United States General Accounting Office

GAO

Fact Sheet for Congressional Requesters

September 1990

DEFAULTED STUDENT LOANS

Analysis of Defaulted Borrowers at Schools Accredited by Seven Agencies

142434

GAO/HRD-90-178FS

GAO

United States
General Accounting Office
Washington, D.C. 20548

Human Resources Division

B-241087

September 12, 1990

The Honorable Edward M. Kennedy
Chairman, Committee on Labor
and Human Resources
United States Senate

The Honorable Sam Nunn
Chairman, Permanent Subcommittee
on Investigations
Committee on Governmental Affairs
United States Senate

This report responds to your request for information on the default rates in the Stafford Student Loan Program for schools accredited by seven agencies.[1] Specifically, your offices requested data on each accrediting agency concerning the number of schools it accredited, the percentage of borrowers in default, and the amount of loans in default. In addition, you wanted other information on each agency, such as the average default dollars per school and number of schools with a default volume of $1 million or more. These accrediting agencies are:

- Accrediting Bureau of Health Education Schools (ABHES),
- Accrediting Council for Continuing Education and Training (ACCET),
- Association of Independent Colleges and Schools (AICS),
- National Accrediting Commission of Cosmetology Arts and Sciences (NACCAS),
- National Association of Trade and Technical Schools (NATTS),
- National Home Study Council (NHSC), and
- Southern Association of Colleges and Schools' Commission on Occupational Education Institutions (SACS/COEI).

On August 29 and September 6, 1990, we discussed the results of our analysis with your offices (see app. I). This fact sheet summarizes the information provided at those meetings.

Background

Schools generally undergo a three-tiered approval process before they can participate in federal postsecondary student financial assistance programs, such as the Stafford Student Loan Program. Schools must be (1) licensed by the state in which they operate, (2) accredited by an

[1]This program includes Stafford loans, Supplemental Loans for Students, and Parent Loans for Undergraduate Students.

agency recognized by the Secretary of Education, and (3) certified for program eligibility by the Department of Education.

Accreditation is a system for reviewing educational institutions and their professional programs to ensure a consistent level of performance, integrity, and quality. This process is conducted primarily through non-governmental, voluntary associations. These groups establish their criteria for accreditation, evaluate institutions and professional programs desiring accredited status, and approve those that meet the criteria. As such, accreditation is a key link in ensuring that schools offer quality educational programs. This process hopefully increases the probability that students complete their studies, find gainful employment, and repay any student loans they may receive.

Scope and Methodology

As agreed with your offices, we obtained the requested information from the Department of Education's Institutional Data System. The system contains, among other things, information on the schools listed in the Department's fiscal year 1988 student loan default rate analysis, commonly referred to as the 1988 cohort. As one of its efforts to reduce loan default costs the Department initiated a process to track student default rates.[2]

The Department's 1988 analysis calculated default rates for all schools having at least 30 Stafford and/or Supplemental Loans for Students borrowers who entered repayment in fiscal year 1988 and subsequently defaulted by the end of fiscal year 1989.[3]

The Department provided us with a listing of the schools that were included in its 1988 analysis for each of the seven accrediting agencies. The information we received reflects the data contained in the system as of July 24, 1990. The Department told us, with the possibility of a few exceptions, that the schools listed are proprietary (for profit) or vocational institutions. Because some schools were accredited by more than one agency and by at least one of the seven agencies, we added an eighth category for such schools and analyzed these results separately.

We did not verify the information contained in the Department's Institutional Data System.

[2]Appendix II contains the Department's rationale for monitoring student default rates.

[3]Default rates can be calculated with a variety of assumptions. The Department's methodology for calculating the 1988 cohort is in appendix III.

For each of the agencies, we analyzed the: number of schools accredited, dollars in default, average default dollars per school, number of borrowers in repayment, number of borrowers in default, number and percent of schools with certain default rate thresholds, and range of default dollars for its schools. Appendix I contains the results of this analysis for each agency. In addition, we analyzed the schools that had defaulted loans of $1 million or more. Appendix IV contains this analysis.

The Department published a list of student default rates at each school for the 1988 cohort. It excluded ineligible schools. As requested by your offices, our analysis includes all schools in the 1988 cohort analysis accredited by at least one of the seven agencies. This could include some schools that are no longer eligible for the loan programs.

