be an incorrect assumption. When we studied the characteristics of split-borrowers, we found that those in our sample also have traits associated with positive repayment behavior. For example, most FY2011 split borrowers reached their sophomore year of college (1,569, or 58.4 percent), showing they persisted through one year of enrollment. As we observed in the credits and credentials section, retention is associated with a reduced risk of default. Additionally, most borrowers with multiple servicers enrolled at only one institution (2,403, or 89.4 percent) and of those students, 38.6 percent (927) borrowed from both the FFEL and Direct Loan Programs. Further inquiry led us to discover that several Iowa community colleges opted into the Direct Loan program before the switch was mandatory, and that they conducted additional outreach to their borrowers to notify them of changes. This extra effort could have helped borrowers with complicated repayment situations stay out of default.

Areas for Future Inquiry

While this report highlights trends for community college borrowers in one state, our data do not help us determine why students make certain borrowing and repayment choices. We are left to wonder whether students' defaults could have been avoided by entering a different repayment plan, completing a credential, earning more credits, or taking advantage of deferment and forbearance options. We also do not know the counterfactual of reality; if using one of these options or receiving some kind of intervention, such as one-on-one counseling, could have helped the borrower avoid default. There are many factors associated with positive repayment and student success, and further research is necessary to determine how default can be prevented in at-risk borrowers. We also do not know the other financial obligations or salaries of borrowers, so we cannot make any determinations as to how personal finances influence borrowing and repayment behavior.

It is vital for researchers to have access to data and funding to conduct further analyses to arrive at causal claims. Qualitative analysis, such as case studies or focus groups, would also help elucidate the behavior of student borrowers. In the meantime, institutions can implement innovative counseling and awarding policies that reduce the incidence of borrowing, especially for at-risk students. Servicers, the Department of Education, and institutions can also analyze their data systems to share trends in repayment and default, which could point the way to potential solutions to issues around default.

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Figure 29: FY2011 Borrowers, by Number of Servicers

Number of Servicers	Number of Borrowers	Percent of Borrowers	Number of Defaulters	Percent of Defaulters	Default Rate
One Servicer	24,911	90.3%	6,391	93.9%	25.7%
Multiple Servicers	2,688	9.7%	414	6.1%	15.4%
Total	27,599	100.0%	6,805	100.0%	–

Source: National Student Loan Data System (NSLDS).

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The Path Forward: Recommendations for Institutional and Federal Policy

Navigating the student loan repayment process can be complex for students, but institutions and the federal government can alleviate some of these issues. Institutions must do more to counsel students on appropriate borrowing amounts, terms of loans, and repayment options, while the federal government must simplify the options and tools available to students. The following recommendations will ensure that the federal government and institutions are able to keep default rates low while still providing access to an important financing tool.

Institutional Policy and Practice

1) **Understand that loan counseling is a necessary but insufficient intervention.** The complexities of the federal student loan program make on-campus counseling an absolute necessity. However, simply providing information and helping students become more financially literate is not a sufficient strategy for default prevention – after all, borrowers already complete lengthy entrance counseling and a master promissory note before they can borrow. In fact, the evidence on the efficacy of financial literacy efforts is mixed at best, despite their continued popularity.[63] Basic information about how to navigate the repayment system can be provided as early as orientation and routinely during walk-in loan counseling. Award letters can remind students about the terms of their loans, and campuses can proactively direct students to loan counseling resources or walk them through the online counseling from Federal Student Aid. In short, building counseling into several parts of the financial aid process can help students understand their repayment options and obligations.

2) **Use campus-wide, data-driven interventions to help students stay enrolled and complete.** Students who default often fail to progress beyond their first semester or year and do not complete a credential. Institutions can improve student success rates and decrease default rates by creating campus-wide interventions to identify struggling students. For example, if a student fails to make satisfactory academic progress (SAP) in one semester, that student should receive immediate academic and financial aid counseling so he understands his rights and responsibilities. A list of consequences does not constitute effective counseling; rather, students should learn about academic supports on campus and receive personalized progress plans to give them appropriate benchmarks to get them back on track.

3) **Ensure data in student management systems and NSLDS are complete.** Institutions have a wealth of data on students that can help them discover trends in enrollment and borrowing, and new federal policies have required institutions to report more data to NSLDS than ever before. However, data management at the institutional level is often an afterthought. When data on academic progress, aid received, and completion are missing or incorrect, institutions cannot appropriately report required information or identify students in need of counseling. Institutions must build their capacities to collect, report, and analyze complete data. This includes involving students in the process by allowing them to easily update their contact information. Better data will not only make federal and state reporting easier, but also help institutions target interventions toward students who are at risk for dropping out or defaulting on their debt, resulting in lower cohort default rates and more successful graduates.

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[63] See: Hastings, J., Madrian, B., & Skimmyhorn, W. (2012). *Financial Literacy, Financial Education and Economic Outcomes* (No. 18412). National Bureau of Economic Research.

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4) **Use data to focus default management efforts.** This report demonstrates some systematic patterns in default behaviors. Students who carry low debts, enroll for short periods, and do not complete credentials tend to default at high rates, and those who default do not take advantage of postponements or alternative payment plans. Using their campus' School Portfolio Report (SPR) and Loan Record Detail Report (LRDR), as well as data from the registrar and other academic units can help colleges assess their own unique challenges with default. Since we now know many defaulters become delinquent immediately after entering repayment, colleges should adapt their default management plans to account for some of the data points presented in this paper. If campuses do not currently have these data in their management plans, they should conduct an analysis to get this basic information in the hands of campus leaders. Doing so will help the campus be more strategic in its default management efforts, which should also result in a more cost-effective and impactful interventions. Community college boards of trustees should ensure that appropriate and effective data are being collected and that their institutions have the capacity to analyze and act on these data. These efforts will help ensure proper student loan management, interventions, and default prevention.

5) **Manage cohort default rate years simultaneously.** As of the publication of this report, students in the FY2013, FY2014, and FY2015 cohort default rate periods are in repayment. However, the FY2013 cohort period will close shortly after this report is published, which means FY2013 CDRs are all but settled, minus adjustments and appeals. The end of the CDR period is not the time to double down on managing cohort default rates. Instead, the effort must be intentional and proactive, focusing on preventing default in future cohort years. While institutions should conduct default management for all their students, additional attention should be paid to those who are within the upcoming three-year CDR periods and are struggling to repay. Using pre-defined NSLDS reports like the Delinquent Borrower Report and School Portfolio Report, institutions should conduct targeted outreach to borrowers who may be struggling, such as those who are delinquent, in forbearance, or are in graduated or extended repayment plans. By proactively managing default, institutions not only help their students, but also prevent the stress and scramble that occurs when draft CDRs are released.

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Federal Policy

Recommendations for the Higher Education Act

1) **Simplify the federal loan system and repayment options.** Simply put, federal policymakers have created a redundant, complicated, and unnecessarily confusing loan system. By offering several different loan programs, types, repayment plans, and postponement options, students are often confused and frustrated by the time they enter repayment. These policies create too many pitfalls for students, so the federal government must streamline all of the options available to students. A simplified loan program would present struggling borrowers with a clearer path toward full repayment of their debt, and present them with a simpler menu of options when they encounter a roadblock.

