STUDENT LOAN DEFAULT AND REPAYMENT IN KENTUCKY

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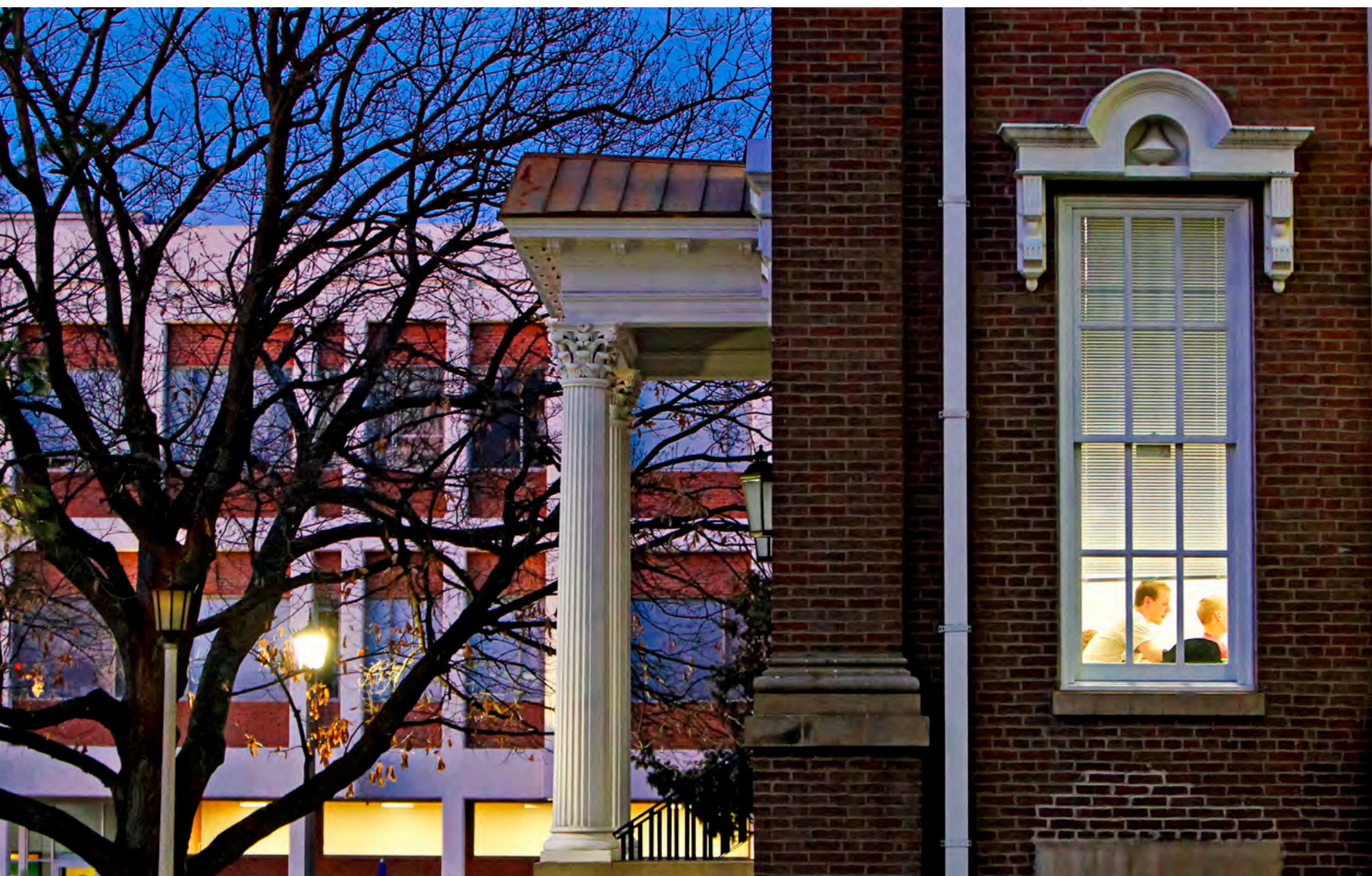

Kentucky Council on Postsecondary Education

About the Council on Postsecondary Education

The Council on Postsecondary Education is Kentucky's adult and higher education coordinating agency committed to strengthening our workforce, economy and quality of life. We do this by guiding the continuous improvement and efficient operation of a high-quality, diverse, and affordable system of postsecondary education.

Key responsibilities include:

- developing and implementing a strategic agenda for postsecondary and adult education that includes measures of progress.
- producing and submitting a biennial budget request for adequate public funding of postsecondary education.
- determining tuition rates and admission criteria at public postsecondary institutions.
- collecting and distributing data about postsecondary education performance.
- ensuring the coordination and connectivity of technology among public institutions.
- administering adult education programs serving every county in Kentucky.
- licensing non-public postsecondary institutions to operate in the Commonwealth.

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Executive Summary

As college costs continue to rise, student loan default and repayment are issues of increasing concern to students and families, colleges and universities, and state and federal governments. Helping students borrow responsibly and manage their debt are vitally important to maintaining college access and affordability and increasing the education levels of our current and future workforce.

Default: Key Findings

- Over the past four years, the overall cohort default rate (CDR) for Kentucky colleges and universities marginally declined from 17 percent to 15.5 percent.
- In the four-year sector, the CDR decreased from 11.8 percent to 8.7 percent at public universities and from 11.5 percent to 8.8 percent at AIKCU institutions over the same period.
- KCTCS institutions saw their CDR increase from 25.4 percent to 26.2 percent over the past four years.
- Among public universities, the 2013 CDR ranged from a low of 4.4 percent at the University of Kentucky to a high of 17.6 percent at Kentucky State University. At the AIKCU institutions, it ranged from a low of 1.9 percent at Centre College to a high of 14.5 percent at St. Catharine College. At KCTCS, Madisonville Community College had a CDR of 21 percent while Southeast Kentucky Community and Technical College had a CDR of 31.9 percent.
- Kentucky's postsecondary sectors exhibit higher CDRs than their corresponding sectors nationally. The 2013 CDR is 1.4 percentage points higher at Kentucky's public universities (8.7 percent versus 7.3 percent nationally), 2.3 percentage points higher at AIKCU institutions (8.8 percent versus 6.5 percent nationally), and 7.7 percentage points higher at KCTCS institutions (26.2 percent versus 18.5 percent nationally).

Repayment: Key Findings

- AIKCU institutions demonstrate higher repayment rates compared to other sectors. The institutions whose students have the highest repayment rates within three years of leaving college are Centre College (92.9 percent), Transylvania University (91.6 percent), Bellarmine University (88.6 percent), Asbury University (88.1 percent), and Georgetown College (87.8 percent)—the same institutions with the lowest default rates.
- Among public universities, the University of Kentucky has the highest repayment rate of 83.2 percent, and Kentucky State University has the lowest rate of 42.8 percent for students three years into repayment.
- Among KCTCS schools, Madisonville Community College has the highest repayment rate of 64.3 percent, and Maysville Community and Technical College has the lowest rate of 36 percent for the cohort three years into repayment.

Policy Implications

Policymakers and institutions should work in concert to promote students' responsible and informed borrowing and help them manage their debt. The state has a primary role in developing and implementing policies that establish the regulatory framework for achieving affordable postsecondary programs. Kentucky can reduce the amount of loans students take out by improving information sharing, incentivizing program completion, and providing more intrusive counseling.

When providing financial aid guidance to students, the students' major and future career prospects should be considered. Information about potential post-college wages, employment rates, and loan debt will help students make informed decisions about their academic programs. But more importantly, students need to understand the financial implications of leaving college before completing a degree. Students who leave college early, perhaps because they are having financial difficulties, often find it harder to pay off smaller balances in the long run, as they are more likely to face unemployment or underemployment than students who complete their credential or degree. Counselors can help students understand that taking out more loans to finish their degree is likely to pay off in the long run, as higher levels of educational attainment are correlated with higher income levels.

The Council on Postsecondary Education's newly adopted strategic agenda outlines several statewide objectives—such as improving retention, completion, transfer, and developmental education for underprepared students—that, if implemented effectively, should directly or indirectly contribute to lowering loan default. A particular objective that will help combat default and delinquency behavior is closing achievement gaps for low-income students. Increasing need-based aid and scholarships for these students should increase their postsecondary enrollment, completion, and subsequent employment outcomes, helping them break the cycle of poverty.

Kentucky's Work-Ready Scholarship program, passed by the General Assembly in 2016, will encourage more individuals who otherwise would not be able to attend college to enroll in programs to earn two-year degrees or credentials and perhaps pursue baccalaureate programs through transfer. This program is likely to reduce student loan debt, as the need to borrow for the first two years of college diminishes, and should result in lower student loan default rates as well.

Finally, colleges and universities should play a more active role than in the past in designing intrusive intervention strategies for at-risk borrowers. This report highlights several best practices in loan management that may be useful to emulate in Kentucky.

