STUDENT LOANS

Characteristics of Defaulted Borrowers in the Stafford Student Loan Program
Dear Mr. Chairman:

This report responds to your request for information on the characteristics of students who default on loans obtained under the Stafford Student Loan Program. On October 31, 1990, we discussed the results of our work with your office. This letter summarizes the information discussed at that meeting. (See appendix I.)

Background

The Stafford Student Loan Program (formerly called the Guaranteed Student Loan Program) was established in 1965 to provide students with a source of funds to help finance their education. These loans are made by commercial lenders who are insured against default by guaranty agencies, who are in turn reinsured by the Department of Education.

Stafford loan volume increased during the 1980s, from $4.3 billion in fiscal year 1980 to $12.3 billion in fiscal year 1990, an increase of more than 186 percent. As loan volume rose, federal default payments to guaranty agencies also increased dramatically, from about $144 million in fiscal year 1980 to $2.48 billion in fiscal year 1990, an increase of over 1,600 percent.

Scope and Methodology

As agreed with your office, we reviewed available studies that examined various characteristics of student loan defaulters. We identified the studies through literature searches and contacts with state education agencies, student aid researchers, and Department of Education officials. We obtained 12 studies that were the products of original research and addressed the characteristics of student loan defaulters. These studies were published from 1984 to 1990 and are listed in appendix II.

1 This program includes Stafford loans, Supplemental Loans for Students, and Parent Loans for Undergraduate Students.
There have been more studies published on defaulters and, therefore, our analysis is not meant to be a complete review of all research done on this topic. In addition, we did not validate the studies' results.

Each study we reviewed is based on analyses performed in different states, and with different groups of students and types of educational institutions. In addition, each study used different sampling methods and data analysis techniques and was based on a different time period. For example, one study sampled students who attended only vocational schools and community colleges. Consequently, the percentage of defaulters who attended vocational schools is greater in this study than in studies that sampled students who attended a wider range of schools, such as 4-year schools.

Results in Brief

We identified nine defaulter characteristics most frequently cited in the studies. Generally, the studies concluded that students likely to default on their loans were those who (1) attended vocational/trade schools, (2) had low incomes, (3) had little financial support, (4) had minority backgrounds, (5) lacked high-school diplomas, (6) failed to complete their education programs, (7) attended school for 1 year or less, (8) borrowed small amounts, and (9) were unemployed when defaulting. Appendix III shows the defaulter characteristics each study identified.

Only one of the studies sought to use defaulter characteristics to predict the type of students who would default. This study concluded that a combination of six defaulter characteristics, identified from a sample of students attending vocational schools and community colleges in California, could be used to identify about two-thirds of student loan recipients who would default.

However, two studies cautioned that defaulter characteristics cannot be used to predict default. They emphasized that an often misunderstood fact about default is that while most defaulters have certain characteristics, the majority of borrowers with these characteristics do not default on their loans. For example, one of the studies found that 66.5 percent of all defaulters had family incomes of $10,000 or less at the time they took out their loans, but only 16.9 percent of all borrowers at that family income level defaulted.
As agreed with your office, we did not obtain written comments on this report from the Department of Education or other interested parties. We are sending copies of this report to other congressional committees, the Department of Education, and other interested parties. Should you wish to discuss the contents of this report further, please call me on (202) 275-1793. Major contributors to this briefing report are listed in appendix IV.

Sincerely yours,

Franklin Frazier
Director, Education and
Employment Issues
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Abbreviations

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<tr>
<td>GAO</td>
<td>General Accounting Office</td>
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<td>FY</td>
<td>fiscal year</td>
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Appendix I

What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?

Figure I.1:

What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?

GAO Stafford Student Loans

What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?
Stafford Student Loan Program helps students finance their education.

Loan volume increased over 185 percent from FY80 to FY90 ($4.3 to $12.3 billion).

Default payments increased over 1,600 percent from FY80 to FY90 ($144 million to $2.48 billion).
GAO Objective

GAO was asked to determine

What are the characteristics of defaulted student borrowers in the Stafford program?
We identified 12 studies that examined defaulter characteristics by

- conducting literature searches

- contacting guaranty agencies, student aid researchers, and Department of Education officials
What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?

Flaws 1.5: GAO Methodology

Reviewed 12 studies

Each study used different
• data bases,
• sampling methods, and
• time periods

Studies selected are not inclusive of all such research

GAO did not validate each study’s results
What Did These Studies Find?