2) **Consider innovative policies for borrowers with low balances.** Low-debt borrowers default at high rates, even though they face low monthly payment amounts and repayment terms. Recent policies designed to help borrowers manage their debt target those with high balances, who can use income-driven repayment options and may benefit from eventual loan forgiveness. Unfortunately, low-debt borrowers may not qualify for these plans depending on their income and family size, which restricts their repayment and forgiveness options. Congress, along with the Department of Education and states, should pilot new programs that help low-debt borrowers – who may enroll for only a semester or a year before dropping out – curb their costs or repay their debt quickly and easily.

3) **Design a CDR formula weighted for the proportion of students who borrow.** The current CDR formula is a blunt instrument that does not give an accurate picture of colleges. For example, a college could enroll 5,000 students but only have 100 borrowers. If just 40 of these borrowers default, then all 5,000 students could lose access to Pell Grants and federal loans. While the CDR policy allows alternative calculations for small borrowing cohorts, the policy should be weighted according to each school's borrowing rates, as has been proposed by the Institute for College Access and Success (TICAS).[64] Without this, colleges may have an incentive to opt out of federal loan programs altogether, which only reduces access and affordability for students.

4) **Don't penalize students when they fully repay their debt.** Default has a significant impact on a student's credit rating, and a high cohort default rate puts an institution's Title IV aid eligibility in jeopardy. If a student pays off a defaulted loan, the infraction remains on the student's credit history and the student remains in the numerator of the institution's CDR. This should not be the case. Even though the student initially failed to pay her loans, she is no longer in debt to the federal government and should not be penalized for her past infraction or included in the numerator of the CDR. Instead, the numerator should correspond to borrower aid eligibility guidelines, which allow borrowers who defaulted and paid in full to receive Title IV aid.

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[64] The Institute for College Access and Success (April 26, 2013). Using a Student Default Risk Index (SDRI) to Improve Institutional Accountability and Reward Colleges. http://ticas.org/sites/default/files/pub_files/Student_Default_Risk_Index.pdf.

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5) **Don't penalize community colleges for debt borrowed at other institutions.** Cohort default rates are borrower-based, which means that if a student borrows $3,500 from a community college and an additional $25,000 from a four-year institution, the community college is held accountable for the student repaying the entirety of his debt, not just the $3,500. This can adversely affect the community college when, for example, a student transfers to a for-profit institution, borrowing a significant sum in addition to his original, much lower, debt. The community college should not be held accountable for all of the student's debt simply because it was his first higher education institution, and risk-sharing policies should keep student pathways through postsecondary education in mind so as not to adversely affect community colleges.

Recommendations for ED and FSA

1) **Streamline repayment plans.** A significant amount of complexity in the student loan program lies within statute, but the Department of Education can also do its part to simplify students' repayment options. ED has authority to reduce the number of repayment plans, as several (such as the Pay As You Earn and Revised Pay As You Earn) plans were created through the regulatory process. Additionally, ED can work with the Internal Revenue Service to include automatic re-application for income-driven payment plans or allow borrowers to provide multi-year consent for income information when they first apply. Until ED takes these steps, students will continue to face administrative burdens and confusing hoops to jump through each year. A simplified system would be more beneficial for borrowers, make customer service easier for servicers, and improve counseling efforts at institutions.

2) **Create a single student portal for loan information and payments.** To facilitate students making payments, the federal government could create a website that allows all federal student loan borrowers (regardless of loan program or type) view their total debt and make payments to all of their servicers. This centralized portal, which was included in President Obama's Student Aid Bill of Rights,[65] would eliminate some of the challenges students face when entering repayment, allowing them to know exactly where to go to make payments and to receive information specific to their financial situation and level of indebtedness. The current piecemeal system must be reformed so students get a fair chance to repay their loans, with the federal government facilitating the process—not leaving the responsibility in the hands of servicers and institutions.

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[65] Office of the Press Secretary, The White House (March 10, 2015). Presidential Memorandum – Student Aid Bill of Rights. https://www.whitehouse.gov/the-press-office/2015/03/10/presidential-memorandum-student-aid-bill-rights.

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3) **Improve data availability in NSLDS, especially related to servicing and repayment.** NSLDS is an old system, and it must be updated if it is to handle the processing and counseling needs of financial aid administrators, students, and servicers. The layout of a borrower's page in NSLDS is difficult to navigate, the reporting options are inflexible, and the Department of Education must shut down the system if it wishes to analyze its own data. This should not be the state of the Department of Education's most extensive and important data system. Instead, the system should undergo a complete overhaul, with a dashboard for each student through which financial aid administrators can quickly access important information through flexible, immediately available reports, which should contain information on all debt associated with borrowers who attended an institution, not just the loans they borrowed from that school. These features can vastly improve counseling and ease of use, which can help reduce default rates.

   Servicing information should also be available in NSLDS, including "skip-tracing" activity for delinquent borrowers. This would help institutions identify how they can reach out to the student in ways the servicer hasn't, or allow them to coordinate their communications with those of the servicer. It could also be used to hold servicers accountable, and, with the student's permission, help the financial aid administrator act as an arbiter of information between the servicer and the borrower.

4) **Provide NSLDS data to states, systems, and researchers.** This report provides a glimpse into NSLDS, a federal data system that many higher education policymakers and expert researchers have never used. Our analyses have provided insight to the institutions that participated in this report so that they may change their policies and practices to improve student outcomes. It has also highlighted unfortunate trends and challenges that must be addressed by servicers, the Department of Education, Congress, and other federal entities. The Office of Federal Student Aid will gain invaluable insight into its programs by providing NSLDS data to states and systems that can match student records to State Longitudinal Data Systems (SLDS), and by providing de-identified, restricted-use data to researchers.[66] With this information, states could implement policies and aid programs designed to help students who are most likely to default and provide data analysis to low-resourced public institutions, and researchers can provide new, critical insights into our student aid programs.

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[66] The National Center for Education Statistics already provides restricted-use data to researchers who comply with a strict set of security measures, found here: https://nces.ed.gov/pubs96/96860rev.pdf.

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Appendix A: Methodology

This analysis was initiated at the request of Iowa's community colleges, which sought to identify trends in borrowing and default in order to reduce default rates and improve student outcomes. While we stand by our analysis and conclusions, this analysis nor our sample is intended to represent all community colleges or their borrowers.

The data in this report are from the National Student Loan Data System (NSLDS), the central database for administering federal loans and most federal grants, and from the student management systems at Iowa community colleges. We used two NSLDS reports, the School Portfolio Report (SPR) and Loan Record Detail Report (LRDR), to conduct analyses. The SPR gives a current view of the repayment status of loans associated with the school. The institution may choose a date range for the SPR that maps to the time period in the denominator of the cohort default rate, allowing it to gauge its performance and to help students who may be struggling to repay. While the SPR data is constantly updated, the LRDR is frozen in time—it is generated when draft CDRs are sent to institutions in September of each year so institutions may check their cohort default rate calculation. Because the report specifications are different, the samples are slightly different – 27,675 in the SPR and 27,599 in the LRDR.

