

WHAT WORKS:

COLLEGE STRATEGIES FOR REDUCING STUDENT LOAN DEFAULT





Student loan default, defined as federal loan borrowers' failure to make payments for at least 270 days, is an issue of great importance for both colleges and the students who rely on loans to pay for college. Default is the very worst student loan repayment outcome, bringing severe and often spiraling consequences to the 1.2 million borrowers who defaulted last year.¹ Colleges may also face severe sanctions from the federal government, including loss of federal financial aid eligibility, if too many of their former borrowers default. This is measured through a federally calculated Cohort Default Rate (CDR), which tracks how many borrowers default shortly after leaving school – specifically, the share of a cohort that defaults within a year of entering repayment or the next two fiscal years.

While a number of factors impact default risk, including broad economic trends and the current student loan repayment system itself, over a decade of research has shown that colleges' actions can and do meaningfully improve their CDRs. With the COVID-19 pandemic and related economic fallout bringing historic new risks and uncertainty for students, it is all the more critical that colleges take proactive steps to reduce default risk for students who need federal student loans to access the economic opportunity provided by higher education.

In 2014, ACCT and TICAS partnered to examine student loan default at nine community colleges and explore administrative practices aimed at addressing students' default risks.² At each college, we analyzed cohort default rate data and uncovered notable trends and populations at higher risk, identified default-reduction strategies the college was already using, and suggested additional strategies to consider. In 2020, we followed up with these colleges to understand how their strategies had evolved since our analysis. We learned about several actions community colleges are now taking to proactively reduce default among their students. For example:

- Valencia College partnered with a not-for-profit 3rd party data company to deliver a financial-wellness survey identifying baseline student financial literacy and needs, with plans to use the results to inform campus support service initiatives and re-evaluate student needs every other year.³
- Minneapolis Community and Technical College re-evaluated some of its program offerings after assessing student outcomes, including program-level wage and default data.
- Grossmont College embedded financial literacy efforts into basic-needs initiatives to support broader buy-in for default prevention efforts and is planning a month-long series of events focused on financial literacy.
- Moraine Park Technical College dedicates a staff member to borrower outreach who, with support from a student loan guarantor, leverages NSLDS reports to routinely contact borrowers in different stages of delinquency, uses weekly enrollment reports to connect students with exit counseling, and ensures students with repayment questions are aware of income-driven repayment plan options.

1 1,152,800 unique Direct Loan borrowers defaulted in the most recent four quarters for which data are available. FSA Data Center, New Direct Loan Defaults report (accessed 8/18/20); for more on the consequences of default for borrowers, see: TICAS. October, 2018. *The Self-Defeating Consequences of Student Loan Default*. https://ticas.org/files/pub_files/ticas_default_issue_brief.pdf

2 Association of Community College Trustees (ACCT) and The Institute for College Access & Success (TICAS). July, 2014. *Protecting Colleges and Students: Community College Strategies to Prevent Default*. https://www.acct.org/files/Publications/2014/Protecting_Colleges_%26_Students_ACCT-TICAS_July_2014.pdf.

3 For more information about the Trellis Financial Wellness Survey and related reports, see <https://www.trelliscompany.org/research/trellis-company-student-financial-wellness-survey/>.



Below, we highlight the current default management approaches of two additional community colleges that embraced some of the suggested strategies in our original report. Their approaches reflect the importance of a campus-wide commitment to student success. And they exemplify the use of data to drive development and refinement of approaches to targeting additional support to students at risk. While these colleges' CDRs still have room for improvement, their success over the years at preserving access to loans while bringing their borrowers' default risks down underscores the critical role colleges can play in preventing default, and offers useful lessons for other colleges committed to continuously improving their CDRs.

Guilford Technical Community College

Guilford Technical Community College is located in suburban Jamestown, North Carolina, and enrolls over 11,000 undergraduates, 61% of whom are enrolled part-time and over half (52%) of whom are students of color. The majority (59%) of Guilford's students receive Pell Grants. While most community college students in North Carolina do not have access to federal student loans as a result of their institutions declining to participate in the federal student loan program,⁴ Guilford continues to provide its students the option to borrow federal student loans, and 29% do so.

Following Guilford's FY11 CDR hitting 29.7% (just shy of the 30% threshold at which federal sanctions could be triggered), Guilford's CDR declined to 18.9% for FY16. Its FY17 CDR is 11.9%.

Our 2014 analysis of Guilford default data identified that borrowers who withdrew mid-term, those entering repayment with fewer than 15 credits, and those who had taken remedial coursework were at particularly high risk of default. We also found that two-thirds of borrowers entering repayment had not completed exit counseling, and that these borrowers defaulted at three times the rate of those who completed exit counseling.

