Student Loan Default: The Contribution of Institution Characteristics

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Student Debt and Loan Default

- Are growing concerns
- In US, educational loans now top one trillion US dollars
- Government officials increasingly aware, concerned
- Now required a 3-Year Cohort Default Rate (CDR)

- 2010 national average – 14.7%

Consequences of loan default for students

- Garnishment of wages
- Ineligible for additional financial aid and associated deferments
- Denial of subsidized benefits
- Damage to credit history
- Prohibition of Armed Services enlistment

Consequences to Institutions too

- If rate above 30% - can not participate in Federal Direct Loans and Pell Grants
- This affects ability to attract, enroll, and offer financial aid to students
- This may limit access to some students

Factors Contributing to Student Loan Default

- Borrower Characteristics
  - Gender, race/ethnicity, age
- Socioeconomics
  - Parent education, parent income, dual v. single-parent,
- Academic
  - SAT/ACT score, high school GPA, college GPA, degree completion
- Institutional Characteristics

- Good review of literature - Gross, Cecik, Hossler, & Hillman, 2009

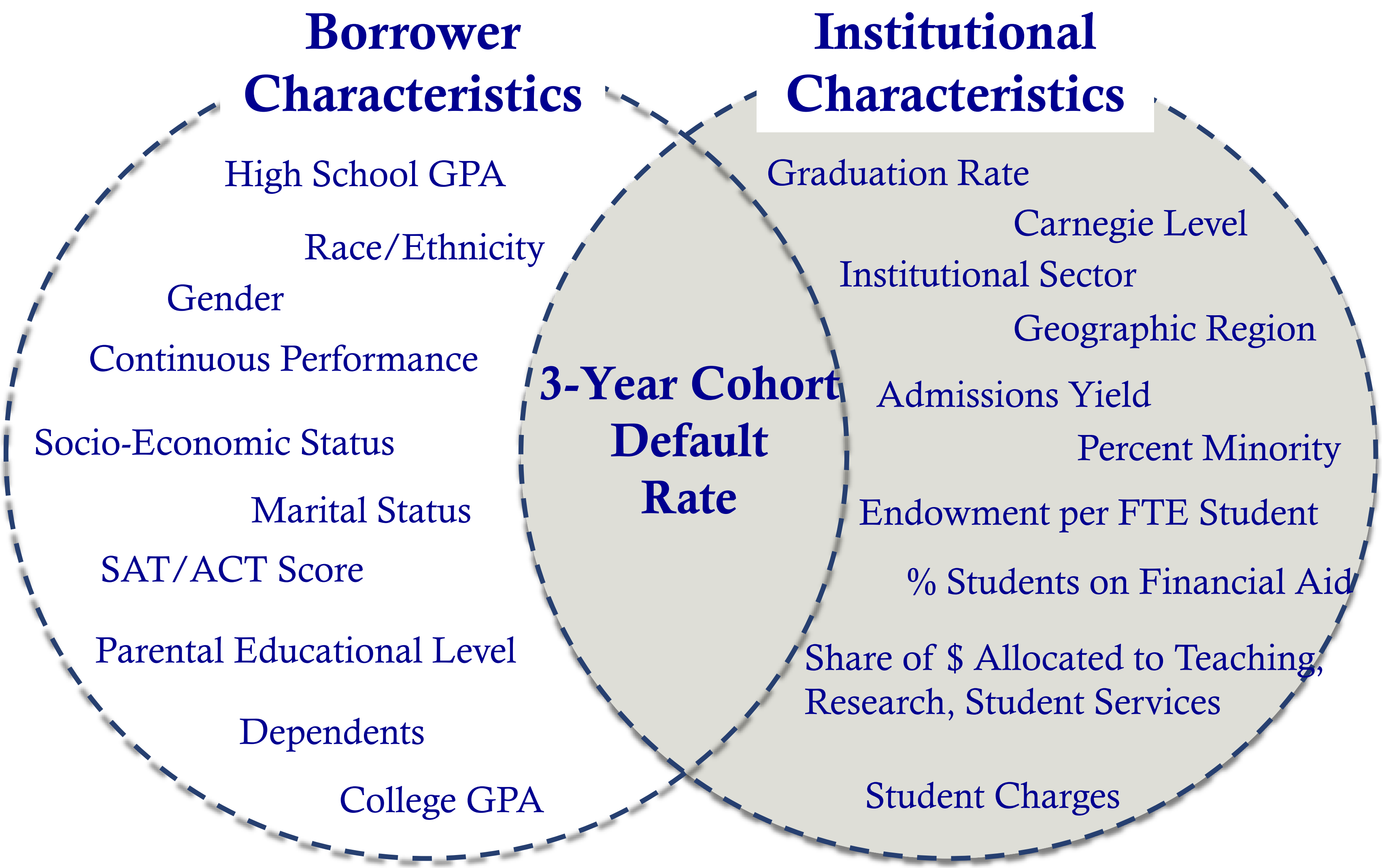

Figure 1: Factors Associated with Student Loan Default

Limited Knowledge About Institutional Characteristics

- Default much higher at:
  - For-profit institutions
  - two-year schools (technicals)