Results Vary Among Accrediting Agencies

Table 1 shows the variance for each of the agencies in the (1) number of schools accredited, (2) number of borrowers in repayment, and (3) loan dollars in default. The number of schools accredited ranged from 16 (NHSC) to 781 (NACCAS). The number of borrowers in repayment ranged from 16,413 (ABHES) to 353,872 (AICS). In addition, the loan defaults per agency ranged from $12,905,374 (ABHES) to $230,870,073 (NATTS).

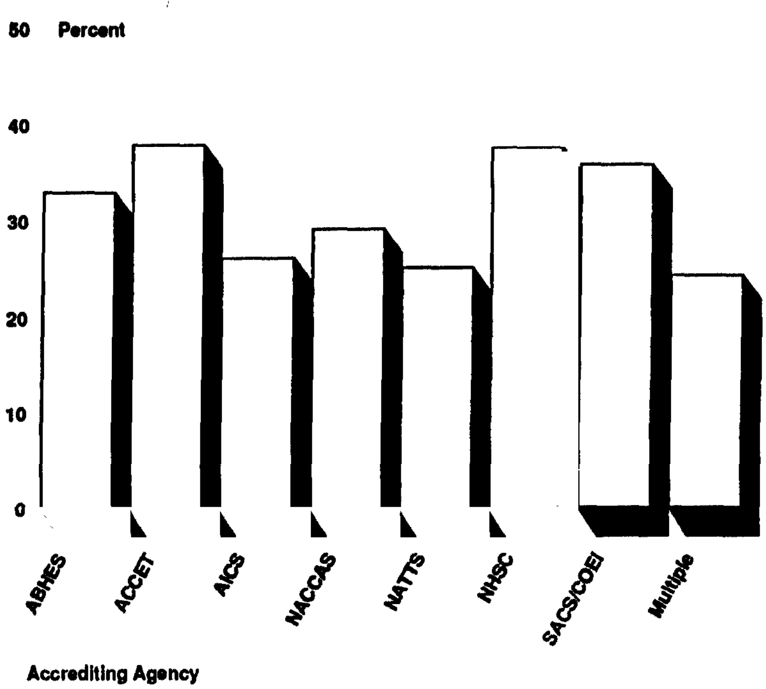
Table 1: Number of Schools and Borrowers, and Volume of Loan Defaults

Agency	Number of schools accredited	Borrowers in repayment	Loan defaults
ABHES	51	16,413	$12,905,374
ACCET	100	53,377	50,524,307
AICS	515	353,872	203,018,491
NACCAS	781	84,847	57,931,584
NATTS	592	353,588	230,870,073
NHSC	16	104,488	78,163,931
SACS/COEI	76	50,271	42,225,399
Multiple	101	62,833	36,916,918
Total	**2,232**	**1,079,689**	**$712,556,077**

Borrower Default Rates Vary

As with the other indicators discussed above, borrower default rates varied among agencies. Figure 1 shows that ACCET and NHSC had the highest rate with 38 percent, while schools with multiple accreditation had the lowest rate with 24 percent.