These reports have some limitations. Neither includes Perkins Loans, and both exclude debt originated at institutions other that the institution requesting the report, except in the case of consolidation loans that pay off debt from multiple institutions. For those borrowers, the debt borrowed from the institution and the consolidation loan will be displayed, but not the loan information from other institutions.

After financial aid directors requested the SPR and LRDR, they uploaded the files using a secure File Transfer Protocol (sFTP) site set up by Edfinancial Services, Inc., which had an existing relationship with Des Moines Area Community College (DMACC) and signed program participation agreements with each Iowa institution. ACCT and Dr. Hillman each signed a non-disclosure agreement with Edfinancial, which authorized us to receive these data. The files were reformatted by Edfinancial and returned to the institutions so additional data could be appended to the SPRs. The updated files were uploaded to the sFTP site again, where Edfinancial masked all personally identifiable information. We then downloaded, merged, and cleaned the files, and created unique student identifiers that allowed us to perform analyses at the student and institution level.

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Analysis and Assumptions

Given the complex nature of the data, we created several categories of data and performed calculations based on information provided by NSLDS guides[67] and advice from financial aid experts. While we attempted to use as few assumptions as possible, those we did make are outlined in this section.

- **Gross debt:** This field was derived by summing all loan amounts associated with a student, excluding consolidation loans. Debt underlying consolidation loans is captured. If a student enrolled at more than one community college, his or her debt is the sum of loans from all community colleges attended. When debt is broken down by institution, only the loans the student borrowed while enrolled at each college is counted toward the average debt. Note that this field is not called "total debt," as we only have data on loans that went into repayment in FY2011. If borrowers have debt that went into repayment in a different fiscal year or that was borrowed at another institution, it would not be counted in our analysis.
- **Academic Level.** The student's academic level associated with each loan in NSLDS. Students identify their academic level on the FAFSA, and financial aid administrators are responsible for updating this information if it is incorrect. However, inaccuracies may not be corrected if the student does not request her full loan eligibility.
- **Credits earned:** For students with null or missing data, the number of credits earned was assumed to be zero. The data managers at participating institutions supported this assumption. For students who attended multiple institutions, the total for each institution was summed.
- **Credential completed:** For students with null or missing data, we assumed the student did not earn a credential. Institutional data managers supported this assumption. If a student enrolled in multiple institutions and did not earn a credential at one institution but earned one at another, the credential they earned was counted. For example, if a student enrolled at Kirkwood and left without completing a credential, and then enrolled Indian Hills and completed a diploma, her credential completed would be "Diploma." The data preclude us from analyzing if borrowers earned a credential from a subsequent institution that was not an Iowa community college.
- **Pell:** Students were considered Pell recipients if they received a Pell Grant at any point during enrollment.

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[67] All NSLDS report layouts can be found at: http://ifap.ed.gov/ifap/byNSLDSType.jsp?type=NSLDS%20Record%20Layouts.

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- **Loan Status.** Some loan statuses in this report are grouped into categories for ease of interpretation. The grouped categories were defined as follows:
  - *Default.* Students were counted as defaulters if their current loan status was one of the following: Defaulted, Unresolved (DU or DF); Defaulted, Six Consecutive Payments (DX); Defaulted, Six Consecutive Payments, Then Missed Payments (DZ); Defaulted, Then Bankrupt, Active, Other (DO); Defaulted, Then Bankrupt, Active, Chapter 13 (DB); Defaulted, Compromise (DC); Defaulted, then Died (DD); Defaulted, Then Paid in Full by Consolidation (DN); Defaulted, Paid in Full (DP); Defaulted, Then Disabled (DS); Defaulted, Write-Off (DW); and Defaulted, Then Bankrupt, Discharged, Chapter 13 (DK). If the student had multiple loan statuses but one of the statuses qualified as a default, the student was considered a defaulter. Although not all of these statuses are included in the CDR numerator, we wanted to quantify the number of borrowers who experience default, even if the debt is discharged at a later date.
  - *Discharged.* Students whose debt has been discharged due to an extenuating circumstance were grouped into this category. Statuses included were Death (DE); Disability (DI); Fraud (FR); Disabled Veteran Discharge (VA); and Permanent Disability (PD).
  - *Forbearance.* Includes students with a Forbearance (FB) and Bankruptcy, Active (BK) status, because those students are typically placed into forbearance while their bankruptcy discharge is being considered.
  - *In Grace.* Students with a Loan Originated (IA) or In Grace (IG) status were included in this group, as both have yet to begin monthly payments on their debt.

- **Repayment Plans.** The monthly payment plan borrowers use was also grouped for ease of interpretation. They were defined as follows:
  - *Income-Driven.* Borrowers with a repayment plan of Income Contingent (C3); Income-Based, Hardship (IB); Income Contingent (IC); Income-Based, No Hardship (IL); Income Sensitive (IS); Pay As You Earn – No Hardship (P1); and Pay As You Earn – Hardship (PA) were included in this group.
  - Extended. This group includes the Extended Fixed (EF); Extended Graduated (EG); and Fixed, Extended (FE) plans. The Extended Graduated plan is included because extended repayment prolongs the repayment term of the loan and therefore the potential for accrued interest, which is a key feature of extended repayment plans.
  - *Graduated.* The Consolidation Graduated (CG); Graduated (GR); and Graduated 10-year (SG) plans are included in this group, which represents fixed-term graduated repayment plans.
  - *Alternative.* Alternative Fixed Payment (J1); Alternative Fixed Term (J2); Alternative Graduated Payment (J3); Alternative Graduated Term (J4); and Special Plan (SP) plans are included in this group. The specific payment obligations of alternative repayment plans are unknown, which is why all the alternative plans were grouped together even if they were specified as graduated.
  - *Standard.* These repayment plans include the Consolidation Standard (CS); Fixed, Fixed (FF); and Standard (SF) repayment plans, which all encompass a ten year, fixed payment timeframe.

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- **Servicers.** Loan servicers were identified using their NSLDS codes, which we retrieved from an FSA website and reference materials.[68] Codes that were not listed on FSA materials were assumed to be FFEL servicers. Borrowers in the multiple category may have both FFEL and DL servicers, or multiple DL or FFEL servicers. Borrowers in the FFEL category have only one FFEL servicer.

Limitations

While we were careful in our interpretation of the data, it is worth noting that we cannot make causal claims based on our analysis, nor can our analysis be generalized to all community college students. While this report discusses the "what," it is difficult to arrive at the "why." Some trends seem prevalent across the sector, and it is the responsibility of institutions to examine their own data to see if our conclusions are relevant their student bodies. While NSLDS data are used to administer the student loan program, reporting errors and inconsistencies are bound to occur, and we did our best to mitigate conflicting information. Additionally, institutions use different systems to store and report data, and slight differences in coding do occur. We attempted to use the best data possible, to limit our assumptions and imputations, and consulted with institutions to ensure we analyzed their data accurately.