Since 2014, Guilford has approached student loan default management as a college-wide issue, not a financial aid issue, with commitment to prioritize these efforts from campus leadership. They created a campus-wide default-aversion committee, made up of faculty as well as staff from financial aid, student success and disability access departments. Rotating memberships bring in fresh ideas and approaches for new interventions.

Peer Advice: Start default reduction efforts early

"It's counterintuitive to wait until you have a major issue before addressing it. Even if your CDR is 20%, if you can get it down to 10%, imagine how many borrowers you're putting in a better position to succeed. I encourage every school to get the ball rolling early."

– Ryan Bonner, Guilford Technical Community College

Campus default prevention efforts center around student success, including reducing enrollment in classes outside students' programs of study to reduce time and cost of completion. According to Guilford's Assistant Financial Aid Director Ryan Bonner, student success efforts are integral to default prevention because successful students are less likely to default. "It's not about default rates going down; it's about the success rate of our students going up," explains Bonner.

⁴ TICAS. June, 2016. *States of Denial: Where Community College Students Lack Access to Federal Student Loans*. https://ticas.org/files/pub_files/states_of_denial.pdf



Another core aspect of their efforts is bridging multiple data sources and campus touchpoints to ensure their efforts are reaching the students who most need additional information or support. Guilford staff match federal administrative data (from the federal National Student Loan Data System (NSLDS)) with the colleges' own records each year to identify where outreach is needed, including programs of study where students could benefit from additional financial aid and financial literacy information. They leverage interactions between students and support services to provide financial aid and budgeting resources to students seeking out academic, basic needs, and other community resources. Guilford also taps multiple campus-wide touchpoints to verify student contact information used for outreach and prioritizes efforts to connect borrowers to their servicers with free support from a partnership with a nonprofit student loan management company. According to Bonner, "at the end of the day, the most successful colleges are those who are willing to do repeated outreach."

Peer Advice: Use your data to guide strategies and assess their impact

"If you're not constantly analyzing what is working and not working, you're missing out on a lot of opportunities."

– Ryan Bonner, Guilford Technical Community College

Lane Community College

Lane Community College is located in rural Eugene, Oregon, and enrolls nearly 8,900 undergraduates, 62% of whom are enrolled part-time and the majority of whom are white. The majority (59%) of Lane's students receive Pell Grants, and over a third (36%) borrow federal student loans.

Lane's CDR crossed the 30% threshold in FY10, at which point the college was required by the Department of Education to develop a default management plan. Its CDR declined to 19.2% for FY16, and its most recent FY17 CDR stands at 18.0%.

Our 2014 analysis of Lane's default data identified that only four percent of defaulters (and 13% of borrowers) had completed their programs of study, and that these students defaulted at more than three times the rate of completers. Lane's Pell recipients defaulted at higher rates than Pell recipients at many other colleges in our sample, and Lane had the largest gap in default rates between Pell and non-Pell recipients. Independent students also had higher rates of default than the other colleges in our sample.

Peer Advice: Take advantage of external partnerships and research opportunities

"Seize opportunities to do research projects with external partners. They are great opportunities to connect with other community colleges, and receive support and technical assistance that raises awareness across the community to gain widespread buy-in about the importance of default management and jumpstart campus wide efforts."

– Helen Faith, Lane Community College



Default management efforts began in earnest at Lane after the college worked with ACCT and TICAS in 2014. Helen Faith, financial aid director at Lane until August 2020, explained, “when we dug into default rates, saw the report, and saw that the findings were consistent with findings across the country, that helped everyone to focus on student success. It was a real culture change.” Following publication of the 2014 report, campus leaders at Lane embraced a more consistent, campus-wide focus on improving student success centered on a commitment to students’ “right to succeed” rather than “freedom to fail.” This culture change supported the development and implementation of new academic standards to supplement general financial aid satisfactory academic progress (SAP) standards as well as the integration of multiple advising touchpoints. According to Faith, “just reaching out to borrowers who are already delinquent is scratching at the surface. The heart of the problem is completion and success.”

Today, Lane remains intentional about using ongoing data analysis to monitor impact of success initiatives. The college’s staff analyzes monthly NSLDS default data, course and program completion, and SAP rates to track academic success and default rates. These analyses show that, since implementing new academic standards and advising requirements, fewer students now lose their financial aid, which in turn reduces financial crises that undermine completion and make default more likely.

Key Takeaways

- College efforts to minimize student loan default both protect students from the costly and harmful consequences of default and protect colleges from harsh federal sanctions.
- Colleges’ roles in reducing student loan default risk have taken on new urgency as a result of students now facing increased threats to financial security as a result of the COVID-19 pandemic and related economic fallout.
- The relationship between college completion and default risk is well-established and embracing a campus-wide culture that focuses on student success is key to reducing CDRs.
- Because no two colleges are the same, individual colleges’ own analyses are essential for developing and refining strategies to help their students succeed and ultimately reduce their students’ risk of default.



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