Figure 1: Default Rate for Each Accrediting Agency

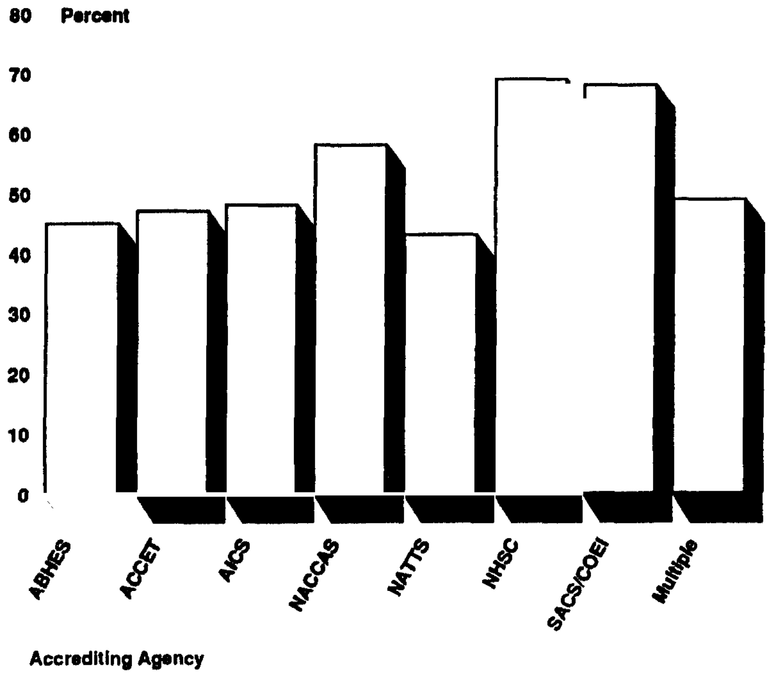


Many Schools Could Be Subject to Default Management Plans

One of the reasons the Department initiated its student default rate analysis was to identify postsecondary schools with student loan default problems. It targeted more stringent default reduction measures to schools with the highest default rates. In its June 5, 1989, regulations, the Department required that, starting on July 20, 1989, all schools with default rates over 20 percent implement a default management plan. These plans, to be approved by the Department, are directed toward reducing the particular causes of loan default at the school.

Based on the Department's data, many of the schools accredited by the agencies we analyzed, if still eligible, will be required to prepare default management plans. Figure 2 shows that the percentage of schools for each agency subject to such plans ranged from 43 percent (NATTS) to 69 percent (NHSC).

Figure 2: Schools Subject to Default Management Plans



As agreed with your offices, we did not obtain written comments on this fact sheet. We did, however, discuss its contents with Department of Education program officials and incorporated their comments where appropriate.

We are sending copies of this fact sheet to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss its contents, please call me on (202) 275-1793. Other major contributors to this fact sheet are listed in appendix V.

Franklin Frazier

Franklin Frazier
Director, Education
and Employment Issues

Contents

Related GAO Products

Tables

Figures

Abbreviations

ABHES	Accrediting Bureau of Health Education Schools
ACCET	Accrediting Council for Continuing Education and Training
AICS	Association of Independent Colleges and Schools
NACCAS	National Accrediting Commission of Cosmetology Arts and Sciences
NATTS	National Association of Trade and Technical Schools
NHSC	National Home Study Council
SACS/COEI	Southern Association of Colleges and Schools' Commission on Occupational Education Institutions

Selected Indicators Using 1988 Cohort Data

Table I.1: Indicators for Accrediting Bureau of Health Education Schools (ABHES)

Indicator	Result
Number of schools accredited	51
Total dollars in default for all ABHES schools	$12,905,374
Average default volume per school	$253,047
Number of borrowers in repayment	16,413
Number of borrowers in default	5,398
Percent of borrowers in default	32.89%
Number and percent of schools with default rates above:	
20%	23 (45%)
30%	16 (31%)
40%	8 (16%)
60%	1 (2%)
Range of default volume for ABHES schools	
Highest volume	$5,308,551
Lowest volume	$5,520

Table I.2: Indicators for Accrediting Council for Continuing Education and Training (ACCET)

Indicator	Result
Number of schools accredited	100
Total dollars in default for all ACCET schools	$50,524,307
Average default volume per school	$505,243
Number of borrowers in repayment	53,377
Number of borrowers in default	20,207
Percent of borrowers in default	37.86%
Number and percent of schools with default rates above:	
20%	47 (47%)
30%	34 (34%)
40%	18 (18%)
60%	6 (6%)
Range of default volume for ACCET schools	
Highest volume	$8,282,384
Lowest volume	$0

Table I.3: Indicators for Association of Independent Colleges and Schools (AICS)

Indicator	Result
Number of schools accredited	515
Total dollars in default for all AICS schools	$203,018,491
Average default volume per school	$394,211
Number of borrowers in repayment	353,872
Number of borrowers in default	92,360
Percent of borrowers in default	26.10%
Number and percent of schools with default rates above:	
20%	248 (48%)
30%	130 (25%)
40%	66 (13%)
60%	9 (2%)
Range of default volume for AICS schools	
Highest volume	$7,604,673
Lowest volume	$0

Table I.4: Indicators for National Accrediting Commission of Cosmetology Arts and Sciences (NACCAS)

Indicator	Result
Number of schools accredited	781
Total dollars in default for all NACCAS schools	$57,931,584
Average default volume per school	$74,176
Number of borrowers in repayment	84,847
Number of borrowers in default	24,676
Percent of borrowers in default	29.08%
Number and percent of schools with default rates above:	
20%	450 (58%)
30%	267 (34%)
40%	146 (19%)
60%	20 (3%)
Range of default volume for NACCAS schools	
Highest volume	$4,622,113
Lowest volume	$0