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[68] Current codes can be found at http://ifap.ed.gov/drmaterials/NumericalDataMgrContacts.html, and FFEL codes can be found at http://www.ifap.ed.gov/nsldsmaterials/attachments/GA201007TechUpdateAttachA.pdf.

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Appendix B: Summary Statistics

		All Borrowers		Defaulters		
Data Category	**Data Sub-Category**	**Total**	**Percent**	**Total**	**Percent**	**Default Rate**
All borrowers		27,675	100.0%	7,680	100.0%	27.8%
Gross Debt	Less than $5,000	10,475	37.9%	3,318	43.2%	31.7%
	$5,000 to $9,999	9,412	34.0%	2,566	33.4%	27.3%
	$10,000 to $14,999	4,095	14.8%	930	12.1%	22.7%
	$15,000 to $19,999	1,869	6.8%	392	5.1%	21.0%
	$20,000 or more	1,824	6.6%	474	6.2%	26.0%
Dependency Status	Independent	16,783	61.3%	5,429	71.2%	32.3%
	Dependent	10,609	38.7%	2,196	28.8%	20.7%
Pell	Received Pell	16,820	60.8%	5,752	74.9%	34.2%
	Did not receive Pell	10,855	39.2%	1,928	25.1%	17.8%
Credits Earned	15 or fewer	9,496	34.3%	4,570	59.5%	48.1%
	More than 15	18,179	65.7%	3,110	40.5%	17.1%
Completion Status	No credential	19,030	68.8%	6,828	88.9%	35.9%
	Diploma or certificate	1,599	5.8%	250	3.3%	15.6%
	Degree	7,031	25.4%	601	7.8%	8.5%
	More than one credential	15	0.1%	1	0.0%	6.7%
Loan Type	DL Only	20,186	72.9%	5,892	76.7%	29.2%
	FFEL Only	5,187	18.7%	1,281	16.7%	24.7%
	DL and FFEL	2,302	8.3%	507	6.6%	22.0%
Payments	Made payment	16,496	59.6%	2,557	33.4%	15.5%
	Did not make payment	11,179	40.4%	5,115	66.6%	45.8%
Academic Level	Freshman	18,487	67.8%	6,329	83.0%	34.2%
	Sophomore	8,646	31.7%	1,279	16.8%	14.8%
	Junior	93	0.3%	14	0.2%	15.1%
	Senior	11	<0.1%	0	0.0%	0.0%
	Fifth year/other	17	0.1%	1	0.1%	5.9%
Postponements	Deferment and forbearance	10,511	61.2%	1,418	18.5%	13.5%
	No postponement	10,099	58.8%	4,492	58.5%	44.5%
	Forbearance only	5,280	19.1%	1,493	19.4%	28.3%
	Deferment only	1,785	6.4%	277	3.6%	15.5%
	In-school deferment*	8,927	32.3%	1,275	16.6%	14.3%
Payment Plans	Standard	20,684	78.5%	7,134	93.7%	34.5%
	Graduated	2,639	10.0%	342	4.5%	13.0%
	Income-Driven	1,984	7.5%	63	0.8%	3.2%
	Alternative	407	1.5%	27	0.4%	6.6%
	Extended	355	1.3%	12	0.2%	3.4%
	Multiple	274	1.0%	33	0.4%	12.0%

* This group includes borrowers who may have also used a forbearance.

Note: Figures that do not add to 27,675 or 7,680 are due to missing data.

Source: National Student Loan Data System and Iowa community colleges' student information systems.

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Appendix C: Resources to Promote Student Success

The following resources may be useful to trustees and other institutional leaders seeking more specific recommendations and strategies to reduce default rates and promote completion on their campuses.

- ***Report: Protecting Students and Borrowers: Community College Strategies to Reduce Default.*** This report was published by ACCT and The Institute for College Access and Success (TICAS) in September 2014 and provides profiles of community colleges along with strategies and best practices to reduce cohort default rates. The recommendations in this report can serve as a guide for trustees interested in using campus-wide strategies to reduce default. The report can be found at http://www.acct.org/reports-white-papers.
- ***Report: Institutional Research and the Culture of Evidence at Community Colleges.*** This report, written by Vanessa Smith Morest and Davis Jenkins and published by the Community College Research Center (CCRC) at Columbia University, examines some of the trends and challenges around developing a high-functioning institutional research (IR) department. In spite of these challenges, IR can help institutions make data-driven decisions and help analyze and manage cohort default rate data. If trustees do not want to increase their campuses' IR capacity, they can also consider using a third-party default prevention contractor. The report can be accessed at http://ccrc.tc.columbia.edu/publications/institutional-research-culture-of-evidence.html.
- ***Federal Student Aid Training Conference.*** Every year, the Department of Education's Office of Federal Student Aid (FSA) offers a conference targeted toward financial aid administrators. Over fifty sessions are offered over the course of the conference, including presentations on default prevention plans, servicing updates, and hands-on workshops where financial aid administrators can learn by doing. These conferences are a vital networking and training resource for financial aid staff, and trustees should ensure at least one representative from their institution attends each year. The conference location and agenda can be found at www.fsaconferences.ed.gov.
- ***Single Stop USA.*** This organization works with low-income individuals to help them achieve financial self-sufficiency and economic mobility. They use a "one-stop" program that provides benefits screening, application assistance, and financial counseling. In 2012, Single Stop and ACCT partnered to offer services to students enrolled at community colleges to improve student success. Trustees interested in participating in Single Stop can contact the organization through their website, at www.singlestopusa.org.
- ***Governance Institute for Student Success (GISS).*** In partnership with the Student Success Initiatives at the University of Texas at Austin, ACCT offers the GISS to help college leaders increase their understanding of policies that lead to student success at the institutional level and helps them collaborate closely with state association leaders and key stakeholders to assure state-wide impact. For more information, visit www.governance-institute.org.
- ***Jobs for the Future Student Success Center Network.*** With support from the Kresge Foundation, Jobs for the Future (JFF) created Student Success Centers in seven different states with the goal of increasing community college completion rates. The Student Success Centers advise states and community college systems on developing accelerated pathways through community college and strengthening policies to help more students complete credentials. For those interested in learning more about the work of the Student Success Centers, JFF has published a toolkit, which can be accessed at http://www.jff.org/publications/student-success-center-toolkit.

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Appendix D: Glossary

Cohort Default Rate (CDR) – The percentage of an institution's borrowers who enter repayment on one or more federal student loans in a given federal fiscal year (October 1 to September 30) and default on one or more of those loans within three years. The U.S. Department of Education releases official cohort default rates once per year. If an institution's CDR is above 30 percent for three years or above 40 percent for one year, the institution loses its Title IV aid eligibility.

Consolidation Loan – A loan that combines one or more federal loans into one new loan. Since the advent of 100 percent Direct Lending, consolidation has become a tool to help students take advantage of new repayment plans, such as Income-Based Repayment (IBR), and to solve split-serviced loans. However, consolidation may also increase a borrower's interest rate and time in repayment.

