

**IOWA**  
**STUDENT LOAN®** *Insights*  
 News and information for financial aid professionals March 2010

Dear Colleague:

It is interesting how certain words cycle in and out of popular usage. Of late, use of the word “bubble” has made a comeback of sorts. While most of us would prefer to think of bubbles as those elusive soapy orbs that we chased across our lawns as children, we more often find ourselves today using them to define abstract economic concepts such as the “housing bubble.” The connection between the real and the abstract is, of course, that bubbles eventually break. And in both cases they break because the substance of the bubble is no longer supported by its environment.



John Parker, Director, Community Services and Educational Research

With that in mind, there is growing concern that there is a student loan debt bubble nearing the bursting point. The substance of that bubble is, of course, debt that must be managed in an environment characterized by rapid increases in educational costs, relative decreases in non-loan sources of financial aid and near historic rates of unemployment and underemployment. Whether there is a student loan debt bubble that is reaching critical mass is an important topic.

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Inside This Issue

Employment Opportunities and Student Loan Debt Burden..... 3  
 How Much Debt Is Too Much?..... 9  
 Student Loan Delinquency and Defaults.....12  
 Research Tips: Probability Sampling.....15  
 Review: Lowering Student Loan Default Rates .....18

(from previous page)

The following articles in this edition of our *Research in Brief* newsletter explore that topic more deeply.

- ▶ An article that outlines some of the current metrics regarding student loan delinquencies and defaults.
- ▶ A discussion of how the current employment scene plays into this topic.
- ▶ A revisiting of some of the models used to define “unmanageable” student loan debt levels.
- ▶ A review of how one group of colleges and universities found some success in helping their students avoid default.

Hopefully, these articles will contribute to your thoughts and discussions about how to help students avoid education loan debt levels that their individual environments cannot support.

As always your thoughts and comments on these topics and others are welcome.

Best wishes,

A handwritten signature in black ink that reads "John Parker". The signature is written in a cursive, flowing style.

John Parker

# Employment Opportunities and Student Loan Debt Burden

By Marc Hendel, Senior Research Analyst

According to the latest data from the College Board, approximately two out of three undergraduate students leave school with student loan debt. In Iowa, that percentage may be as high as 73%, according to The Project on Student Debt report on the graduating class of 2008. Given the large proportion of students borrowing, it is not surprising that student loan servicers observe differences in repayment behavior. Various reports, studies and statistics such as delinquency and default rates indicate that some borrowers have trouble repaying their student loans, while others — with equal or even higher debt loads — have no trouble keeping their loans current. What causes the observed differences in borrowers' ability to repay their student loans?

## Causes of Default

Anecdotally, most student loan borrowers who experience problems repaying their debt cite lack of income as the main issue. Does the employment situation in the United States truly affect a borrower's ability to earn enough income to meet student loan payment obligations?

Causes are hard to isolate, but it is known that certain student choices, such as the type of school attended, reveal different patterns of delinquency and default behavior. The most current cohort default rates (CDR), released by the U.S. Department of Education (ED) to describe default behavior, indicate that proprietary schools, in aggregate, tend to have higher default rates on federal loans than public schools. Similarly, public schools (whose high rate in aggregate is mostly driven by community colleges) tend to have a higher default rate than private schools.

Completion is another characteristic that tends to be highly correlated with ability to repay student loans. ED data on William D. Ford Federal Direct Loan Program (Direct Loan) loans from August 2008 shows that 70% of those who default on those federal student loans did not successfully complete their program of study<sup>1</sup>. One can imagine that a similarly large proportion of Federal Family Education Loan Program (FFELP) loan defaulters would also be non-completers.

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<sup>1</sup> See slide 38 of [www.ifap.ed.gov/presentations/attachments/5DefaultandDelinquencyManagementV1.ppt](http://www.ifap.ed.gov/presentations/attachments/5DefaultandDelinquencyManagementV1.ppt)