Part 1: Student Loan Default

Introduction

The rate of student loan default is a common measure of the efficacy of student loan programs among financial aid practitioners and higher education policymakers. From a public policy perspective, high and consistently increasing student loan debt is a warning sign that college may be becoming less affordable, which, if true, has serious implications for the nation's future economic competitiveness. Creating sound policies to minimize student loan default and increase repayment requires an understanding of student borrowing and default behavior, the postsecondary institution's role in facilitating responsible borrowing and debt management, and the federal regulatory environment.

This paper describes trends in student loan default and repayment for Kentucky's postsecondary education students who borrowed from the Federal government. Using recent data from the Department of Education, this paper provides an overview of repayment behavior across time for cohorts of borrowers, broken out by postsecondary sectors and by institutions.

Loan Debt Size and Default

Determinants of student loan default are multifaceted, varied, and interrelated, and include such factors as family income, college major, degree completion, and employment outcomes after college. The literature indicates that one of the strongest predictors of default is whether or not students complete their programs of study. While non-completers usually have lower levels of loan debt (Looney & Yannelis, 2015; Baum & Johnson, 2015), they typically experience more difficulty paying off their loans (TICAS, 2015), presumably due to less favorable labor market opportunities and fewer job qualifications and credentials. Additionally, family income is a strong determinant of delinquency and default behavior: the lower the income of loan borrowers, the higher their default rates.

Besides student characteristics, institutional type can be a strong predictor of default. Private for-profit (proprietary) institutions, two-year colleges, and other less selective institutions are attended by predominantly lower-income students, who, on average, earn lower annual salaries post-graduation and have higher rates of default. The median annual salary for graduates of these types of schools was approximately $22,000 for the 2010 cohort (Looney & Yannelis, 2015). Nationally, the relationship between attending a for-profit institution and student loan default is particularly pronounced: graduates of the for-profit sector accounted for 44 percent of all defaults in recent years (Looney & Yannelis, 2015).

Academic major is also a moderate predictor of default. Volkwein and Szelest (1995) found that science, technology, engineering and mathematics (STEM) majors experienced lower default rates. Specifically, among two-year and four-year college borrowers, science and engineering majors lowered their probability of default by over four percentage points (Volkwein & Szelest, 1995; Volkwein et al., 1998). This is probably best explained by the higher salaries enjoyed by STEM graduates. Rothwell and Kulkarni (2015) found that graduating from a STEM discipline was a statistically significant predictor of higher mid-career earnings and occupational earnings power. Simply put, STEM graduates tend to have larger disposable incomes that facilitate their ability to repay loans faster, compared to graduates in lower-paying fields. This conclusion is reinforced by a 2015 CPE study, "Student Loan Debt in Kentucky."

Perhaps surprisingly, the relationship between student loan default and the size of the loan debt has not been definitively established in the literature. While some studies found a positive correlation between high debt levels and default (e.g., Kantrowitz, 2010; Choy & Li, 2006), others indicate that defaulters often have relatively low levels of debt (e.g., Woo, 2002). These studies concluded that large amounts of debt are not necessarily correlated with repayment problems, even if one would intuitively expect higher debt balances to be problematic. These seemingly contradictory results may be partially explained by differences in sample selection. While some samples include both graduate and undergraduate completers and non-completers, other samples are based entirely on undergraduate completers with loan debt.

However, as previously discussed, borrowers with high balances may be capable of repaying them easily if they have higher income levels (e.g., STEM graduates or graduate students in professional schools like law or business), while borrowers with relatively low balances (e.g., under $10,000) can struggle to repay their debt if they experience underemployment or unemployment. Baum and Johnson

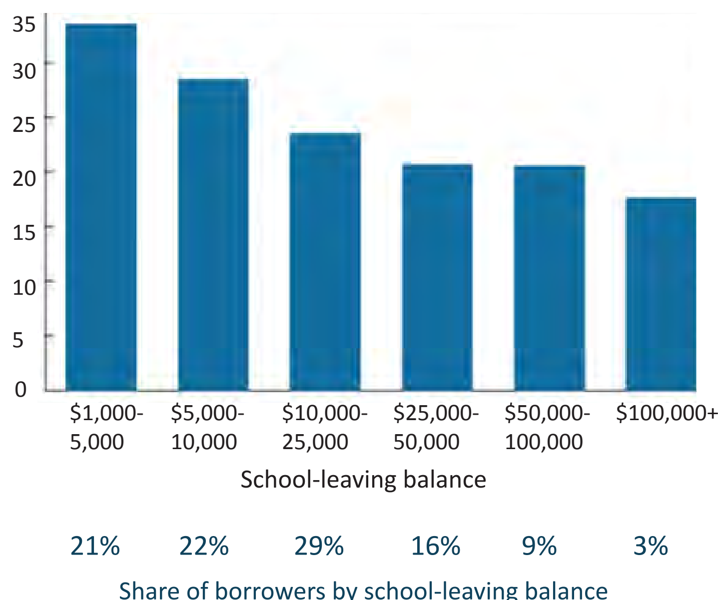
(2014) note that the average debt of defaulters in the third quarter of 2014 was $14,380, compared to an average outstanding balance of $22,550 overall.

Figure 1 again proves the point that nationally, default is more common among lower-balance borrowers. A recent study (Brown et al., 2015) from the Federal Reserve Bank of New York, using the Equifax Consumer Credit Panel data, tracked the default behavior of the 2009 cohort of student loan borrowers. In Figure 1, the y axis shows the percent of borrowers who had defaulted by the fourth quarter of 2014, and the x axis indicates the range of outstanding balances. The highest default rate of approximately 34 percent occurred among borrowers with balances of less than $5,000, which accounts for approximately a fifth of all borrowers in the cohort. By contrast, the default rate among borrowers with balances of $100,000 or higher (only 3 percent of the cohort) was 18 percent, almost half the rate of the lowest-balance group. It should be noted that this study included both undergraduate and graduate borrowers. It is likely that the group with the highest balances was comprised largely of graduate students, who normally experience more favorable labor market outcomes that minimize their chance of loan default.

In sum, while higher debt levels do not necessarily diminish the odds of default, these balances tend to be repaid more often than lower balances. This may in fact be due to higher levels of degree attainment, which cost students more to obtain but are likely to lead to more positive employment outcomes. On the other hand, low balances may be the result of not completing college, which subsequently leads to less favorable labor market outcomes and an inability to pay.[1]

Figure 1. 2009 Cohort: Student Loan Default Rates by School-Leaving Balance

Percent of U.S. borrowers who have ever defaulted as of 2014: Quarter 4



Cohort Default Rates

The U.S. Department of Education annually produces cohort default rates (CDRs) as an institutional accountability metric. Institutions are expected to meet CDR performance thresholds to avoid sanctions.[2] A CDR is the percentage of borrowers who enter repayment on federal student loans within a given fiscal year, and who subsequently default within three years of leaving college.[3]

Over the past four years, the U.S. average CDR has been trending downward, from 14.7 percent for the FY 2010 cohort to 11.3 percent for the FY 2013 cohort, as indicated in Appendix A. Occurring against the backdrop of increased borrowing, the decline in CDR was largely due to improved labor market conditions and federal efforts to reduce loan debt (e.g., reduction in loan interest rates, expansion of income-based repayment plans) in recent years (Furman & Black, 2016; White House, 2016). Based on the data collected over the past 10 years (2004 to 2014), the Project on Student Debt (TICAS, 2015) reports that the average loan debt of graduates from public and private, non-profit, four-year institutions rose 56 percent, from $18,550 to $28,950,[4] and the percentage of graduates with loans increased slightly, from 64 percent to 69 percent. Moreover, Baum and Johnson (2014) document a trend of increasing numbers of graduates with large loan debt among undergraduate borrowers: the percentage of bachelor's degree graduates (including non-borrowers) with a loan debt of $50,000 or more grew from four percent in 2004 to ten percent in 2012.