Table I.5: Indicators for National Association of Trade and Technical Schools (NATTS)

Indicator	Result
Number of schools accredited	592
Total dollars in default for all NATTS schools	$230,870,073
Average default volume per school	$389,983
Number of borrowers in repayment	353,588
Number of borrowers in default	88,672
Percent of borrowers in default	25.08%
Number and percent of schools with default rates above:	
20%	254 (43%)
30%	118 (20%)
40%	46 (8%)
60%	4 (1%)
Range of default volume for NATTS schools	
Highest volume	$7,815,680
Lowest volume	$0

Table I.6: Indicators for National Home Study Council (NHSC)

Indicator	Result
Number of schools accredited	16
Total dollars in default for for all NHSC schools	$78,163,931
Average default volume per school	$4,885,245
Number of borrowers in repayment	104,488
Number of borrowers in default	39,275
Percent of borrowers in default	37.59%
Number and percent of schools with default rates above:	
20%	11 (69%)
30%	7 (44%)
40%	2 (13%)
60%	0 (0%)
Range of default volume for NHSC schools	
Highest volume	$27,044,040
Lowest volume	$25,042

Table I.7: Indicators for Southern Association of Colleges and Schools' Commission on Occupational Education Institutions (SACS/COEI)

Indicator	Result
Number of schools accredited	76
Total dollars in default for all SACS/COEI schools	$42,225,399
Average default volume per school	$555,597
Number of borrowers in repayment	50,271
Number of borrowers in default	18,007
Percent of borrowers in default	35.82%
Number and percent of schools with default rates above:	
20%	52 (68%)
30%	35 (46%)
40%	20 (26%)
60%	5 (7%)
Range of default volume for SACS/COEI schools	
Highest volume	$5,107,718
Lowest volume	$0

Table I.8: Indicators for Schools With Multiple Accreditation

Indicator	Result
Number of schools accredited	101
Total dollars in default for all multiply accredited schools	$36,916,918
Average default volume per school	$365,514
Number of borrowers in repayment	62,833
Number of borrowers in default	15,267
Percent of borrowers in default	24.30%
Number and percent of schools with default rates above:	
20%	49 (49%)
30%	24 (24%)
40%	10 (10%)
60%	1 (1%)
Range of default volume for multiply accredited schools	
Highest volume	$4,621,333
Lowest volume	$0

Department of Education Letter to Schools Concerning Default Reduction Initiatives

UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

June 1989

89-S-57 (LD)

Dear President:

I am writing to ask your cooperation and support in implementing the comprehensive default reduction measures that I announced on June 1, 1989. For your information, a copy of the final regulation detailing many of these measures has already been sent to you and to your student financial aid office.

The Department of Education projects that defaults on Guaranteed Student Loans (GSLs) will cost taxpayers over $1.8 billion this year. Increasing default costs erode public support for student aid programs and divert valuable public resources away from needy students. To reduce defaults, a strong cooperative effort will be required among all parties involved: the public, the Department, the Congress, postsecondary institutions, lenders, guarantee agencies, and borrowers.

The Department has already taken a variety of steps to control student loan defaults by implementing and expanding many default prevention and collection improvement practices. Our efforts to date have emphasized the responsibilities of borrowers, lenders, and guarantee agencies.

I trust you will agree with me that postsecondary institutions also have a part to play--first of all, to provide a quality education; second, to help educate students about prospective salaries and employment opportunites in particular fields; and third, to educate them about the terms of student loans, the likely repayment burden they will face when they complete their studies, and the consequences of default. Schools also have the ability to provide critical collection-related information to lenders. Moreover, by admitting only students who can benefit from the educational program and by using fair and equitable tuition refund policies, schools are in a position to do a great deal to address some of the most fundamental causes of default.

I have issued a final regulation that employs a tiered approach in dealing with the student loan default problem at postsecondary institutions--targeting the more stringent default reduction measures on schools with the highest default rates.

The default rate calculation that we are using for the purposes of the new regulation is the percentage of an institution's former students who enter repayment during one fiscal year on Stafford (regular GSL) or SLS program loans who default before the end of the following fiscal year. This "fiscal year" or "cohort" default rate is different from the cumulative dollar default rate which may be used by your State's guarantee agency for other purposes. We decided to use this new default ratio because it will more quickly reflect a school's default reduction efforts. It is also fairer since it does not hold you responsible for past defaults that you cannot now correct.