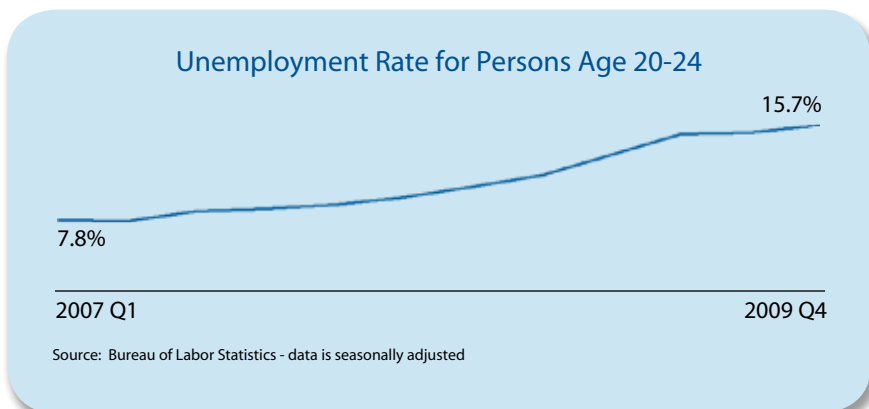
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Other student choices combine to cause students to struggle with their repayment obligations. For example, the amount borrowed in combination with choice of major may influence a student's ability to repay student loans. In particular, when a job at an expected salary level does not materialize after graduation, student borrowers may experience problems when their actual income levels are not able to support their monthly loan payments. This situation can be realized when certain cyclical macro-economic factors present themselves.

## Effect of Recession on Income

Currently, the United States economy is in the tail end of the largest recession since the Great Depression. One consequence of a recession is high rates of unemployment and underemployment. As businesses struggle to resume "normal" operations, these two rates tend to remain high even after the declared end of the recession.

The unemployment rate for recent college graduates has climbed steadily over the course of the current recession. According to data from the Bureau of Labor Statistics (BLS), the unemployment rate for persons aged 20 – 24 (a group that includes recent college graduates but also includes others) has doubled between January 2007 and December 2009, as seen in the graph below.



Beyond unemployment, there remains the issue of underemployment. The BLS defines workers as underemployed if they meet one of several possible conditions<sup>2</sup>. One clearly defined condition occurs when a person who typically works full time is currently working fewer hours than desired due to business conditions. A second condition occurs when a person has taken a job that does not make use of his skills, experience or training. The latter situation tends to put the person in a job that pays significantly less than they would earn if they were working within their skill area.

The National Association of Colleges and Employers (NACE) produces widely referenced statistics on employment of recent college graduates. A February 2010 NACE press release indicates that salary offers to the class of 2010 are down 2% compared to those offered to the class of 2009. There is variation across majors, with some showing a potential for increased starting salary offers. According to the press release<sup>3</sup>, employers are also planning to reduce the number of college graduates hired by 7% compared to the class of 2009. In contrast, U.S. chip-maker Intel announced in February 2010 that it, along with 17 of its technology partners, plans to increase hiring of recent college graduates to fill 10,500 positions.

In addition to causing short-term liquidity problems for borrowers, underemployment and unemployment rates that are higher than normal tend to have long-lasting effects on those entering the job market for the first time. By analyzing three large administrative data sets from Canada, the authors of an April 2006 paper (found at [www.nber.org/papers/w12159](http://www.nber.org/papers/w12159)) from the nonprofit, nonpartisan National Bureau of Economic Research in Cambridge, Mass., looked at the long-term effects of graduating in a recession. In a typical economy, college graduates enter a robust job market and can usually find a job opportunity to match their needs. In contrast, graduates who enter the job market during a period of recession tend to have more difficulty finding the job they desire.

According to the paper, “Graduating in a recession leads to large initial earnings losses. These losses, which amount to about 9 percent of annual earnings in the initial stage, eventually recede, but slowly — halving within five years but not disappearing until about ten years after graduation.” The earnings loss has a significantly larger impact on those with the lowest predicted earnings and on those entering the job market for the first time.

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2 [www.bls.gov/cps/cps\\_add.htm](http://www.bls.gov/cps/cps_add.htm)

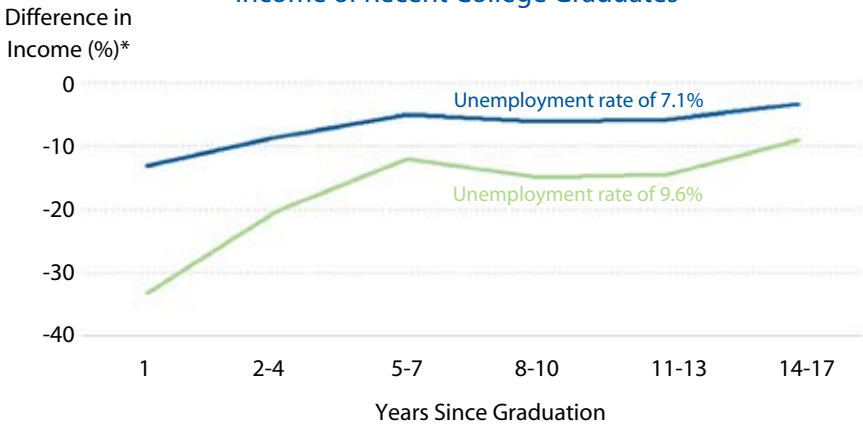
3 [www.naceweb.org](http://www.naceweb.org)