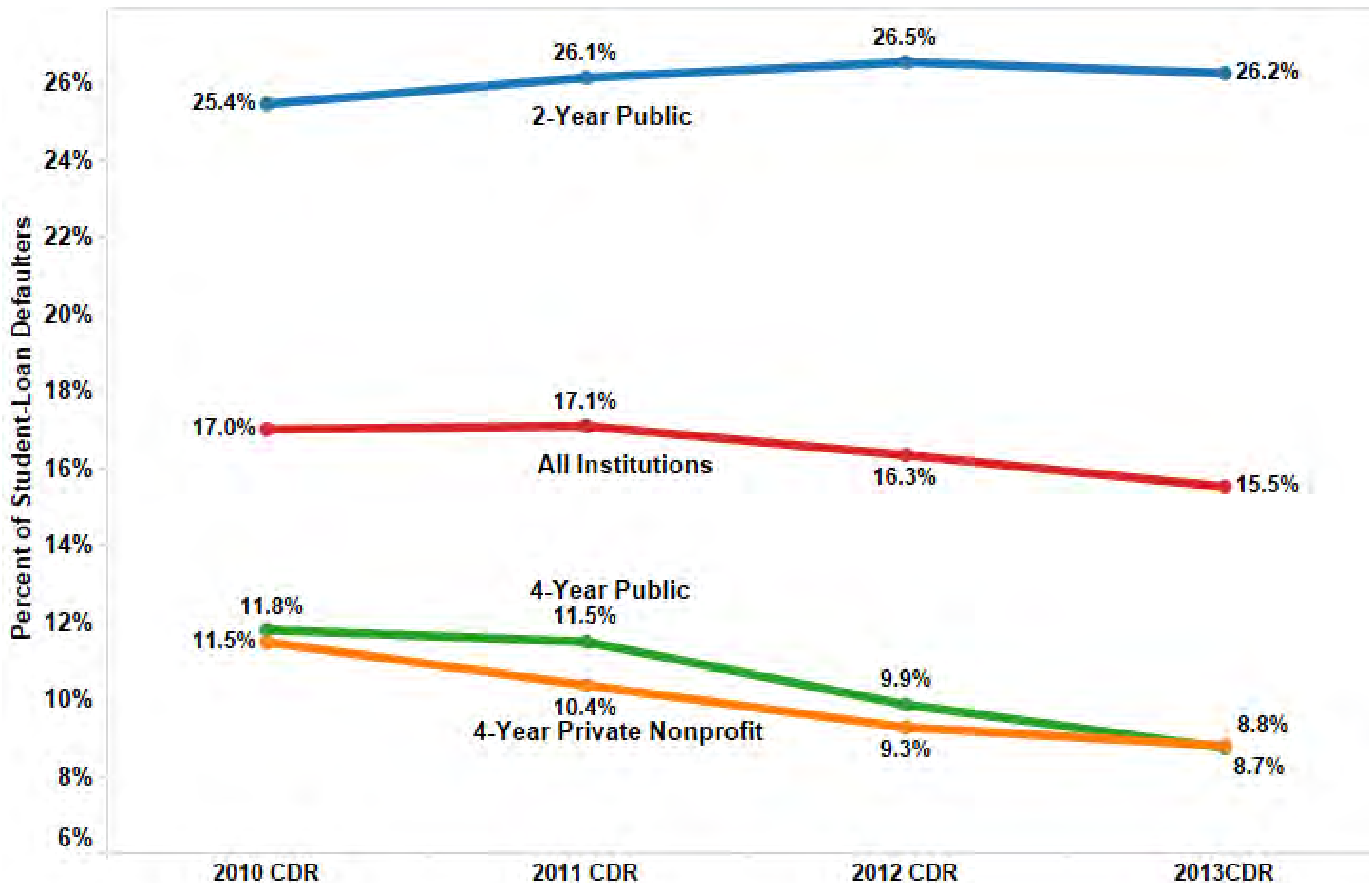
In Kentucky, students generally borrow from the Federal government at a lower rate than students in most states. In fact, Kentucky has one of the lowest balances of Federal

student loan debt per borrower, according to estimates from the U.S. Department of Education (White House, n.d.). With a $23,916 loan debt per borrower, Kentucky ranks as the 10th lowest state (Appendix C). Overall, Kentucky's 604,000 Federal loan borrowers hold a total outstanding balance of slightly less than $14.5 billion (White House, n.d.).

Default rates at Kentucky colleges and universities generally follow national trends, as evidenced by the default rates for the 2010, 2011, 2012, and 2013 cohorts of borrowers (Figure 2). The data show that the overall CDR for Kentucky marginally declined from 17 percent for the 2010 cohort to 15.5 percent for the 2013 cohort. All institutional sectors, except KCTCS, saw their CDR decrease during this period. For the most recent year available, the four-year public sector had the lowest CDR of 8.7 percent, followed by AIKCU institutions (8.8 percent). By contrast, KCTCS had the highest CDR of 26.2 percent, with an increase of almost one percentage point (0.8) over last four years.

Despite this generally favorable trend, Kentucky colleges and universities still exhibit higher default rates than their corresponding sectors nationally (see Appendix A). KCTCS's CDR is 7.7 percentage points higher than the rate for the 2013 cohort at U.S. public two-year institutions (26.2 percent vs. 18.5 percent). Kentucky four-year public universities also trail national sector averages on this measure, but the gap is smaller (8.7 percent versus 7.3 percent). AIKCU institutions have a 2.3 percentage-point gap (8.8 percent versus 6.5 percent).

Figure 2. 3-Year CDRs for Kentucky's Colleges and Universities, by Sector[5]



Source: U.S. Department of Education (n.d.). Three-Year official cohort default rates for schools. Data available at http://www2.ed.gov/offices/OSFAP/defaultmanagement/index.html

Figure 3. CDRs for KY Colleges & Universities, by Institution

	Institution	2010 CDR	2011 CDR	2012 CDR	2013 CDR
2-YEAR PUBLIC	Ashland Community & Technical College	30.3	28.0	27.6	30.1
	Big Sandy Community & Technical College	31.0	29.1	27.1	27.0
	Bluegrass Community & Technical College	25.5	24.0	24.1	22.4
	Elizabethtown Community & Techncial College	26.9	27.4	26.1	25.7
	Gateway Community & Technical College	29.5	31.8	31.1	29.4
	Hazard Community & Technical College	24.3	27.8	32.9	28.9
	Henderson Community College	20.0	22.5	22.5	27.5
	Hopkinsville Community College	21.8	17.7	20.5	23.0
	Jefferson Community & Technical College	23.2	23.5	25.1	25.6
	Madisonville Community College	20.2	18.4	18.4	21.0
	Maysville Community & Technical College	26.4	28.7	29.6	30.2
	Owensboro Community & Technical College	25.1	25.2	24.3	26.3
	Somerset Community College	26.0	29.7	30.6	27.1
	Southcentral KY Community & Technical College	25.2	31.1	30.7	29.0
	Southeast KY Community & Technical College	25.9	27.6	32.8	31.9
	West KY Community & Technical College	18.8	22.4	22.9	26.5
4-YEAR PUBLIC	Eastern Kentucky University	14.3	12.8	11.7	10.6
	Kentucky State University	25.0	28.6	22.0	17.6
	Morehead State University	14.9	12.5	9.7	8.0
	Murray State University	9.1	10.2	10.4	8.4
	Northern Kentucky University	11.5	9.9	9.5	8.1
	University of Kentucky	6.2	7.2	5.5	4.4
	University of Louisville	9.7	9.6	7.4	7.2
	Western Kentucky University	14.0	13.7	11.9	11.3
4-YEAR INDEPENDENT	Alice Lloyd College	10.2	11.6	14.0	11.1
	Asbury University	6.7	5.0	3.8	3.7
	Bellarmine University	5.6	5.3	4.1	4.3
	Berea College	10.0	12.8	9.5	10.3
	Brescia University	13.9	12.8	10.3	10.3
	Campbellsville University	16.2	16.8	15.4	12.7
	Centre College	1.9	2.5	1.5	1.9
	Georgetown College	6.9	4.3	5.5	6.3
	Kentucky Christian University	19.8	11.9	13.1	9.7
	Kentucky Wesleyan College	15.2	10.5	10.4	11.4
	Lindsey Wilson College	17.0	15.9	12.0	11.5
	Midway University	12.9	10.3	9.9	10.1
	Spalding University	9.2	8.7	8.9	7.2
	St. Catharine College	15.8	15.1	12.9	14.5
	Thomas More College	8.7	7.3	5.9	7.2
	Transylvania University	2.3	4.1	2.4	2.6
	Union College	13.2	13.2	13.9	11.6
	University of Pikeville	13.4	12.5	15.4	13.0
	University of the Cumberlands	11.3	8.7	6.2	6.4

Source: U.S. Department of Education (n.d.). Three-Year official cohort default rates for schools. Data available at http://www2.ed.gov/offices/OSFAP/defaultmanagement/index.html; Kentucky Postsecondary Education Data System (KPEDS).