- In general we know little about the effect of other institutional characteristics

- Thus the focus of this study

- Overarching RQ: **to what extent do institutional characteristics at US four-year not-for-profit institutions explain variation in CDR?**

Conceptual Framework

- Organizational Theory says:
  - Organizational actions are purposeful, bounded, and goal oriented
  - Behave rationally and intentionally to achieve goals
  - Also affected by external constraints

- Desire to enroll successful students and realities of external constraints may influence decisions, policies – including allocations for services related to student finance (financial aid counseling) and $$ allocated to financial aid

This Study

- Does the contribution of institutional characteristics vary for private versus public institutions?

- Does the contribution of institutional characteristics vary by Carnegie classification?

- What is the relationship between institutional reliance on tuition, institutional revenues (defined as total education & general revenues) and institution expenditures on financial aid

The Data

- CDR Rate obtained from the US Office of Federal Student Aid
- Variables from the Integrated Postsecondary Education Data System (IPEDS) and Delta Cost Study data
- 1,399 public and private not-for-profit four-year colleges and universities

Descriptives of the Data

- 38% bachelor's level institutions
- 38% public
- 6% HBCU
- Average 6-year graduation rate – 53.3%

OLS Regression Analysis

Stepwise Regression Analysis for Institutional Variables Predicting Student Loan Default

	Model 1					Model 2					Model 4				
	Unstnd B	SE	Stnd Beta	*t*		Unstnd B	SE	Stnd Beta	*t*		Unstnd B	SE	Stnd Beta	*t*	
(Constant)	16.759	0.505		33.206	***	10.431	0.883		11.814	***	5.875	1.939		3.029	***
150% Graduation Rate	-0.174	0.008	-0.73	-23.077	***	-0.138	0.009	-0.578	-15.919	***	-0.133	0.012	-0.558	-11.22	***
Admissions yield- Fall 2004						0.018	0.009	0.055	1.883	*	0.026	0.01	0.081	2.476	**
Carnegie-Master's						0.727	0.305	0.081	2.384	**	0.56	0.391	0.063	1.431	
Carnegie-Bachelor's						1.870	0.329	0.189	5.681	***	1.509	0.459	0.153	3.289	**
Percent Nonwhite						0.076	0.006	0.355	12.081	***	0.077	0.007	0.363	11.215	**
Private-religious affil.						-1.679	0.356	-0.179	-4.719	***	-2.052	0.715	-0.219	-2.869	*
Private- nonreligious						-0.364	0.332	-0.037	-1.095		-0.973	0.63	-0.1	-1.546	
NorthEast & Mid Atlantic						0.738	0.348	0.080	2.119	**	0.622	0.359	0.068	1.734	*
Midwest						0.415	0.361	0.041	1.150		0.349	0.362	0.035	0.965	
SouthEast						1.927	0.362	0.187	5.328	***	1.944	0.369	0.189	5.269	***
Endowment assets per FTE FY04											0.0000	0	-0.057	-1.675	*
Margin revenues to expenses (log)											0.113	0.104	0.047	1.081	
Share total financial aid from institutional grants											0.494	0.911	0.031	0.543	
Total Price In-state live on campus											-5.47E-06	0	-0.013	-0.163	
Student services share of E&R exp											8.143	2.959	0.098	2.752	**
Academic & institutional spt share of E&G exp											3.918	2.046	0.072	1.915	*
Research-related share of expenses											0.696	1.34	0.023	0.52	
R				0.73					0.825					0.83	
R2				0.532					0.681				0.689		
Adj. R2				0.531					0.674					0.677	
SE of estimate				2.973					2.4798					2.4659	

* p <.10, ** p <.05, *** p <.01

Step/Model 3

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Limitations

- Did not include student-level characteristics
- Lost about 1% of sample from missing data
- We did not consider accreditation status

given the policy significance of accreditation and the associated influence as a gatekeeper to financial aid – may consider for future study

Summary of Results

- Significant Contributors to Institutional CDR:
  - Graduation Rate
  - Admissions Yield Rate
  - % Minority Students
  - Geographic Region of US
  - Endowments per FTE
  - Resources Allocated to
    - Student Services Support
    - Academic Support

Discussion, Implications

- Of course, student characteristics contribute to default rates
- So does employment after degree completion
- But this study shows that institution characteristics also contribute
- The way leaders allocate funds, how they attract students, how they manage external constraints appear to make a significant difference in student loan default in US institutions

Questions, Comments?

- How do US rates compare to UK and Ireland?
- Are there plans for new governmental requirements similar to 3-year CDR?

Thank you.

- I would like to acknowledge the assistance of Sharon Rogers in development of this study.