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Lisa Kahn, a professor at Yale School of Management, reached similar conclusions in her August 2009 study of data on a national group of college graduates. By using the recession of the early 1980s as her marker, she reached conclusions that extrapolate to future recessionary periods. Although Kahn's work is based on a study of white, male college graduates because of the perceived lack of sensitivity to external factors influencing job choice, her conclusions are relevant, as white males tend to earn more than other demographic groups (with the exception of men of Asian origin, according to the BLS). The results of this study can be viewed as a "best case" scenario, with other demographic groups most likely faring worse.

Kahn's results show that when unemployment is comparable to the current rate (the 9.6% line on the graph below), first-time job seekers may earn a starting salary as much as 30% or more below their counterparts who began their career when unemployment was lower (5.3%). The conclusion supports a loss of 6% – 9% of initial income per 1 point increase in the unemployment rate over the baseline of 5.3%. The last time the unemployment rate in the United States was close to 5.3% was in

### Short-Term and Long-Term Effects of a Recession on the Income of Recent College Graduates



\* Compared to an unemployment rate of 5.3%  
Source: Lisa Kahn - as displayed by the Wall Street Journal

May 2008, when it reached 5.5% (seasonally adjusted). As seen on the graph, even after 17 years, those entering the job market during a recession have incomes that still lag their counterparts. Kahn's conclusion: The effects of entering the job market in a recessionary period are "...large, negative and persistent."

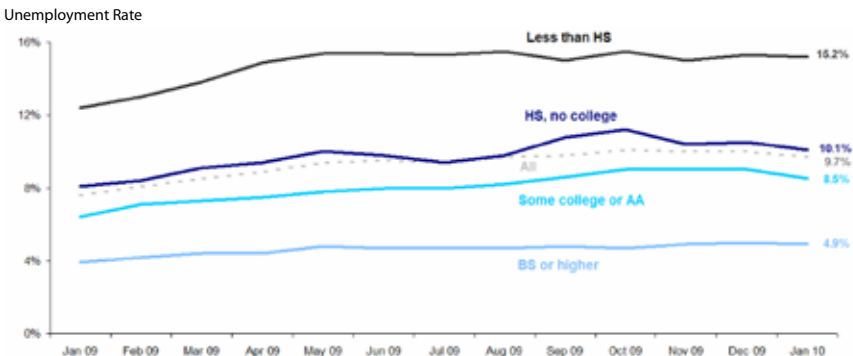
## Far-Reaching Effects on Repayment

The data referenced above, when combined with the increasing amount of student loan debt taken on by today's college students, leads to a sobering conclusion for current graduates: It will most likely be more difficult to find a job that pays as well as anticipated. Even worse, there will most likely not be a compensatory "jump" in income in the future. This could foreshadow a rise in the number of student loan borrowers who are unable to make their student loan payments. The lower income level realized by these recent graduates may have far-reaching effects beyond student loans — perhaps the now higher-than-anticipated debt-to-income ratio might influence other aspects of life, such as the ability to make major purchases, the need for financial or other assistance from friends or relatives, or possibly the postponement of decisions such as marriage and having children.

If the outlook for recent graduates is bleak, what about those that do not graduate? Frequently quoted BLS data clearly shows the employment and income advantages of a college degree, as seen in the following graphs.