Cohort Default Rates by Institution

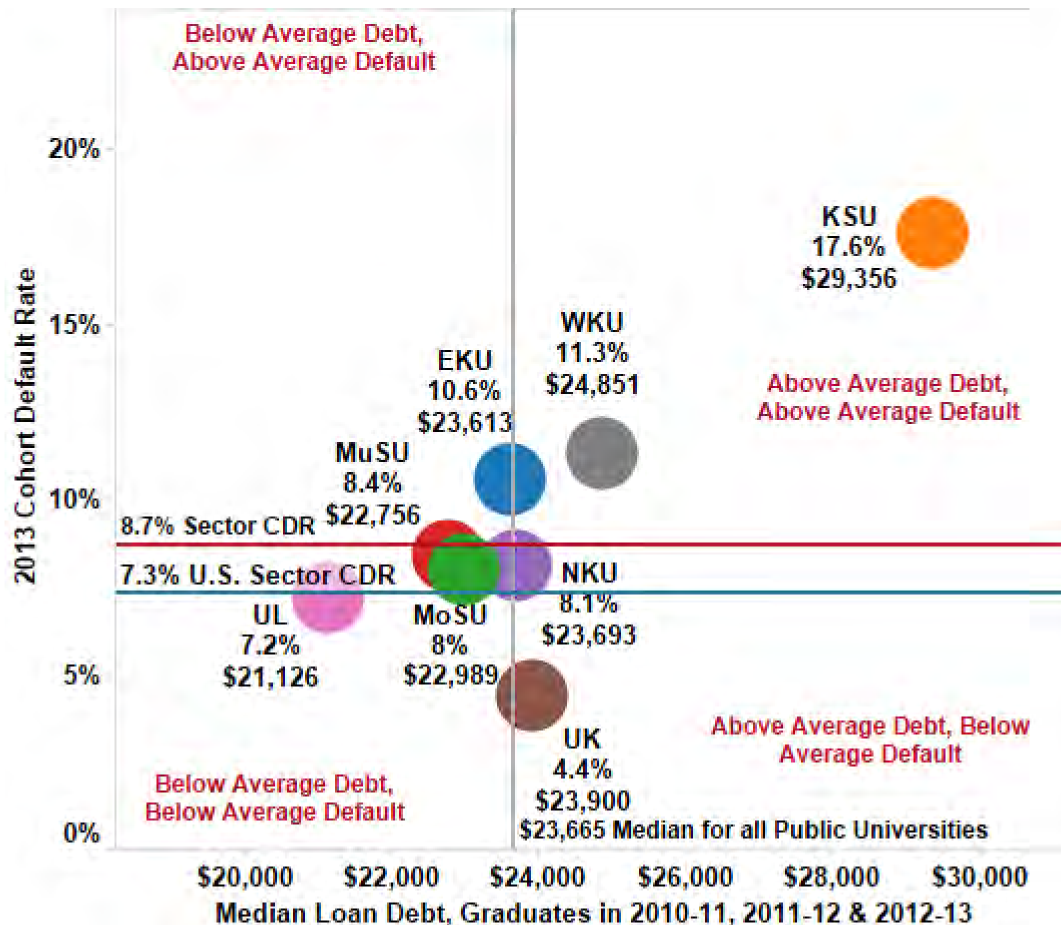
As Figure 3 illustrates, CDRs vary by sector and institution, ranging from a low of 1.9 percent for Centre College to a high of 31.9 percent for Southeast Kentucky Community and Technical College among the institutions in the 2013 CDR cohort. Among AIKCU institutions, several schools have low rates of default, including Centre College (1.9 percent), Transylvania University (2.6 percent), Asbury University (3.7 percent), and Bellarmine University (4.3 percent). In the public university sector, the University of Kentucky has the lowest rate (4.4 percent), and Kentucky State University the highest rate (17.6 percent). Among KCTCS colleges, Southeast Kentucky Community and Technical College has had a CDR greater than 30 percent for two consecutive years.[6]

Default Rates and Median Loan Debt

Figure 4 presents default rates and loan debt in four quadrants, showing each public four-year and two-year institution's position relative to Kentucky public university sector averages. The chart also shows which institutions are similar to or different from each other. The upper right quadrant represents the worst performance, the lower left quadrant the best performance; the remaining quadrants combine both positive and negative outcomes.

Kentucky's public university average for the 2013 cohort is 8.7 percent, which is higher than the corresponding sector national average of 7.3 percent. Only two universities, the University of Kentucky (4.4 percent) and the University of Louisville (7.2 percent), fall below the national average for U.S. four-year public institutions. Kentucky State University

Figure 4. 2012 CDR and Median Loan Debt for Loan Borrowers at KY Public Universities

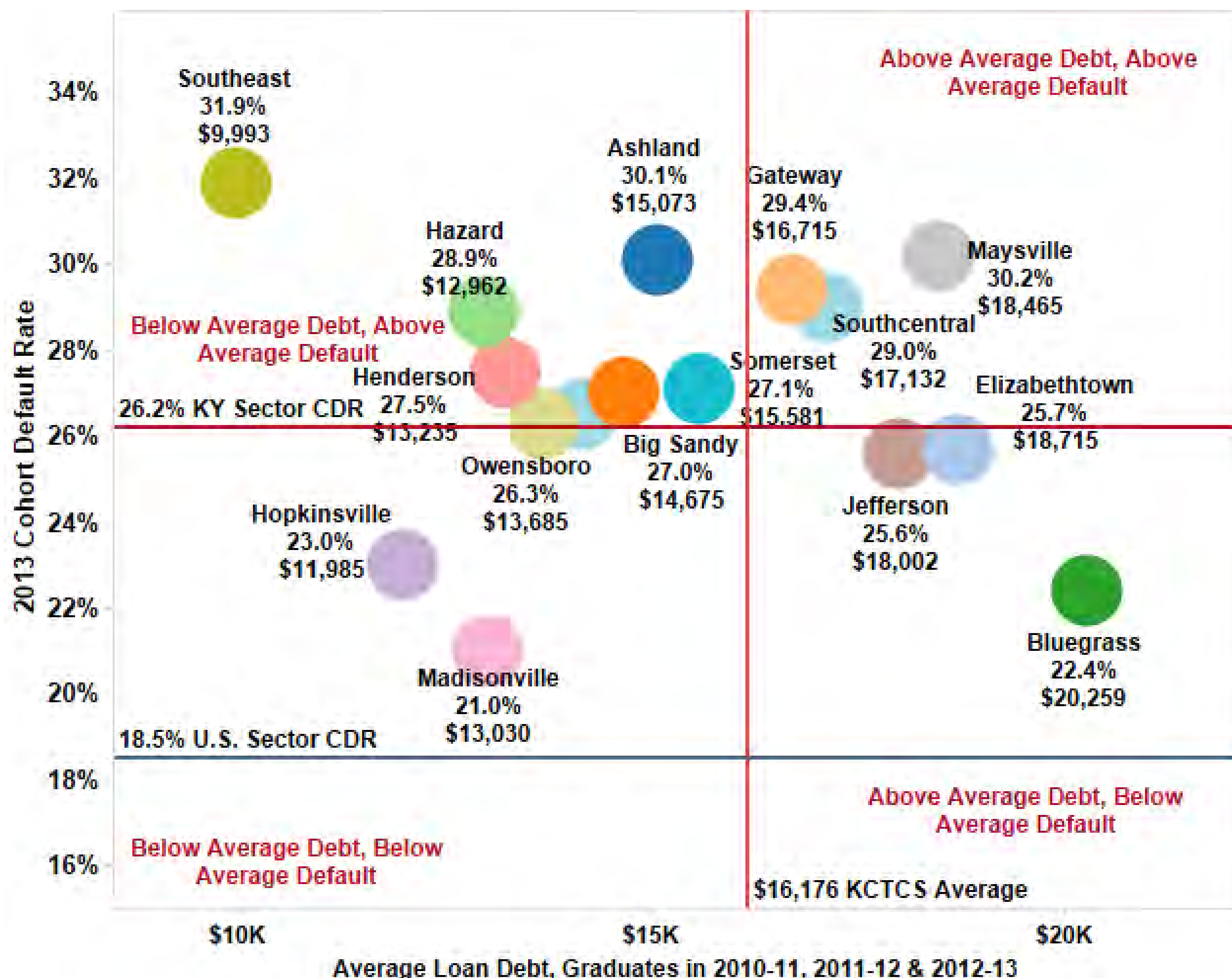


Source: U.S. Department of Education (n.d.). Three-Year official cohort default rates for schools. Data available at http://www2.ed.gov/offices/OSFAP/defaultmanagement/index.html; Kentucky Postsecondary Education Data System (KPEDS).

and Western Kentucky University perform poorly on both dimensions; they have both the highest default rates and largest median debt among Kentucky public universities. By contrast, the University of Louisville is the best performing institution, with its default rate below both the U.S. and Kentucky sector averages and with the lowest median debt among Kentucky's public universities. The University of Kentucky has the lowest default rate, but has a slightly higher than average median debt load. However, its low default rate, which is the primary outcome, makes a case for UK being a best performer. When compared to state averages, Morehead State University and Murray State University are below average on both measures. Northern Kentucky University has a default rate below the state average but a slightly higher than average loan debt. And Eastern Kentucky University's average loan debt is below the state average, but its default rate is approximately two percentage points higher than the average for Kentucky's public universities.