Default – A federal student loan that has not been paid in 270 or more days is considered "in default." These loans are typically transferred to Debt Management and Collection Services (DMCS) by the time they are 360 days overdue.

Defaulter – A student with one or more Title IV loans in default. Defaulters are counted in the numerator and denominator of an institution's CDR.

Deferment – A temporary postponement of payments where interest does not accrue on subsidized loans. Deferments may be granted when a student re-enrolls in school, when they enter the military, or when the student experiences short-term unemployment.

Dependent Student – As determined by the Higher Education Act, a student who does not meet the criteria for an independent student. The income of a dependent student's parents is considered when calculating their estimated family contribution and dependent students have a lower aggregate borrowing limit than independent students.

Direct Loan (DL) Program – The William D. Ford Federal Direct Loan Program allows students and parents to borrow directly from the U.S. Department of Education. Direct Loans include Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans; Federal Perkins Loans are not part of the Direct Loan Program.

Discharged Loan – Direct Loans and FFELP loans may be discharged if the student dies, experiences total and permanent disability, or declares Chapter 7 or Chapter 13 bankruptcy and proves in bankruptcy court that repayment of the loan presents undue hardship on the borrower and his dependents. Loans may also be discharged if the loan is falsely certified, if the institution closes before the student receives her credential, or if the institution fails to pay the balance of the student's loan to the federal government after the student withdraws. Additionally, students may qualify for loan forgiveness under the Public Service Loan Forgiveness (PSLF) program or through the Teacher Loan Forgiveness program, but certain restrictions apply.

ECASLA – The Ensuring Continued Access to Student Loans Act of 2008. This law allowed FFELP lenders to sell federal loans back to the Department of Education.

Expected Family Contribution (EFC) – A number generated by the information on the FAFSA that is used to determine a student's eligibility for Title IV aid.

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Most definitions were sourced from https://studentaid.ed.gov/sa/glossary#Direct_Loan.

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Federal Family Education Loan Program (FFELP) – This program allowed private lenders to provide loans to students that were guaranteed by the federal government. This program stopped making new loans in 2010. While some FFELP loans were purchased by the U.S. Department of Education, many students still have FFELP loans that they repay to private lenders. Although many of the terms and conditions of FFELP loans and Direct Loans are the same, borrowers with FFELP loans are not able to take advantage of certain new loan programs, such as Income-Based Repayment (IBR). FFELP borrowers may consolidate their loans under the Direct Loan program at any time.

Forbearance – A temporary postponement or reduction of payments typically granted in the case of financial hardship. During forbearance, interest continues to accrue on all loans and the interest that accrues is added to the principal of the loan when the forbearance ends.

Free Application for Federal Student Aid (FAFSA) – A form students complete annually to determine their eligibility for Title IV aid. The FAFSA generates an expected family contribution (EFC), which may also be used by state aid programs and institutions in determining eligibility for other types of aid (such as state or institutional grants).

Guaranty Agency – A state or private nonprofit organization that administers a loan on behalf of the Department of Education.

HERA – Healthcare and Education Reconciliation Act of 2010. This legislation included the Student Aid and Fiscal Responsibility Act of 2009 (SAFRA), which ended the FFEL program.

Independent Student – As determined by the Higher Education Act, an independent student is one of the following: at least 24 years old, married, a graduate or professional student, a veteran, a member of the armed forces, an orphan, a ward of the court, a person with legal dependents other than a spouse, an emancipated minor, or someone who is homeless or at risk of being homeless.

Lender – An organization that makes an education loan.

Loan Record Detail Report (LRDR) – A pre-defined report from the National Student Loan Data System (NSLDS) that allows institutions to analyze the students included in their cohort default rate (CDR). The LRDR contains information that is current as of the last day of the CDR period, which, for FY2011, is September 30, 2011.

Loan Rehabilitation – Process by which a borrower may bring a loan out of default by adhering to specified repayment requirements. Typically, students must make nine consecutive, on-time payments as negotiated with the lender in order to rehabilitate a federal student loan.

National Student Loan Data System (NSLDS) – The U.S. Department of Education's central database for student aid recipients. NSLDS contains award-level data on students who receive most Title IV loans and grants. Institutions, guaranty agencies, lenders, servicers, and students provide the data in NSLDS. Institutions use the system as a centralized source of data on federal aid receipt, which allows them to determine aid eligibility, assess portfolio performance, and conduct default management. Borrowers may use the NSLDS Student Access portal to obtain more information about the federal loans and Pell Grants they received while enrolled.

Origination – The process of creating a student loan. A student must complete entrance counseling and a master promissory note (MPN) prior to the loan being originated by a financial aid administrator.

Pell Grant – A federal program that provides need-based grants to low-income undergraduates and certain post-baccalaureate students. Grant amounts depend on the student's expected family contribution (EFC) and whether the student attends for a full academic year or only part of the year.

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Perkins Loan – An institution-based federal loan program. Perkins loans are reserved for students with financial need and are separate from FFELP and DL program loans. The institution is the lender for Perkins loans, and institutions are required to report limited information on Perkins loans to NSLDS.

Rehabilitation – After a loan defaults, a borrower can make nine consecutive, on-time payments to "rehabilitate" the debt and get out of default. Rehabilitation removes the default from the student's credit report and the student regains eligibility for Title IV aid.

Rehabilitator – A borrower who rehabilitates his or her debt.

Repayment plan – An arrangement made between a borrower and servicer to pay off the balance of a loan. While there are several pre-defined repayment plans available to federal loan borrowers, they may also negotiate an alternative repayment plan with their servicer.

SAFRA – The Student Aid and Fiscal Responsibility Act of 2009. SAFRA was part of the HERA and ended new loans under the FFEL program.

Satisfactory Academic Progress (SAP) – The Higher Education Act requires the institution to define SAP, which is a measurement of students' academic progress toward their stated credentials. Progress must be measured cumulatively and based on both quantitative and qualitative criteria.

School Portfolio Report (SPR) – A pre-defined report within the National Student Loan Data System (NSLDS) that provides institutions with a snapshot of the details of loans from the institution that went into repayment in a certain timeframe. The SPR can help institutions manage future cohort default rates, as it contains loan information as of the day the report was requested.

Servicer – An entity that administers the billing and other services related to borrower accounts of federal student loans. Servicers also report the bulk of borrower repayment information to NSLDS.

Split-Servicing – Occurs when a borrower has more than one servicer for their Title IV loans. Split-servicing most frequently occurs when a student borrowed under both the FFELP and DL program, but some Direct Loan-only borrowers also have multiple servicers.

Stafford Subsidized Loan - A loan available to undergraduate students with financial need. Interest does not accrue on a subsidized loan while the borrower is enrolled, during the grace period, and during a deferment.

Stafford Unsubsidized Loan – A loan available to undergraduate and graduate students regardless of their financial need. Interest accrues on an unsubsidized loan while the borrower is enrolled, during the grace period, and during any deferments or forbearances and is added to the loan principal (capitalized) after any postponement of payments.