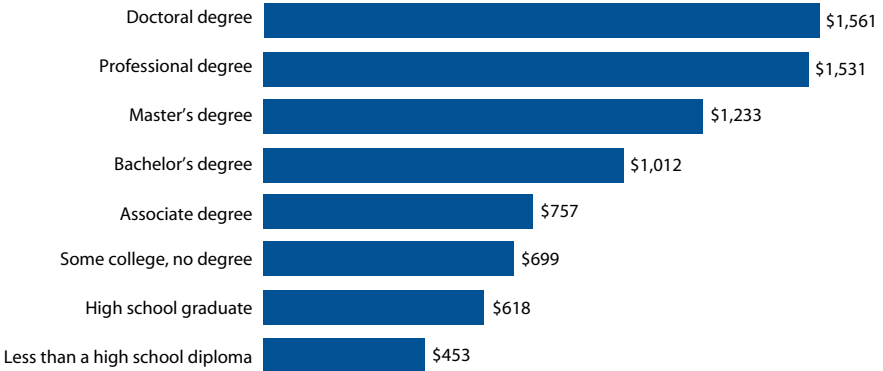
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## Unemployment Rate by Level of Education



Source: Bureau of Labor Statistics - data is seasonally adjusted

## Median Weekly Earnings by Educational Attainment (2008)



Source: Bureau of Labor Statistics Current Population Survey - annual averages for persons aged 25 and older

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Those without a college degree have historically higher unemployment rates than those with a degree or certificate. Similarly, those with college degrees tend to have higher earnings than those without a degree. Without the advantages of a college degree to help boost their career prospects, student loan borrowers who do not complete their programs of study will certainly fare worse financially than their degreed counterparts. Leaving school without a degree in a recession will increase the negative effects experienced by those who leave with a degree.

Although experts disagree on what college students who graduate in the midst of an economic upheaval should do, some recommend that new graduates avoid entering the job market when it is in such a depressed condition. The potential loss of income for the year or two needed to see recovery in the economy may be outweighed by the increase in starting salary realized. Graduating students who go back to school for additional education may even increase their earnings potential because of their advanced degree, as seen in the graph of median weekly earnings by educational attainment above. Of course, going back to school may require additional student loan borrowing, which may negate any increases in salary. Regardless of their choice, student borrowers graduating into a recession face a future of financial challenges. ■

# How Much Debt Is Too Much?

By Marc Hendel, Senior Research Analyst

The title question here is also the title of a 2006 College Board paper<sup>1</sup> authored by Sandy Baum and Saul Schwartz. The authors clearly state in the introduction that this question is not one that can be generalized, and they recommend establishing benchmarks for borrowers based on a variety of circumstances. The goal of the paper is to “establish a range of empirically derived thresholds for manageable student debt.” The paper is useful not just for the recommendations the authors propose for appropriate benchmarks but also because it describes the history and variation in opinion surrounding the topic. This article aims to give some background on the various opinions on the topic of how much student loan debt is manageable after leaving school; we will not attempt to answer the direct question.

## What Is “Manageable”?

There are many definitions of how much debt is “manageable,” and it is important to understand what is meant by this term when attempting to understand student loan debt burdens. Many experts in the loan servicing and collections industry would be quick to differentiate between borrowers who are able to pay and those that are willing to pay. Unless borrowers are both willing and able to make their payments, they may see their debt load as unmanageable. A collector, on the other hand, sometimes sees debt as manageable in cases when the borrower is unwilling or even unable to make payments. Therefore, it is important to put the term “manageable” into context by understanding who is speaking.

Borrowers, Baum and Schwartz said, are “likely to define a manageable debt as one that allows them to maintain a standard of living not dramatically different from others with similar incomes and qualifications.” Others would argue that the lifestyle expectation is not based on the lifestyle of others with similar characteristics but rather on a preconceived notion of an acceptable lifestyle based on childhood experiences or expectations based on college major or other work experience.

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<sup>1</sup> <http://professionals.collegeboard.com/data-reports-research/cb/debt>

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There are many qualitative definitions of what amount of debt is “manageable.” Most often, such definitions compare monthly debt payments to gross income. This makes sense since \$20,000 of debt would seem to be more manageable for a person earning \$100,000 per year than for a person earning \$25,000 per year. The ratio of monthly payments required for debts compared to monthly income is often referred to as the debt-to-income ratio or debt servicing ratio. The assignment of a numerical value to define “manageable” is the place where the greatest variation can be seen.

## How Much Debt Is Acceptable?

It is difficult to establish a set-in-stone “acceptable” debt-to-income ratio, but many lenders utilize underwriting criteria that limits the ratio to 36% with no more than 28% dedicated to a mortgage. A Web search of lenders reinforces these preferences. It is hard to disagree with the common notion that debt ratios higher than 50% are not sustainable.