Results vary, but nine characteristics were generally attributed to defaulters.

Caution should be exercised in using the characteristics as defaulter predictors.
Figure 1.7: What Were the Nine Defaulter Characteristics?

- Attended vocational/trade school
- Had low income
- Had little or no financial support from others
- Had minority background
- Lacked high-school diploma
- Failed to complete program
- Attended 1 year or less
- Borrowed small amounts
- Unemployed at time of default
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Figure I.8:

Defaulter: Attended Vocational/Trade School

All 12 studies identified this factor

Default rate by students attending these schools ranged from 29 to 62 percent

Two studies also found high default rates at community colleges
Appendix I

What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?

Figure 1.9: Defaulter: Had Low Income

11 studies identified this factor

3 studies found that almost 75 percent of defaulters had incomes of $15,000 or less

5 studies found that the majority of defaulters had incomes of $10,000 or less
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Figure I.10:

GAO Defaulter: Had Little or No Financial Support from Others

8 studies identified this factor

5 studies found that between 52 and 71 percent of defaulters had little support

3 other studies showed a lower percentage (8, 17, and 29 percent) of defaulters had little support
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Figure I.11:

GAO  Defaulter: Had Minority Background

3 studies identified this factor

These studies found that 35, 72, and 79 percent of defaulters had minority backgrounds
GAO Defaulter: Lacked High-School Diploma

1 study identified this factor

The study found that 34 percent of defaulters had no diploma
Figure I.13: Defaulter: Failed to Complete Education Program

6 studies identified this factor

5 studies said that 26 to 70 percent of defaulters did not complete their programs
• 1 of these 5 stated this factor was the most significant characteristic evaluated

1 study had no statistics but said nongraduation was a default predictor
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Figure I.1.4:

Defaulter: Attended School 1 Year or Less

6 studies identified this factor

5 studies found that 54 to 75 percent of defaulters attended school for 1 year or less

1 study found that 33 percent of defaulters attended school for 1 year or less
What Are the Characteristics of Defaulted Borrowers in the Stafford Student Loan Program?

Figure I.15:

**GAO Defaulter: Borrowed Small Amounts**

7 studies identified this factor

3 studies found that 68 to 76 percent of defaulters had loan balances of less than $3,000

4 other studies did not cite percentages, but reported that defaulters' loan balances averaged less than $3,600
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2 studies identified this factor

The studies found that 37 and 51 percent of defaulters were unemployed at time of default
Figure I.17: Usefulness of Characteristics As Defaulter Predictors

1 study used six characteristics to predict almost two-thirds of defaulters at schools sampled.

2 other studies found that individual characteristics had little predictive value.

• Although most defaulters have certain characteristics, most borrowers with the same characteristics do not default.
Appendix II

List of Studies Reviewed


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


H. New York State Higher Education Services Corporation, Student Loan Payers and Defaulters, 1984.


Appendix III

Summary of Defaulter Characteristics Identified in the Studies

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<th>Studies reviewed&lt;sup&gt;b&lt;/sup&gt;</th>
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<tbody>
<tr>
<td>Attended vocational/trade school</td>
<td>X X X X X X X X X X X X</td>
</tr>
<tr>
<td>Had low income</td>
<td>X X X X X X X X X X X X</td>
</tr>
<tr>
<td>Had little or no financial support</td>
<td>• X X X X • X • • • • X X</td>
</tr>
<tr>
<td>Had minority background</td>
<td>• X • • X • • • • • • • • • • • • • • • X</td>
</tr>
<tr>
<td>Lacked high-school diploma</td>
<td>• • • • • • • • • • • • • • • • • X</td>
</tr>
<tr>
<td>Failed to complete education program</td>
<td>• • • X X • • • • X X X X</td>
</tr>
<tr>
<td>Attended school 1 year or less</td>
<td>• X X X • • X • • X • X X</td>
</tr>
<tr>
<td>Borrowed small amounts</td>
<td>X • • X • • X X X • X X</td>
</tr>
<tr>
<td>Unemployed at time of default</td>
<td>• X • • • • • • • X • • • •</td>
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<sup>a</sup>The studies listed as A thru L correspond to the letter assigned to the study contained in appendix II.

<sup>b</sup>The designation ‘X’ means that the characteristic was included in the study while the designation ‘•’ means the characteristic was excluded.
Appendix IV

Major Contributors to This Report

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Related GAO Reports


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


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