Title IV – A section of the Higher Education Act that defines student financial aid programs and eligibility. A student who receives federal student aid may be described as a "Title IV recipient" and an institution that has been approved to disburse federal financial aid is termed "Title IV eligible."

TIVAS – An acronym that stands for Title IV Additional Servicers. These servicers were awarded contracts to service Direct Loans when the federal loan program switched to 100 percent Direct Lending. The TIVAS originally included ACS, Sallie Mae (now Navient), Great Lakes, PHEAA/Fedloan Servicing, and Nelnet. ACS is no longer a federal servicer.

Underlying Loan – A loan that is paid in full, or paid off, by a consolidation loan. While the unpaid balance debt is still outstanding, it is rolled into a new consolidation loan, which goes into repayment after the consolidation is processed.

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Notes

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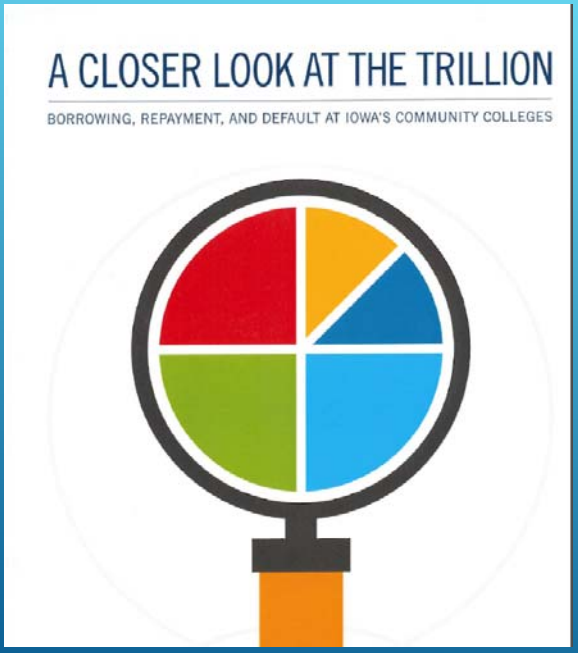
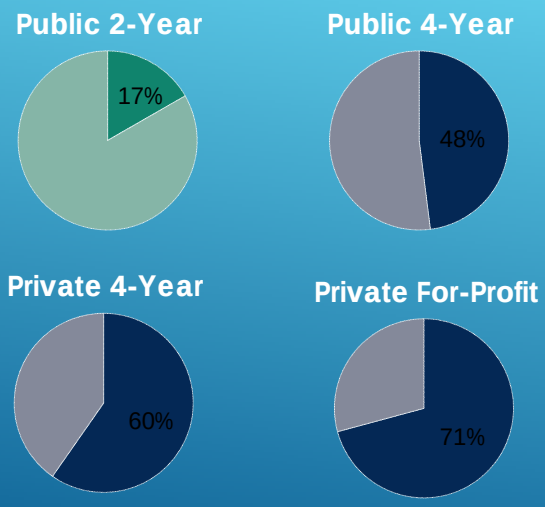


January 20, 2016
Iowa Community College Council

Dr. Laurie Wolf,
Des Moines Area Community College

BORROWING RATES BY SECTOR

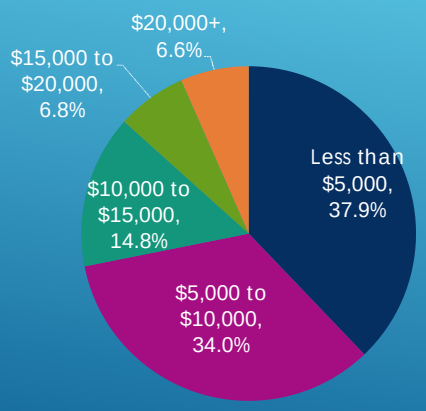


Source: U.S. Department of Education. *2011–12 National Postsecondary Student Aid Study (NPSAS:12) Student Financial Aid Estimates for 2011–12*. Table 3. http://nces.ed.gov/pubs2013/2013165.pdf and the authors' calculations using NPSAS:12 and variables FEDCUM1, T4LNAMT1, and SECTOR4, weighted by WTA000.

DATA

- National Student Loan Data System (NSLDS) data:
  - School Portfolio Report (SPR)
    - Most current data in the system
  - Loan Record Detail Report (LRDR)
    - Loan information frozen at the end of the CDR period
- Institutions merged student data onto the SPR file
- Analysis is based on SPR data, with some exceptions:
  - 27,675 borrowers
  - 7,680 defaulters
- Analysis is performed at the student level unless otherwise noted

AMOUNT BORROWED

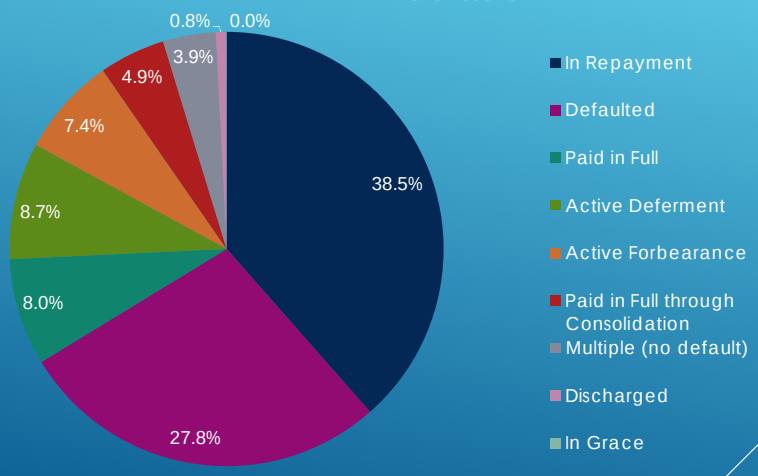


Average debt: $8,287

72% of borrowers owe < $10,000

LOAN STATUS

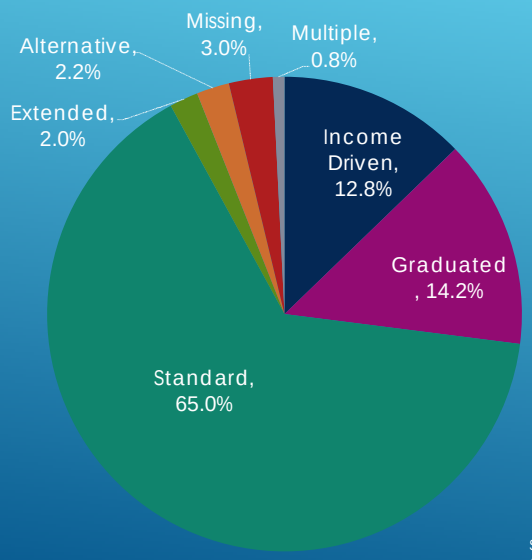
Overwhelmingly, students are either in repayment or in default.



Source: National Student Loan Data System (NSLDS).

REPAYMENT PLANS

FOR BORROWERS WITH AN "IN REPAYMENT" STATUS



Nearly 2/3 are in standard repayment

Only 13% are in an income driven plan

Source: National Student Loan Data System (NSLDS).