Focusing in on student loan debt, Baum and Schwartz note that the lender-preferred 36% and 28% ratios are what lead to the oft-quoted “8% rule” as a manageable measure for student loan debt. That is, by subtracting the 28% from the 36%, the conclusion is that a typical borrower should be comfortable with 8% of their non-mortgage debt assigned to other consumer credit obligations. One problem with this conclusion is that it allows for only student loan debt; it does not consider other typical expenses. The explicit assumption is that the borrower has no other obligations, such as a car loan, a home equity loan, credit card debt or other consumer credit. Additionally, Baum and Schwartz were quick to point out that the accepted ratios indicate how much an applicant can borrow and not how much they should borrow; that is, following these preferred metrics can lead the borrower into dangerous territory.

## Income-Dependent Expectations

Looking to other research for answers, Baum and Schwartz located multiple possible definitions for “manageable debt.” A 2002 UK study suggests that total debt ratios over 25% of gross income define overindebtedness. Several studies from the late 60s through the late 80s took average expenditures into account and concluded that between 6.4% and 7.5% of after-tax income is typically available for student

loan payments. Several studies concluded that an income-sensitive scale was most appropriate for determining a manageable amount of debt. In the end, Baum and Schwartz proposed such a sliding scale to quantify expected contributions to student loan payments. In their scheme, borrowers who earn under \$20,000 per year are expected to pay nothing on their student loans. Income levels of \$25,000, \$45,000 and \$80,000 are expected to pay 5%, 10% and 15% respectively with incomes between these amounts paying similarly scaled percentages.

The proposed income-dependent payment expectations proposed by the authors, along with successful income-contingent programs in countries such as Australia and New Zealand, most likely influenced the creation of the Income-Contingent Repayment Plan currently in place for holders of William D. Ford Federal Direct Loan Program (Direct Loan) loans. The Income-Contingent Repayment Plan, however, extends the loan term to 25 years and uses discretionary income when calculating the debt-to-income ratio. Discretionary income is defined to be the income above 150% of the federal poverty line. Payments are limited to 20% of discretionary income. The similar Income-Based Repayment Plan is available for all Stafford Loan holders. In income groups that require payment, payments can range from approximately 3% to 13% of income, depending on the number in the family.

## Perception of Debt Burden

Debt burden can be measured quantitatively by asking debt holders about their perceived level of burden. Several such studies have been conducted, including one by Sandy Baum and Marie O'Malley of Nellie Mae. Although self-reported burden level may be a decent method of measuring debt burden, its lack of consistency from respondent to respondent makes it unusable for most policy decisions or repayment program criteria.

The most recent report by Baum and O'Malley in 2003 reveals some interesting conclusions. Of those who borrowed only for their undergraduate education, 55% paid 8% or less of their gross income toward student loan payments while 11% of the respondents paid more than 20% of their income toward student loan payments. The results of the specific question about burden revealed that 55.5% of the respondents feel burdened by their student loan debt payments. Looking at the distribution of debt-to-income ratio, this means that some proportion of respondents (a minimum of 10%) with debt ratios under 8% must have responded that they feel burdened. This fact only adds to the challenge of creating a universal quantitative definition of debt burden.

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How much debt is too much? The answer is hard to quantify. The Federal Reserve Board tracks an average household debt servicing ratio for the country, and that ratio is 17.76% as of the third quarter of 2009<sup>2</sup>. National Center for Education Statistics Baccalaureate and Beyond data from the 1993/2003 cohort shows Iowa's student debt-to-income ratio to be 10.0%. Considering only student loan debt, it seems that the range of quantifiable student loan debt-to-income ratios that define "manageable debt" extends from approximately 0% to 20%. Many experts believe that it is the borrower's perception of the burden of student loan payments that matters. If that is the case, then only the borrower can define how much debt is too much. Unfortunately, a borrower can usually only define that in a reliable manner after borrowing, leaving school and obtaining employment. This presents the supreme challenge to being able to counsel borrowers as they are progressing through their educational path. ■

2 [www.federalreserve.gov/Releases/housedebt/](http://www.federalreserve.gov/Releases/housedebt/)

## Student Loan Delinquency And Defaults

**by Marc Hendel, Senior Research Analyst**

One consequence of the current recessionary economy is an increase in the number of borrowers who face increasing difficulty making payments on their student loans. Many reports indicate that this has been the case throughout 2009 and into 2010.