Figure 5 displays these same data for KCTCS colleges. The system's average default rate of 26.2 percent is significantly higher than the corresponding national rate of 18.5 percent for the 2013 CDR cohort. None of the colleges has a rate below the U.S. average for public two-year colleges. The best performing schools are Hopkinsville Community College and Madisonville Community College, with both measures below state averages. On the other hand, Gateway Community and Technical College, Southcentral Kentucky Community and Technical College, and Maysville Community and Technical College perform most poorly: their values on default and debt are both above the state average. Interestingly, Southeast Kentucky has the highest default rate but the lowest loan debt among the colleges. Five out of 16 colleges—including Bluegrass, Elizabethtown, Hopkinsville, Madisonville, and Jefferson—have default rates below the state average.

Figure 5. 2012 CDR and Median Loan Debt for Loan Borrowers of KCTCS Colleges



Part 2: Repayment Rates

In September 2015, the Department of Education released a large amount of data on a variety of postsecondary education topics referred to as the College Scorecard. These data contain borrower-based repayment rates for colleges and universities—more specifically, the percentage of borrowers at an institution that has not defaulted on federal loans and show progress toward repayment through a declining loan balance one, three, five, and seven years after entering repayment. Repayment success is defined as paying down at least $1 of the principal balance on the loan after leaving an institution.

Repayment rates arguably offer a better measure of evaluating a student's loan burden than default rate. While the CDR focuses only on the worst repayment outcome (default), and is subject to manipulation by encouraging borrowers to use allowable methods of postponing loan payments,[7] repayment rates focus on positive outcomes and implicitly count all interest-accruing options, such as delinquency, deferment, forbearance, and non-principal-reducing payments, as negative outcomes.

Current repayment rates are used for consumer information purposes, as well as by researchers and policy analysts to examine post-college student success. However, institutions also may use this information to predict repayment and default behavior of at-risk populations to better inform financial aid decisions at the institution.

Repayment Rates by Institution

The data on loan repayment in Figure 6 reveal significant differences across institutions, consistent with the default outcomes discussed previously. Generally, AIKCU institutions demonstrate higher repayment rates compared to public universities. The institutions with the highest repayment rates are independent institutions—Centre College, Transylvania University, Bellarmine University, Asbury University, and Georgetown College—the same institutions with the lowest default rates. Among public universities, the University of Kentucky is the best performing school, with an 83.2 percent repayment rate within three years of leaving school. Kentucky State University has the lowest repayment rate of 42.8 percent within three years of leaving school. In the two-year sector, Madisonville Community College has the highest repayment rate of 64.3 percent, and Maysville Community and Technical College has the lowest rate of 36 percent.

On the whole, the more time that elapses after college completion, the more that college graduates are capable of paying down their loans. As the data show, repayment rates tend to be higher for students seven years into repayment, compared to those three years into repayment. For instance, 89.2 percent of UK students pay down their loans seven years after leaving school, compared to 83.2 percent three years into repayment. Presumably this trend reflects more stable and favorable employment outcomes for students who advance in their careers over time.

Is there a repayment rate that is regarded as universally acceptable? In their recent analysis of loan repayment policies and practices, Janice and Voight (2016) from the Institute for Higher Education use the repayment rate threshold of at least 45 percent for borrowers three years into repayment. They refer to the Department of Education's gainful employment regulations that discuss repayment rate thresholds of 35 percent to 45 percent as leading to sanctions. On this measure, all of Kentucky's four-year institutions, except Kentucky State University, have repayment rates higher than 45 percent. However, six of KCTCS colleges fail this test.

Another way to benchmark the performance of Kentucky colleges and universities is to compare them with the national averages for their corresponding institutional sectors. According to a study from the Institute for College Access and Success (TICAS), the average three-year repayment rates are 56 percent for public two-year colleges, 79 percent for public four-year institutions, and 78 percent for four-year private, non-profit institutions. Only a few Kentucky schools equal or surpass these repayment rate benchmarks, including the University of Kentucky, Centre College, Transylvania University, Bellarmine University, Asbury University, Georgetown College, Thomas More College, Berea College, Madisonville Community College, and West Kentucky Community and Technical College.

Figure 6. Loan Repayment Rates for Federally-Aided Graduates of Kentucky Colleges and Universities Cohorts 3, 5, & 7 Years Out

	Institution	Repayment Rate 3 Yrs. Out (FY10 & FY11 Cohorts)	5 Yrs. Out (FY08 & FY09 Cohorts)	7 Yrs. Out (FY06 & FY07 Cohorts)
4-YEAR PUBLIC	University of Kentucky	83.2%	88.0%	89.2%
	Murray State University	78.8%	80.6%	84.4%
	University of Louisville	77.8%	82.1%	85.7%
	Northern Kentucky University	75.7%	76.2%	81.1%
	Eastern Kentucky University	69.9%	74.1%	78.8%
	Western Kentucky University	66.4%	73.9%	79.3%
	Morehead State University	65.6%	68.2%	71.9%
	Kentucky State University	42.8%	45.2%	56.1%
2-YEAR PUBLIC	Madisonville Community College	64.3%	68.4%	62.9%
	West KY Community & Technical College	59.6%	68.8%	71.9%
	Henderson Community College	57.4%	65.3%	70.8%
	Hopkinsville Community College	57.2%	57.4%	62.2%
	Owensboro Community & Techncial College	55.7%	72.0%	75.1%
	Southeast KY Community & Technical College	52.5%	57.5%	59.5%
	Ashland Community & Technical College	47.9%	50.7%	50.3%
	Elizabethtown Community & Technical College	46.6%	58.3%	66.1%
	Bluegrass Community & Technical College	45.9%	53.1%	58.1%
	Jefferson Community & Technical College	45.6%	53.2%	60.2%
	Big Sandy Community & Technical College	42.3%	53.1%	55.1%
	Gateway Community & Technical College	40.9%	52.9%	57.8%
	Somerset Community College	40.5%	47.8%	57.1%
	Hazard Community & Technical College	40.4%	53.3%	50.1%
	Southcentral KY Community & Technical College	40.3%	61.5%	67.1%
	Maysville Community & Technical College	36.0%	47.3%	53.5%
4-YEAR INDEPENDENT	Centre College	92.9%	95.2%	
	Transylvania University	91.6%	94.3%	95.6%
	Bellarmine University	88.6%	91.1%	91.4%
	Asbury University	88.1%	92.9%	93.0%
	Georgetown College	87.8%	89.6%	92.4%
	Thomas More College	82.7%	81.1%	86.0%
	Berea College	80.8%	87.1%	87.1%
	Kentucky Wesleyan College	75.7%	72.2%	83.5%
	Brescia University	74.9%	77.8%	86.1%
	Midway University	71.9%	73.4%	82.6%
	Mid-Continent University	71.9%	74.9%	80.2%
	University of the Cumberlands	70.8%	75.0%	80.1%
	Alice Lloyd College	69.9%	69.9%	80.3%
	Spalding University	68.9%	74.7%	82.6%
	University of Pikeville	68.1%	64.4%	67.3%
	St. Catharine College	67.4%	73.0%	73.6%
	Campbellsville University	66.3%	80.8%	81.6%
	Lindsey Wilson College	62.6%	65.6%	73.1%
	Union College	61.3%	63.3%	71.3%

Source: Council on Postsecondary Education analysis of College Scorecard Data available at https://collegescorecard.ed.gov/data/

Figure 7. Loan Repayment Rates for Federally-Aided Students of Kentucky Colleges and Universities, by Completer Status, Cohorts 3 & 5 Yrs. into Repayment

	Institution	Completer 3 Yrs. Into Repayment	Non-Completer 3 Yrs. Into Repayment	Completer 5 Yrs. Into Repayment	Non-Completer 5 Yrs. Into Repayment
4-YEAR PUBLIC	University of Kentucky	92.7%	78.6%	94.2%	82.8%
	Murray State University	90.1%	68.4%	90.3%	71.3%
	University of Louisville	90.1%	73.5%	90.4%	75.2%
	Northern Kentucky University	88.1%	69.5%	90.3%	69.9%
	Eastern Kentucky University	86.0%	63.1%	87.5%	63.6%
	Western Kentucky University	84.9%	60.3%	89.0%	62.7%
	Morehead State University	82.0%	64.0%	83.0%	65.3%
	Kentucky State University	59.8%	36.1%	70.3%	41.3%
2-YEAR PUBLIC	Madisonville Community College	73.4%	53.8%	71.7%	60.4%
	Henderson Community College	69.7%	49.1%	76.0%	52.9%
	West KY Community & Technical College	69.1%	46.4%	76.4%	62.4%
	Southcentral KY Community & Technical College	66.2%	33.1%	70.7%	50.9%
	Elizabethtown Community & Techncial College	65.2%	40.3%	80.8%	52.7%
	Bluegrass Community & Technical College	65.2%	42.6%	69.2%	48.4%
	Southeast KY Community & Technical College	64.3%	35.0%	67.4%	53.1%
	Jefferson Community & Technical College	64.2%	41.0%	71.0%	49.0%
	Somerset Community College	63.2%	35.2%	67.6%	38.2%
	Ashland Community & Technical College	61.8%	39.6%	71.1%	47.3%
	Hazard Community & Technical College	58.4%	31.5%	61.7%	37.7%
	Big Sandy Community & Technical College	58.1%	38.3%	65.1%	44.9%
	Gateway Community & Technical College	54.3%	35.4%	63.2%	44.3%
	Maysville Community & Technical College	50.1%	31.3%	55.5%	38.7%
4-YEAR INDEPENDENT	Transylvania University	95.3%	87.6%		
	Georgetown College	94.3%	83.1%	95.7%	81.8%
	Asbury University	94.2%	84.7%	94.3%	88.3%
	Bellarmine University	93.8%	82.1%	95.8%	77.7%
	Kentucky Wesleyan College	93.1%	70.4%	88.8%	68.3%
	Thomas More College	90.5%	80.8%	85.9%	71.8%
	University of the Cumberlands	86.5%	64.5%	84.3%	66.9%
	Brescia University	86.1%	66.4%		
	Berea College	85.3%	72.5%	91.0%	73.5%
	Alice Lloyd College	84.8%	60.8%		
	Campbellsville University	84.1%	58.5%	90.5%	69.6%
	Spalding University	82.0%	64.0%	83.3%	72.3%
	Midway University	82.0%	66.0%	85.3%	64.0%
	Lindsey Wilson College	80.6%	54.9%	77.3%	57.7%
	University of Pikeville	77.7%	54.4%	86.9%	65.8%
	Union College	73.0%	56.2%	85.2%	61.4%
	Kentucky Christian University			87.7%	62.3%