400 MARYLAND AVE., S.W. WASHINGTON, D.C. 20202

Page 2 - Comprehensive Default Reduction Measures

This "fiscal year" or "cohort" default rate calculation applies only to institutions with 30 or more current and former students who enter repayment on loans received for attendance at that institution in that fiscal year. For any fiscal year in which less than 30 of the institution's current and former students enter repayment, the default rate calculation is based on the average of the rate calculated for the three most recent fiscal years.

The final regulation, which was published in the Federal Register on June 5, 1989, includes the following measures:

- o All schools with default rates over 60 percent will be subject to potential limitation, suspension, or termination (LST) from participation in our Title IV student aid programs. The LST trigger will decrease 5 percentage points a year over 4 years to 40 percent. To retain student aid program eligibility, a school with a default rate at this level will have to show that it has done all that it can to reduce defaults. For purposes of the regulation, this means that it has implemented all the default reduction measures listed in Appendix D of the regulation. In addition, the regulation authorizes LST action for schools with default rates over 40 percent that fail to reduce these rates by 5 percentage points per year (effective January 1, 1991).

- o All schools with default rates over 30 percent will be required:

  -- to delay certification of loan applications of first-time borrowers, so that the borrower will not receive the loan proceeds until 30 days after classes begin (effective October 1, 1989).

  -- to use a pro-rata tuition refund policy for student borrowers who drop out, up to the midpoint of the program or six months, whichever is earlier (effective June 5, 1990).

- o All schools with default rates over 20 percent will be required to implement a default management plan approved by the Department and directed toward reducing the particular causes of default at that school (effective July 20, 1989).

- o In addition to the exit counseling required by current statute, all schools will have to provide entrance counseling to first-time borrowers to make clear the terms of the loan, the repayment burden they will face when they graduate, and the consequences of default (effective July 20, 1989).

- o All schools offering non-baccalaureate vocational training programs will have to disclose graduation rates, job placement rates, and State licensing exam pass rates to prospective students (effective December 1, 1989).

- o Lenders will be required to inform schools when their graduates' loans are delinquent (effective December 5, 1989).

I have enclosed a list of fiscal year 1986 default rates for institutions in your State. These "cohort" default rates are based on 1987 data provided by the guarantee agencies. We will not use the 1986 cohort default rate for implementing the new regulation. The rate for your institution is provided at this time to give you general notice of your current situation. By August 1, 1989, I expect to be able to notify you concerning the cohort default rate for 1987 that will be used in implementing the first stages of our regulatory initiative. Please note that for institutions with less than 30 borrowers entering repayment in 1986, the enclosed list shows the default rate for borrowers entering repayment only in that fiscal year. Beginning with the fiscal year 1989 cohort rate, the 3-year average rate described above will be used for institutions with less than 30 borrowers entering repayment.

I encourage all participating postsecondary institutions to take an active role in student loan default prevention, and I would appreciate your support for this important initiative. Please address any questions about implementation of the new regulation or other aspects of our default reduction initiative to Dr. Roberta B. Dunn, Deputy Assistant Secretary for Student Financial Assistance, U.S. Department of Education, 400 Maryland Avenue, S.W., ROB-3, Room 4624, Washington, D.C. 20202.

Sincerely,

Lauro F. Cavazos

Lauro F. Cavazos

Enclosure

Department of Education Methodology for Calculating Cohort Default Rates for 1988

METHODOLOGY FOR CALCULATION OF
FISCAL YEAR 1988 STUDENT LOAN DEFAULT RATES FOR SCHOOLS

The FY 88 fiscal year default rates were calculated using data supplied by guarantee agencies on the Stafford Loan and PLUS/SLS Loan Tape Dumps. These tape dumps were prepared by guarantee agencies in accordance with procedures provided by ED and reflect data as of September 30, 1989. Only Stafford Loans and SLS Loans are included in the default rate calculations. PLUS Loans, Consolidation Loans and Federal Insured Student Loans are not included. The default rate formula is as follows:

$$\frac{\text{\# of students who entered repayment in FY 88 who are coded as in default on the tape dump}}{\text{\# of students who entered repayment in FY 88}} \times 100\%$$