### Rising Default

The financial reports of several major student loan lenders demonstrate that provisions for loan losses (dollars that are required to be set aside to cover default losses) have been on the rise since 2009. Nelnet, the fifth-largest servicer of federal student loans, showed a \$4 million increase (16%) in reserves in 2009 over 2008. This was partially in reaction to an increase in the percent of loans that were delinquent from 11.8% on Dec. 31, 2008, to 14.2% on Dec. 31, 2009, for federally insured loans and a change from 5.3% to 6.2% for non-federally insured loans in the same time period. Sallie Mae, the largest student loan servicer, showed an increase in delinquency rates in the same time period; the rate increased from 12.8% to 13.6% for private student loans they owned and from 7.2% to 10.0% for private student loans they service.

DBRS, a ratings agency, released a report on default and delinquency rates for private student loans in several large trusts in February 2010. The index DBRS uses to track delinquencies and defaults in these portfolios of private student loans show a marked increase from first quarter 2007 through fourth quarter 2009. The default index (as a percentage of loans in repayment) more than doubled in that time, going from 0.72% to 1.58%. The delinquency index increased nearly fourfold in that same time period as it moved from 1.00% to 3.59%.

## CDR Increase

The traditional Stafford Loan program marker of defaults, the cohort default rate (CDR) has also increased dramatically in the past several years, after hitting an all-time low of 4.5% in 2003. The rate for cohort year 2007 is 6.7%, its highest value since 1999. The value for cohort year 2007 is a large increase from the rate for cohort 2006 when the value was 5.2%. This is the largest relative increase (28.9%) in the rate in the history of the data back to 1987.

Late in 2009, the U.S. Department of Education released trial rates displaying the new three-year CDR, a metric that will be used to determine adverse actions in 2014<sup>1</sup>. As another indicator of the distress being felt by student loan borrowers, the three-year CDR was 11.6%, indicating that the proportion of borrowers that defaulted in the additional year was large (4.9%). Given that the third-year rate represents the situation in the most recent time frame, it is most likely predictive of the next few years of cohort default rates. If the trend holds, the two-year rate could increase for the next few years, possibly to around 10%.

## Economic Impact

What explains these consistent increases in delinquencies and defaults across all types of student loans? Although it is difficult to isolate causes, the state of the economy and the job situation in the United States likely play a role. Undergraduate, dependent students who utilize their maximum Federal Stafford Loan (subsidized and unsubsidized) eligibility of \$27,000 over four years will have a minimum payment of around \$300 per month. With many workers losing jobs, taking pay cuts to stay in their jobs or not able to find a job, it is difficult to imagine them being able to make student loan payments on top of other obligations.

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<sup>1</sup> See [www.studentloan.org/emails/Docs/SR/CDR-Trial-Rates.pdf](http://www.studentloan.org/emails/Docs/SR/CDR-Trial-Rates.pdf) for a more detailed analysis of the changes in CDR for Iowa.

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Another possible explanatory effect of the recession may be the inability of income to keep pace with rising college costs. The U.S. Census Bureau's American Community Survey shows that the household median income in Iowa (\$48,980) was below the median for the United States (\$52,029) in 2008. A March 4, 2010, online article from the Kansas City Star notes that a just-released study of income projections through 2015 shows that the Midwest region of the United States will see a mere 3.5% to 4.0% growth rate while the fastest growing areas will see growth as high as 5.7%. Lower-income households have been affected most with the lower income quintiles seeing negative growth over certain recent time periods. Couple this lack of growth with high underemployment and unemployment rates, and it is not difficult to see how this can affect student loan delinquency and default rates.

As college costs rise, students need to borrow more funds to meet their postsecondary educational goals. College Board data shows that the cost of college has grown at a rate that is two to three times the rate of inflation. Because this increase in borrowing does not occur in conjunction with growing income levels, recent graduates are put in a position where they may not be able to afford their student loan payments.

## Payment Alternatives

There are many repayment plans available for federal loans that are alternatives to the standard repayment plan. Borrowers also have the option of using forbearance during periods of financial hardship. Although the use of alternate payment plans and forbearance may have other ramifications down the road (longer terms and possibly more actual dollars repaid), they can be used in the short-term to decrease monthly payments temporarily, adding to the available household funds necessary for typical living expenses. If borrowers are educated about alternate payment options and their ability to utilize forbearance, perhaps the trend in student loan delinquency and default rates can be reversed. Of course, additional time must pass to lift the whole economy out of the current crisis to put borrowers back in a good position to meet their student loan obligations. ■

# Research Tips

## Probability Sampling

One pillar of sound decision-making is the utilization of information in making decisions. The process for the creation of new policy or requirements should rely on information gathered about the topic of interest. The effectiveness of new or established programs or an understanding of needs or challenges faced by certain groups of students, parents or faculty can only be determined by data collection.