Source: Council on Postsecondary Education analysis of College Scorecard Data available at https://collegescorecard.ed.gov/data/

Repayment Rates by Completion Status

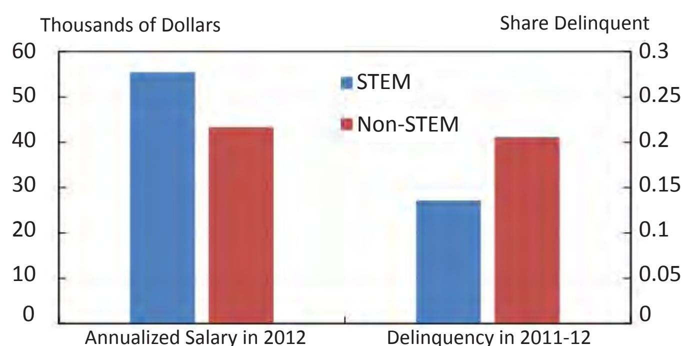
Figure 7 presents repayment data disaggregated by completer[8] status. As the data indicate, repayment rates vary based on sector and completion status. In general, rates for completers are 10 to 20 percentage points higher than those for non-completers. The more time that is allotted for repayment, the higher the repayment rates: rates tend to be higher for borrowers five years into repayment, compared to those three years into repayment. The five institutions with the highest repayment rates for both completers and non-completers are all AIKCU schools. In fact, Transylvania University's rate of 87.6 percent for non-completers three years into repayment is higher than rates for completers at EKU, WKU, and Morehead State. Unsurprisingly, rates are lower for both completers and non-completers at KCTCS institutions, compared to four-year colleges and universities. A few KCTCS institutions have rates for non-completers below 35 percent (e.g., Maysville, Hazard, and Southcentral Kentucky).

Repayment Rates and Academic Programs

Evidence suggests that choice of major plays a moderate role in predicting default. As a result, a mix of various academic programs that colleges and universities offer may influence the repayment and default behavior of loan borrowers post-graduation. For instance, while some institutions have high concentrations of high-earning majors, such as STEM, other schools may have high concentrations of lower-paying majors, such as education.

Descriptive data by college area of study demonstrate that students graduating from high-paying majors, such as STEM, tend to exhibit more positive repayment outcomes compared to lower-paying majors. A recent report from the Obama Administration (White House, 2016) indicates that STEM graduates tend to earn more and are less likely to have a delinquent loan than their non-STEM counterparts, controlling for family income and accumulated debt amounts. Figure 8 is reproduced from the aforementioned report.

Figure 8. Earnings & Deliquency by College Major, 4 Years After Graduation



Note: Data are for borrowers receiving their bachelor's degree in 2007-08. STEM fields include computer and information sciences, engineering and engineering technology, biological and physical sciences, science technology, math and health care fields.

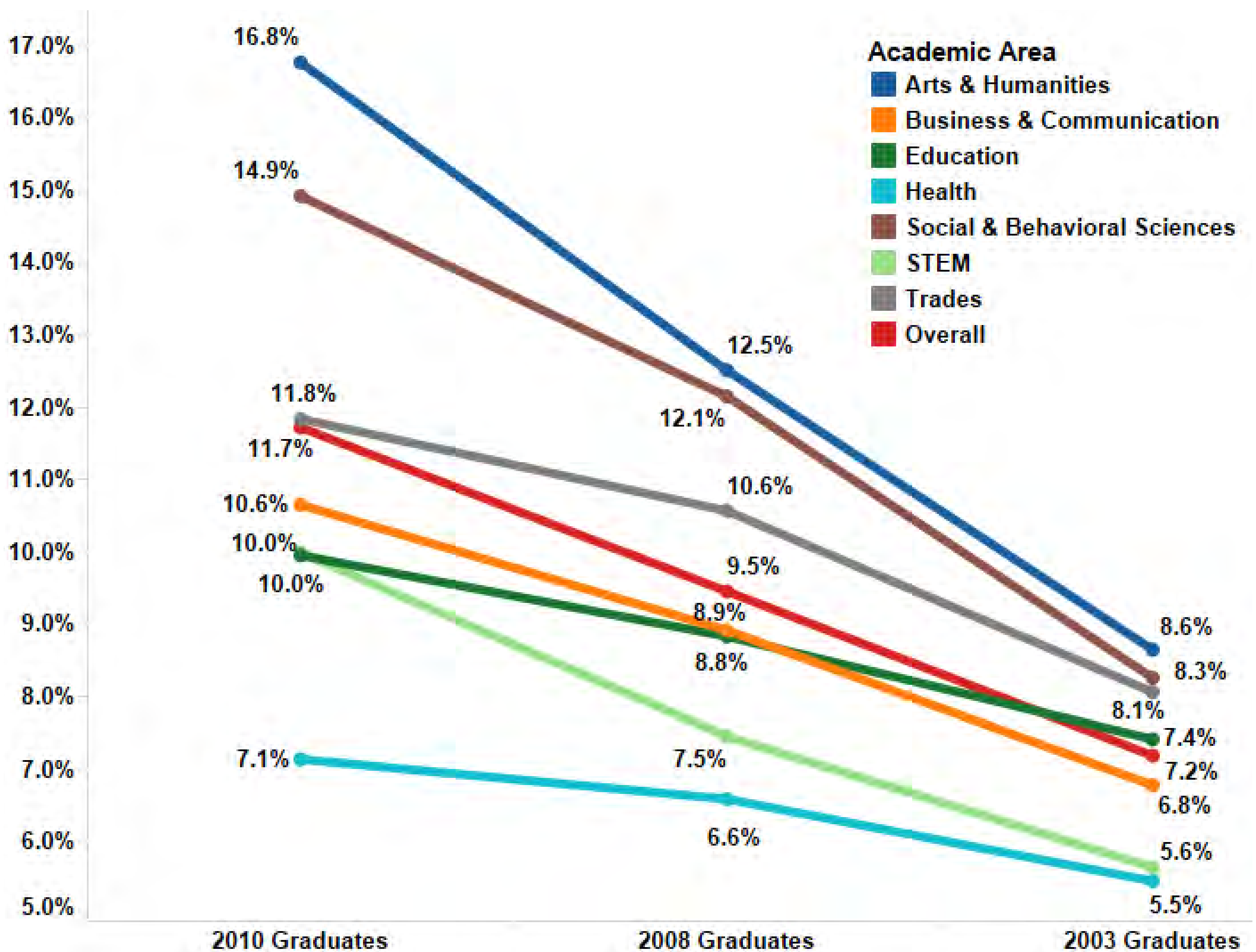
Source: Baccalaureate and Beyond Longitudinal Study.

Similarly, a 2015 CPE study of student loan debt and debt-to-income ratios by academic area of study revealed that both median debt and post-college earnings affect the capacity of public university graduates to repay their loans, with income exerting a greater influence on monthly loan payments. Specifically, lower loan debt and higher earnings positively affected the debt-to-income ratios of loan payees, and the measure varied greatly by area of study. As Figure 9 indicates, STEM and health graduates are in a better position to repay their loans as compared to other majors.

Based on these findings, it is plausible that institutions with larger proportions of STEM and health graduates will exhibit higher rates of loan repayment due to those students' higher employment rates and salaries. Figure 10 displays the relationship between shares of STEM+H graduates with loan debt and shares of loan borrowers repaying their debt three years after leaving college. The two schools with the highest shares of STEM+H graduates with loan debt, the University of Kentucky and Murray State University, also enjoy the highest loan repayment rates. These universities' shares of STEM+H graduates are approximately 32 percent, significantly higher than the rest of the institutions, whose shares are below the sector average of 25.2 percent. Conversely, Eastern Kentucky University, Morehead State University, Western Kentucky University, and Kentucky State University all have lower shares of STEM+H graduates and repayment rates below the sector averages.