DEBT LEVELS AND DEFAULT RATES

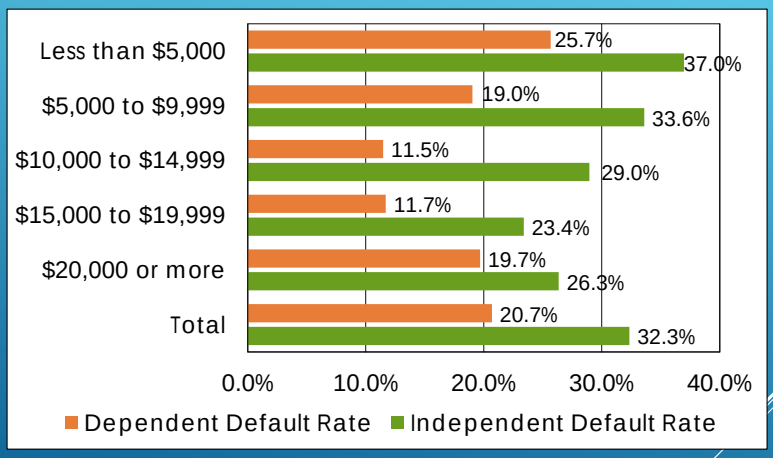
Debt Range	Number of Borrowers	Number of Defaulters	Default Rate
Less than $5,000	10,475	3,318	31.7%
$5,000 to $9,999	9,412	2,566	27.3%
$10,000 to $14,999	4,095	930	22.7%
$15,000 to $19,999	1,869	392	21.0%
$20,000 or more	1,824	474	26.0%
Total	27,675	7,680	27.8%

Source: National Student Loan Data System (NSLDS).

43.2 percent of all defaulters borrowed less than $5,000, and 76.6 percent borrowed less than $10,000.

DEPENDENCY STATUS

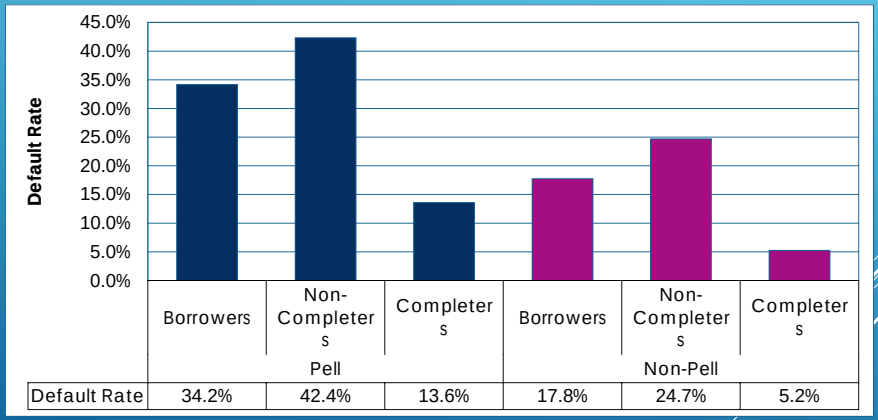
Independent borrowers default at higher rates than dependent borrowers.



Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

PELL RECEIPT

Completion can make a big difference for all borrowers, but especially Pell recipients.

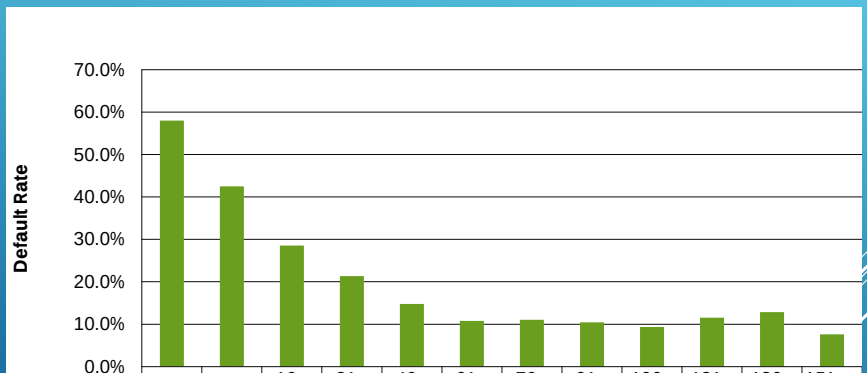


	Pell			Non-Pell		
	Borrowers	Non-Completers	Completers	Borrowers	Non-Completers	Completers
Default Rate	34.2%	42.4%	13.6%	17.8%	24.7%	5.2%

Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

CREDITS EARNED

The highest default rates occur for those who earn 15 or fewer credits. Sixty percent of defaulters fall into this group.

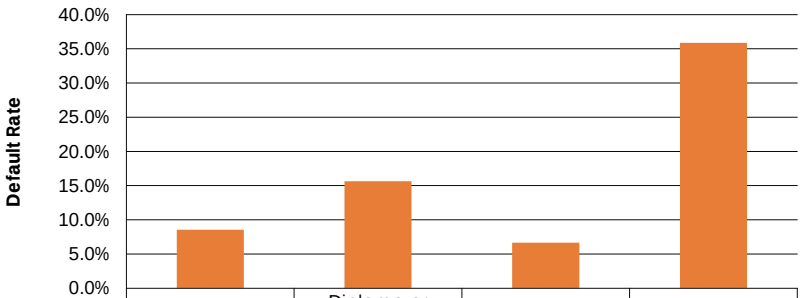


	Zero	1-15	16 - 30	31 - 45	46 - 60	61 - 75	76 - 90	91 - 105	106 - 120	121 - 135	136 - 150	151 or more
Default Rate	58.0%	42.5%	28.5%	21.3%	14.8%	10.8%	11.0%	10.5%	9.3%	11.5%	12.8%	7.6%

Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

CREDENTIALS EARNED

Those who earned no credential had the highest default rate and made up almost 90 percent of defaulters. For non-completers who subsequently used an in-school deferment, the default rate was 18.3 percent.



	Degree	Diploma or Certificate	Multiple	No Credential
Default Rate	8.5%	15.6%	6.7%	35.9%

Source: National Student Loan Data System (NSLDS) and Iowa community colleges' student information systems.

REPAYMENT PLANS

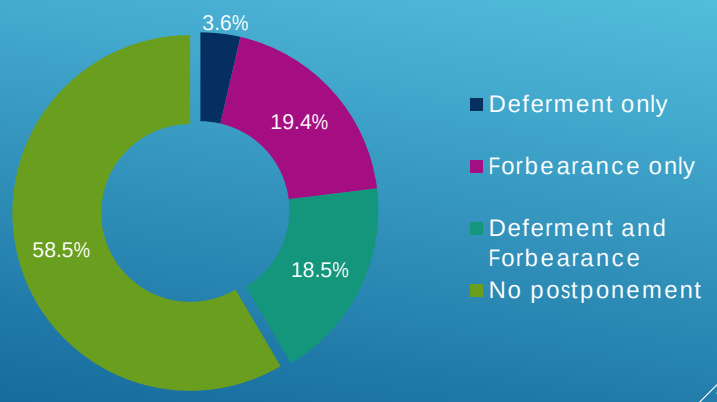
Ninety three percent of defaulters had the Standard Plan as their last payment plan.