The amount of resources available to gather data for any purpose is usually limited. Even when populations of interest are relatively small, it may not be practical to survey all members of the group. When a population is large enough to make a true census impractical, the statistical properties of a probability sample can save the day.

A probability sample is a small group consisting of members of the population of interest. The two most important properties of a probability sample are:

1. Each member of the population has a non-zero probability of selection for inclusion in the group to be surveyed.
2. Members of the sample are selected through a random process.

There are several advantages to using a probability sample of the population, with the reduction in resources dedicated to data gathering being the most practical in an age of limited budgets. In addition, every sample of a population has some amount of error associated with the calculated statistics since every member of the population was not consulted; this is called sample error. In a random sample, this error is not only calculable, but it can be adjusted to any acceptable level before the data collection effort is undertaken. A nonrandom sample has sample error, but the magnitude of that error is unknown.

What does the utilization of a probability sample do for the researcher from a practical perspective? Using a probability sample allows the results of the data collection from a small sample to be generalized to the entire population of interest (and only that specific population) with a given degree of confidence. The range or magnitude of the uncertainty in the estimates of means, proportions or other statistics has a maximum

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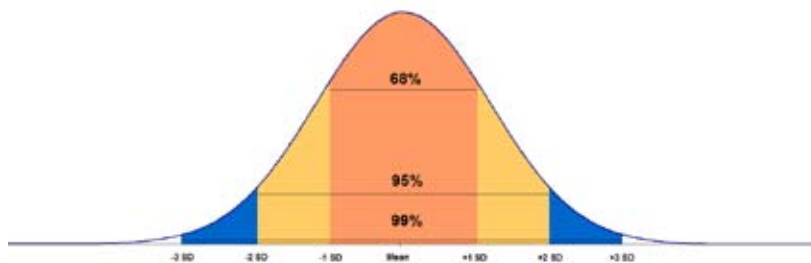
Interviews with 1,038 adult Americans, conducted by telephone by Opinion Research Corporation on October 16-18, 2009. The margin of sampling error for results based on the total sample is plus or minus 3 percentage points.

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value that can be calculated from the sample size. This uncertainty is relayed to the user of the data as a margin of error, usually expressed as plus or minus some number of percentage points, as seen in the disclosure statement from a recent CNN poll. The degree of confidence, if not stated explicitly, is usually assumed to be 95%. It is important to understand what a 95% confidence interval represents.

## Confidence Interval

The concept of a 95% confidence interval is grounded in statistical theory. The Central Limit Theorem proves that if multiple random samples are drawn from the same population<sup>1</sup> and surveyed, any given statistic (mean, proportion, standard deviation, etc.) that is calculated from 30 or more of those samples will be distributed in a traditional bell curve (a normal distribution.) It is known that 95% of all data points in a normal distribution are within two standard deviations of the mean. This means that in 95% of all samples drawn, the value of a given statistic will be within a known distance from the value observed in the one sample surveyed.



When normally distributed, the size of the standard deviation of a given statistic varies such that larger sample sizes produce smaller deviations in a known manner. Therefore, the relationships shown in the following table will hold with 95% confidence:

Sample Size	Margin of Error <sup>2</sup>
96	±10.0%
384	±5.0%
600	±4.0%
1,067	±3.0%
2,401	±2.0%

<sup>1</sup> There are additional requirements that the population must meet, but most groups of people can be assumed to, in general, meet these requirements.

<sup>2</sup> The margin of error shown here represents the "worst case scenario". The exact margin of error is dependent on the magnitude of the statistic for which the margin of error is being calculated and the sample size, but it will never exceed the values shown.

For example, if 80% of respondents from a random sample of 384 respondents agree with a certain statement, between 75% (80% – 5%) and 85% (80% + 5%) would agree in 95% of the samples it is possible to pull from the population. This is usually generalized to the idea that the true proportion is most likely between 75% and 85%.