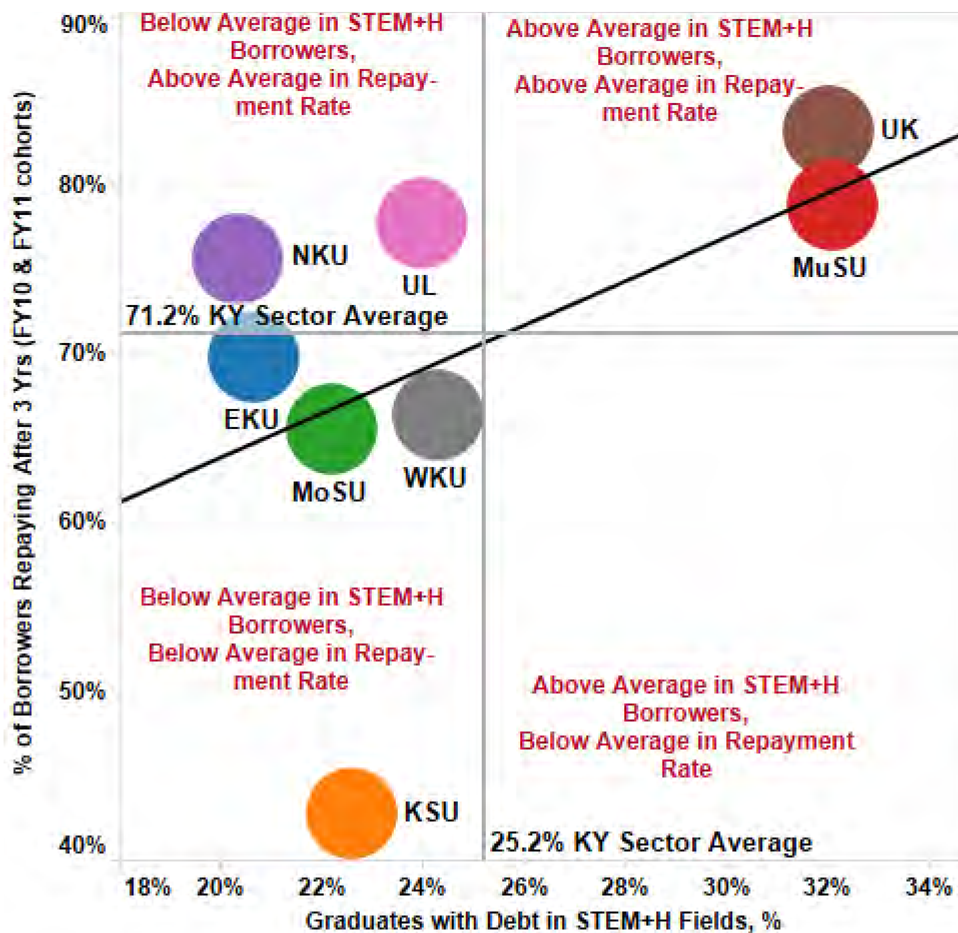
Northern Kentucky University and the University of Louisville do not appear to conform to this pattern. The performance of these institutions' graduates may be influenced by other factors, such as urban agglomeration economies or the economic vitality of their service areas. For instance, the wages of graduates from these universities may be influenced by the economies of their major metropolitan areas—Louisville and Cincinnati—conferring what economists call an "urban wage premium" (Abel and Detz, 2012).

Figure 9. Debt-Service-to-Income Ratios by Academic Area for Graduates 3, 5, & 10 Years After Graduation



Source: Kentucky Postsecondary Education Data System (KPEDS); the chart is reproduced from Kentucky Council on Postsecondary Education (October 2015). Student loan debt in Kentucky. Office of Research and Policy Analysis. Available at http://cpe.ky.gov/NR/rdonlyres/D0F42A2C-0ACA-4291-BCDF-61AD61BCBC9E/0/StudentLoanDebtinKentucky.pdf

Figure 10. Relationship between the Share of Graduates with Loan Debt in STEM plus Health Fields & the Share of Loan Borrowers Repaying their Debt 3 Years after College Completion



Source: Kentucky Postsecondary Education Data System (KPEDS).

Conclusions & Policy Implications

Despite the lower odds of default for higher balance borrowers, policymakers should continue to be concerned about high indebtedness. From a policy perspective, it is important to distinguish between various student characteristics, such as completers versus non-completers and undergraduate versus graduate student borrowers. It is plausible that bachelor's degree graduates with larger debt levels will experience greater difficulty in loan repayment, particularly if their starting salaries are relatively small. Given that post-college outcomes such as employment and earnings are directly and strongly associated with default (Hillman, 2015), debt levels should weighed against graduates' future employment outcomes, particularly income.

Research and data analysis should inform any policies designed to enhance students' ability to manage their loans. Given that default partially functions as a proxy for college completion, the state's policymakers and postsecondary system should consider incentives that help more students finish degrees and credentials in less time. Kentucky's new strategic agenda for postsecondary and adult education sets an ambitious goal to raise the percentage of Kentuckians with a postsecondary degree or credential from its current level of 45 percent to 58 percent by 2025. Most of the agenda's objectives—such as increasing retention, completion, transfer, and developmental education outcomes, as well as narrowing achievement gaps for low-income students—will directly or indirectly contribute to lowering loan default.

A particular objective that will help combat default and delinquency behavior is closing achievement gaps for low-income students, as they are at greater risk of nonpayment. Increasing need-based aid and scholarships for these students should help to increase their postsecondary enrollment, completion, and subsequent employment outcomes, helping them break the cycle of poverty. While Kentucky has made significant inroads to close achievement gaps for low-income students, as recognized by a recent report from the Department of Education (2016), much remains to be accomplished.

Kentucky's Work-Ready Scholarship program, passed by the General Assembly in 2016, will encourage more individuals who otherwise would not be able to attend college to enroll in programs to earn two-year degrees or credentials and perhaps pursue baccalaureate programs through transfer. This program is likely to reduce student loan debt, as the need to borrow for the first two years of college diminishes, and should result in lower student loan default rates as well.

Colleges and universities should play a more active role than in the past in designing intrusive intervention strategies for at-risk borrowers. Research and analysis can guide institutions' efforts to design the appropriate policies and procedures to improve information sharing, financial aid counseling, and loan management. Specifically, counseling efforts should be targeted more purposefully to students with characteristics known to have higher odds of defaulting (e.g., remedial education borrowers, Pell grant recipients, students with low GPAs, etc.). Additionally, institutions can help students manage their debt and prevent defaults by ensuring that their offices of loan counseling, academic advising, and career guidance function in concert to provide a holistic intervention with regard to student counseling.

Community colleges, with their low completion rates, are well aware of the importance of reducing student loan default rates, and many colleges are making significant efforts to address defaults. A recent report (ACCT & TICAS, July 2014) from the Association of Community College Trustees highlights several successful strategies community colleges use to prevent default and reduce loan debt. These include additional entrance counseling for borrowers with higher debt levels; interventions targeting remedial borrowers; borrower-specific communications strategies at enrollment, withdrawal, and delinquency; integration of student budgeting tools into loan request processes; outreach toward likely defaulters; incorporation of financial literacy into mandatory new student orientation sessions; and other interventions. Kentucky's Community and Technical College System has begun to adopt some of these strategies to address the loan default challenges on several of their campuses.

Finally, national best practices in loan management should be emulated in Kentucky. For instance, Indiana University launched a series of financial literacy initiatives in 2012—including individual financial mentoring, targeted assistance for financial aid forms, and financial aid orientations—that have increased students' financial literacy and reduced student borrowing and default. Perhaps the most effective of these interventions was the student debt letter. In 2012, IU began sending annual student loan debt letters to all student borrowers, providing them with information on all federal and private loans processed through IU, including cumulative debt, estimated monthly repayment amounts, estimated interest rate, and remaining eligibility based on dependency status. With the adoption of Enrolled House Bill 1042 in 2015, Indiana's legislators made the loan debt letter mandatory for all Indiana higher education institutions that accept state aid.

Another key element employed by Indiana University was the creation of a MoneySmarts website, which contained a series of tutorials, podcasts, calculators, and other resources on financial aid for students. IU reports that these financial literacy initiatives collectively resulted in a decrease in undergraduate student borrowing by 16% over a two-year period, which translates to approximately $44 million in debt savings (Indiana University, June 3, 2015).

In conclusion, policymakers and institutions should work in concert to promote students' responsible and informed borrowing and help them manage their loans. The state plays a primary role in developing and implementing policies that establish the regulatory framework for achieving affordable postsecondary programs. Kentucky can reduce the amount of loans students take out by improving information sharing, incentivizing program completion, and providing more intrusive counseling.