Repayment Plan Type	Number of Borrowers	Number of Defaulters	Percent of Defaulters	Default Rate
Standard	20,684	7,140	93.0%	34.5%
Graduated	2,639	342	4.5%	13.0%
Income-Driven	1,984	63	0.8%	3.2%
Extended	355	63	0.8%	4.7%
Missing	1,332	33	0.4%	12.0%
Alternative	407	27	0.4%	6.6%
Multiple	274	12	0.2%	3.4%
Total	27,675	7,680	100.0%	27.8%

Source: National Student Loan Data System (NSLDS).

POSTPONEMENTS USED BY DEFAULTERS

Almost three-fifths of defaulters did not use a deferment or forbearance.



Source: National Student Loan Data System (NSLDS).

PAYMENTS MADE BY DEFAULTERS

Payments Made	Number of Defaulters	Percent	Median Debt
No Payment	5,115	66.6%	$7,493
At Least One Payment	2,565	33.4%	$8,191
Total	7,680	100.00%	-

Source: National Student Loan Data System (NSLDS).

Two-thirds of students who defaulted made no payment on their debt.

Overall, 43.3 percent of defaulters neither made a payment nor used a deferment or forbearance.

LESSONS LEARNED

- Low-debt borrowers need the most support.
- Many defaulters take no action on their debt – no deferment, forbearance, or payment.
- Default is highly correlated with progression and completion.
- Institutions have the data to refine their default management processes but may lack the capacity to analyze it.

STRATEGIES TO REDUCE DEFAULT

- Focus on students who drop out, especially after short-term enrollment
- Consider different procedures for students who are at high risk of default
- Collect up-to-date contact information and make it easy for students to update it
- Ensure data in student management systems and NSLDS are complete
- Get as many borrowers as possible into income-driven plans

DES MOINES AREA COMMUNITY COLLEGE

35,500 students

5,650 borrowers

16% borrow

$7,565 avg debt

28.7% official FY11 CDR

Source: http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html and https://go.dmacc.edu/careeradvancement/Pages/campuses.aspx

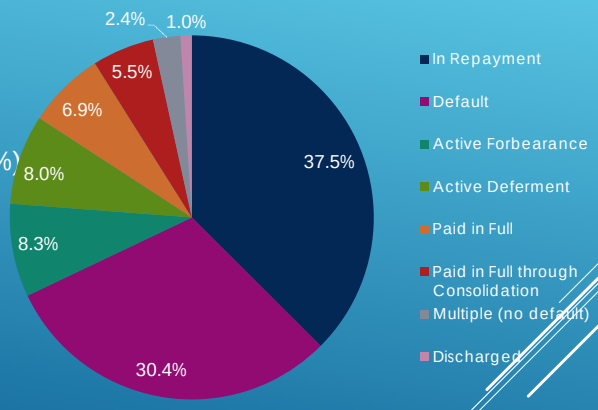
LOAN STATUS OF DMACC BORROWERS

5,650 borrowers

1,720 defaulted (30.4%)

40.8% owed < $5,000

5.6% owed > $20,000



Source: National Student Loan Data System (NSLDS).

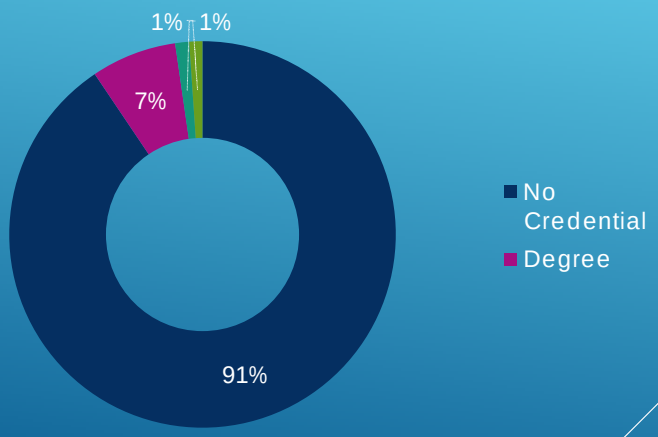
DMACC REPAYMENT PLANS AND DEBT LEVELS

FY2011 DMACC Repayment Plans and Average Debt

Repayment Plan	Number of Borrowers	Percent of Borrowers	Median Amount Borrowed
Standard	4,423	78.3%	$5,750
Graduated	445	7.9%	$6,682
Income-Driven	444	7.9%	$8,048
Alternative	106	1.9%	$7,324
Missing	101	1.8%	$3,500
Extended	91	1.6%	$9,062
Multiple	40	0.7%	$9,326
Total	5,650	100.0%	$6,805

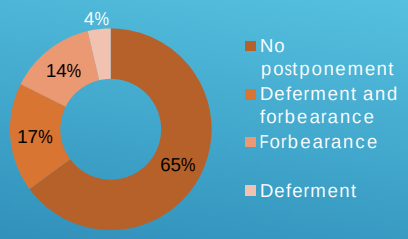
Note: The average amount borrowed includes loans from other Iowa community colleges if the borrower attended more than one school.
Source: National Student Loan Data System.

DMACC COMPLETION STATUS OF DEFAULTED BORROWERS



Source: National Student Loan Data System (NSLDS) and DMACC's student information system.

POSTPONEMENTS AND PAYMENTS



Payments Made	Number of Defaulters	Percent of Defaulters
No payment	1,048	60.9%
At least one payment	672	39.1%

45.4 percent of defaulters who enrolled at DMACC made no payment and did not use a deferment or forbearance

DMACC-SPECIFIC LESSONS LEARNED TO DATE

- We don't have a loan debt problem – we have an academic advising and completion problem
- The "amount of student loan debt" is not the number one indicator of potential student default
- Borrowers are not properly informed of debt burden and repayment options

DMACC-SPECIFIC LESSONS LEARNED TO DATE

- 40% of DMACC defaulted borrowers have less than $5,000 in debt.
- Borrowers with the highest debt volume are reverse transfers.
- Borrowers are not aware of Income Based Repayment Plans when they leave.
- Borrowers do not always obtain an in-school deferment when enrolled at their next institution.

STAGES OF DEFAULT MANAGEMENT ACTIVITIES

- Pre-Enrollment Activities
- Initial Enrollment/Registration
- Application for Financial Aid
- Application for Re-Borrowing for Second Year
- Upon Withdrawal
- Upon Graduation
- Upon Entering Repayment
- During Repayment
- During Serious Delinquency (120+ Days)

Source: http//hawaii.hawaii.edu/financial aid/defaultprevention.php

REVIEW OF COLLEGE POLICIES

- Admission-Reverse Transfers
- Required Orientation for ALL New Students
- First Year Experience Course
- Early Alert system
- Satisfactory Academic Progress
- Registration
- Loan Processing

THANK YOU!