## Identifying a Random Sample

To use the power of a probability sample to generalize results of a survey of a sample to the entire population with a given margin of error, the sample must be selected by a random process. This is not always an easy process without sophisticated software. The Iowa Student Loan research team has created a simple application to help you select random samples. The software will be described in the next issue of *Research in Brief* and will be available for download.

One easy way to select a random sample is to use a random number generator to order your list of possible selections. You can use Web tools, such as the one found at [www.random.org/integers/](http://www.random.org/integers/). The site's FAQ page is informative, but as an example, if you have a list of 250 participants and want to select a random sample of 75, fill in the numbers in step 1 like this:

### Part 1: The Integers

Generate  random integers (maximum 10,000).

Each integer should have a value between  and  (both inclusive; limits  $\pm 1,000,000,000$ ).

Format in  column(s).

The results will look like this partial snapshot of the results page:

## Random Integer Generator

Here are your random numbers:

93	164	199	212	233
55	199	228	154	43
5	66	24	51	22
47	36	236	44	33
135	205	166	49	187
35	143	177	247	42
38	137	201	29	6
100	55	33	21	130
249	94	108	137	9
66	160	84	10	243
112	184	61	236	14

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In this case, to get your random sample, select the 93rd, 55th, 5th, etc., (it is OK to read the numbers across instead of down) members on your list until you select 75 participants.

Feel free to contact the Iowa Student Loan research team with questions about random sampling; we will be happy to help you figure out the easiest way to select a random sample with your list. ■

## Review: Lowering Student Loan Default Rates

### What One Consortium of Historically Black Institutions Did to Succeed

Education Sector is an independent think tank that studies education policy. Erin Dillon, a senior policy analyst, co-wrote with Robin Smiles a report on strategies used by a group of historically black colleges and universities (HBCUs) to lower student loan borrower default rates. The report was released Feb. 10, 2010, and in addition to outlining strategies used by the schools, the report challenges a long-held concept by some educational policymakers that individual schools cannot influence default rates.

The history behind the report centers on a group of HBCUs (half of which were in Texas) whose existence was in jeopardy due to high default rates on the official federally insured measure called the cohort default rate (CDR). Many schools that serve low-income or first-generation students may face similar situations in the future given the increasing trend of the CDR and the new three-year CDR metric to be implemented in 2014.

### Default Aversion 101

The successful efforts were mainly a result of implementing tactics that the authors call “default aversion 101.” After gaining buy-in from the president of the university, an effort was made to explain that the responsibility of the program’s success rested not just with the financial aid office — a potentially hard sell. Once this tenet was accepted, a default management team was created at each school. The team was

most successful in addressing students who “stop out” and never return or drop out altogether. U.S. Department of Education (ED) statistics show that 70% of all defaulters fall into one of those two groups. Faculty, academic affairs staff, financial aid staff and others all worked with these students at the first sign of trouble.

## Student Relationships

By developing relationships with students while they were still on campus and by successfully recruiting external entities to help keep up contact with borrowers once they left or graduated, the teams met with a great deal of success.

The schools invested in new technology, and they found that this investment more than paid for itself. The new technology allowed staff to get borrowers on the phone as soon as their loans went into delinquency and explain their options for avoiding default. This early contact has consistently been shown to improve default prevention.

## Redefined Processes

One of the schools in the consortium focused on the way they packaged student loans in the financial aid award letters students received prior to each academic year. The school minimized the amount to be borrowed by ensuring that students were not presented with options that totaled to dollar amounts that far exceeded their direct costs. The philosophy is still in use and is a big part of the reason why this school was able to lower default rates.

Enrollment decision processes were also subject to review. Many schools found that they were admitting high-default-risk students due to pressure to keep enrollment numbers up. Some schools that successfully lowered their default rates tightened admission standards, but many simply reviewed and updated satisfactory academic progress policies and strengthened support services for at-risk students.

## Borrower Education

Finally, the schools worked hard to educate their students about the pros and cons of borrowing and the eventual repayment obligations they would face. This intensified emphasis on financial literacy through loan counseling sessions as well as improved entrance and exit counseling proved successful in meeting the goal of lowering default rates.

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One of the big take-aways from this report is the fact that any school can learn from the HBCU experiment and build on its successes. In this time of increasing delinquency and default rates, there are added incentives for schools to give some of these techniques a try. Schools interested in making changes should read the full report, which is available at [www.educationsector.org](http://www.educationsector.org). ■

## Contact Us

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