<u>Entered Repayment:</u> For Stafford Loans, agencies were asked to provide the date a student entered repayment on the tape dump. If the Stafford tape dump record for a loan indicated a date between October, 1987, and September, 1988, inclusive, in the field "Date Entered Repayment," the loan was considered to have entered repayment in FY 88. For PLUS and SLS Loans, agencies were asked to provide both the "Type of Borrower" (<u>i.e.</u>, parent borrower, graduate or professional student, independent undergraduate, and dependent undergraduate) and the "Beginning of Classes Date." If the PLUS/SLS tape dump record for a loan indicated that the "Type of Borrower" was a graduate or professional student, an independent undergraduate or a dependent undergraduate <u>and</u> the "Beginning of Classes Date" was between October, 1987, and September, 1988, inclusive, the loan was considered to have entered repayment in FY 88 and was included in the calculation.

<u>In Default:</u> For both Stafford and SLS loans, agencies were asked to provide a "Loan Status Code." If the Loan Status Code for a loan that entered repayment in FY 88 was defaulted but unresolved (DF), defaulted but in repayment (DR), defaulted but paid in full (DP), defaulted but written off or compromised (DW), or permanently assigned to ED (AE), the loan was considered as in default for the default rate calculation.

<u>Number of Students:</u> The number of students was calculated by counting the number of different social security numbers in the applicable categories. If a student had more than one loan reflected in the tape dump records (for example, two Stafford loans and one SLS loan), the student was counted only once. If a student borrowed to attend more than one school, he or she was counted in the calculation for <u>each</u> school.

<u>School:</u> Default rates were calculated separately for each school identification code appearing on ED's computerized GSL Program school file, provided the school was eligible to participate in the program at the time the rates were calculated.

Source: Department of Education

Analysis of Schools With $1 Million or More of Student Loans in Default

IV.1: A Few Schools Had Most of the Loan Defaults of $1 Million or More

Numbers are percentages

Agency	Percent of schools	Percent of default dollars
ABHES	2	41
ACCET	14	74
AICS	9	54
NACCAS	1	20
NATTS	7	56
NHSC	50	98
SACS/COEI	14	67
Multiple	6	37

Major Contributors to This Report

Human Resources Division, Washington, D.C.

Joseph J. Eglin, Assistant Director, (202) 401-8623
Christopher C. Crissman, Assignment Manager
Karen A. Whiten, Senior Evaluator
Veronica Scott, Evaluator
Jennifer Grover, Evaluator

Atlanta Regional Office

Alphonse R. Davis, Evaluator-in-Charge
Veronica O. Mayhand, Site Senior
John T. Crawford, Evaluator
Hakim Abdul-Rasheed, Evaluator

Related GAO Products

Supplemental Student Loans: Legislative Changes Have Sharply Reduced Loan Volume (GAO/HRD-90-149FS, Aug. 3, 1990)

Financial Problems in the Stafford Student Loan Program (GAO/T-HRD-90-52, July 27, 1990)

Supplemental Student Loans: Who Are the Largest Lenders? (GAO/HRD-90-72FS, Feb. 21, 1990)

GAO Views on the Stafford Student Loan Program (GAO/T-HRD-90-13, Feb. 20, 1990)

Supplemental Student Loans: Who Borrows and Who Defaults (GAO/HRD-90-33FS, Oct. 17, 1989)

Guaranteed Student Loans: Analysis of Student Default Rates at 7,800 Postsecondary Schools (GAO/HRD-89-63BR, July 5, 1989)

Defaulted Student Loans: Preliminary Analysis of Student Loan Borrowers and Defaulters (GAO/HRD-88-112BR, June 14, 1988)

GAO's Views on the Default Task Force's Recommendations for Reducing Default Costs in the Guaranteed Student Loan Program (GAO/T-HRD-88-7, Feb. 2, 1988)

Guaranteed Student Loans: Potential Default and Cost Reduction Options (GAO/HRD-88-52BR, Jan. 7, 1988)

Guaranteed Student Loans: Legislative and Regulatory Changes Needed to Reduce Default Costs (GAO/HRD-87-76, Sept. 30, 1987)

Defaulted Student Loans: Private Lender Collection Efforts Often Inadequate (GAO/HRD-87-48, Aug. 20, 1987)

Defaulted Student Loans: Guaranty Agencies' Collection Practices and Procedures (GAO/HRD-86-114BR, July 17, 1986)

Ordering Information

The first five copies of each GAO report are free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20877

Orders may also be placed by calling (202) 275-6241.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100