Notes

1. In a multi-level study, Hillman (2015) found a non-linear, positive association between debt levels and default. He observed that “debt and default appear to have a gradual ‘u-shape’ functional form” (p. 184).

2. A federal student loan that is paid in monthly installments is considered in default if the loan is more than 270 days deliquent. Institutions with a cohort default rate (CDR) of 30% or greater in the three most recent consecutive years, or 40% in one year, will lose eligibility for federal grant and loan programs.

3. The CDR is based on the federal fiscal year, beginning on October 1 and ending September 30, with the fiscal year taking the name of the calendar year in which it ends. For example, the 2012-13 three-year CDR (the most recent available) represents the borrowers who entered repayment during FY 2012 (from October 1, 2011, through September 30, 2012) and defaulted by the end of FY 2014 (October 1, 2013, through September 30, 2014).

4. The corresponding average loan debt for Kentucky is $25,939, with 64% of baccalaureate graduates borrowing student loans.

5. In addition to the public universities, KCTCS colleges, and AIKCU institutions, the group, “all institutions,” includes a diverse set of two-year and four-year private, non-profit and for-profit institutions.

6. Institutions face serious sanctions if they have a default rate of over 30 percent in three consecutive years.

7. These mainly include deferment and forebearance. Deferment can be granted based on variety of circumstances, including re-enrollment in college at least half time, unemployment, economic hardship, military assignment, or national emergency. Interest on Stafford Loans continues to accrue, but interest on subsidized loans is paid by the government. Granted by a loan servicer, forebearance is available to a borrower who does not qualify for a deferment. It is at the discretion of the loan servicer to grant forebearance based on illness, financial hardship, or other circumstances.

8. Completers are graduates of an institution; non-completers are students who withdrew from an institution without completing their programs of study.

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Appendix A

U.S. Three-Year Official Cohort Default Rates by Sector

	Fiscal Year 2013 Official				Fiscal Year 2012 Official				Fiscal Year 2011 Official			
	# of Schools	Borrower Default Rate (%)	# of Borowers Defaulted	# of Borrowers Entered Repayment	# of Schools	Borrower Default Rate (%)	# of Borowers Defaulted	# of Borrowers Entered Repayment	# of Schools	Borrower Default Rate (%)	# of Borowers Defaulted	# of Borrowers Entered Repayment
PUBLIC	**1,675**	**11.3%**	**305,516**	**2,691,995**	**1,667**	**11.7%**	**301,453**	**2,563,157**	**1,637**	**12.9%**	**292,012**	**2,252,334**
Less than 2 yrs	152	13.0%	1,414	10,823	148	12.2%	1,241	10,151	146	13.6%	1,196	8,750
2-3 yrs	846	18.5%	176,206	948,515	854	19.1%	173,628	905,058	841	20.6%	158,104	767,073
4 yrs+	677	7.3%	127,896	1,732,657	665	7.6%	126,584	1,647,948	650	8.9%	132,712	1,476,511
PRIVATE	**1,734**	**7.0%**	**78,659**	**1,118,051**	**1,727**	**6.8%**	**73,747**	**1,083,328**	**1,712**	**7.2%**	**70,186**	**969,156**
Less than 2 yrs	50	20.6%	2,194	10,649	49	22.4%	2,318	10,336	43	25.0%	1,644	6,567
2-3 yrs	161	15.3%	6,593	42,974	161	14.6%	6,193	42,274	161	12.0%	2,026	16,861
4 yrs+	1,523	6.5%	69,872	1,064,428	1,517	6.3%	65,236	1,030,718	1,508	7.0%	66,516	945,728
PROPRIETARY	**2,326**	**15.0%**	**208,570**	**1,387,815**	**2,294**	**15.8%**	**235,384**	**1,486,162**	**2,277**	**19.1%**	**288,126**	**1,500,812**
Less than 2 yrs	1,214	16.9%	29,719	175,717	1,199	17.7%	33,393	188,549	1,177	20.6%	38,686	187,209
2-3 yrs	755	16.8%	52,187	310,345	747	17.7%	62,650	353,777	762	19.8%	77,441	390,649
4 yrs+	357	14.0%	126,664	901,753	348	14.7%	139,341	943,836	338	18.6%	171,999	922,954
FOREIGN	**418**	**3.6%**	**407**	**11,272**	**431**	**3.3%**	**372**	**11,266**	**428**	**3.8%**	**403**	**10,488**
UNCLASSIFIED	**2**	**1.2%**	**30**	**2,398**	**2**	**0.0%**	**0**	**5**	**1**	**0.0%**	**0**	**3**
TOTAL	**6,155**	**11.3%**	**593,182**	**5,211,531**	**6,121**	**11.8%**	**610,956**	**5,143,918**	**6,055**	**13.7%**	**650,727**	**4,732,793**

Calculated August 6, 2016

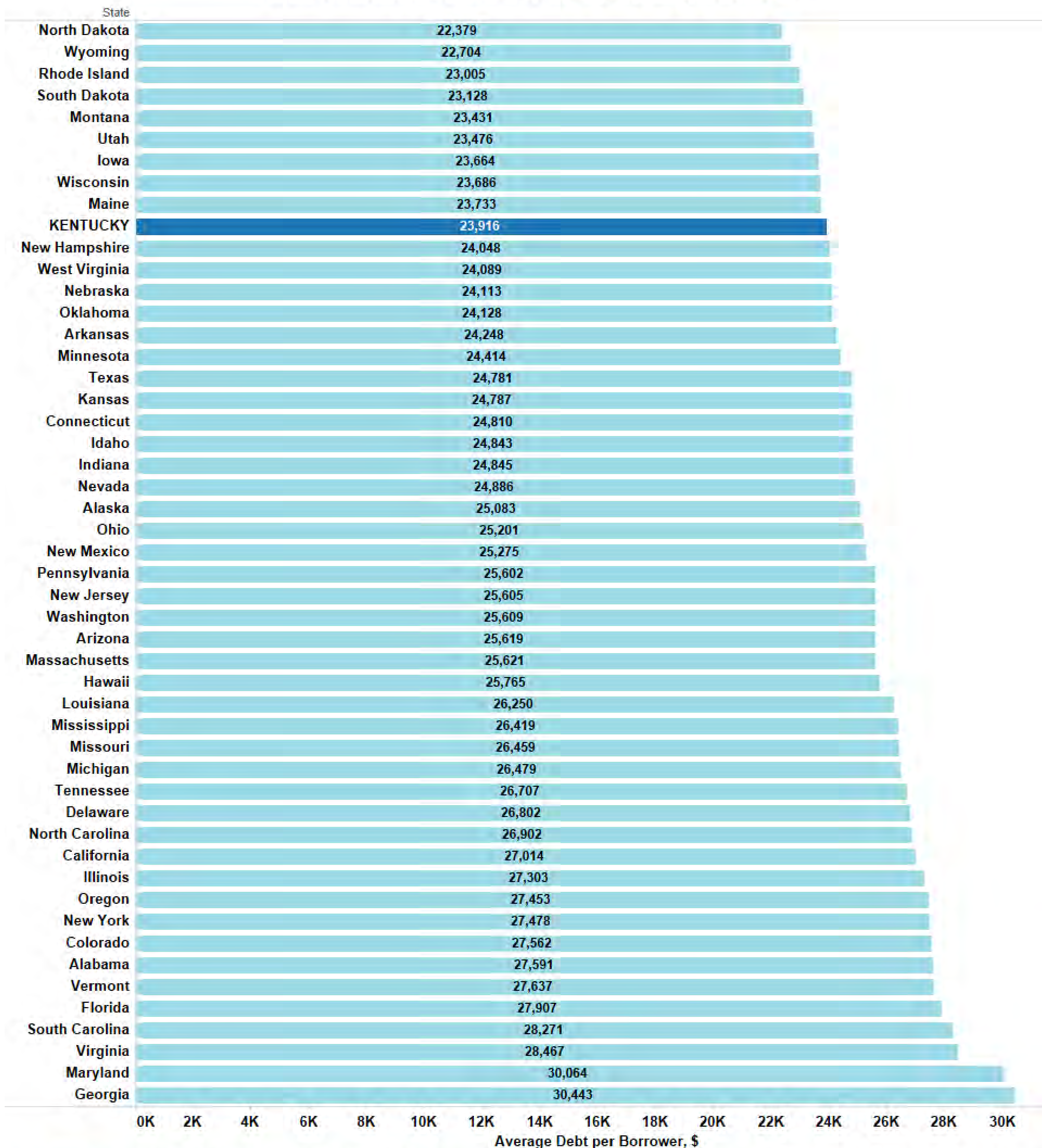
Appendix B

FY 2013 U.S. Three-Year Official Cohort Default Rates by State

State	# of Schools	# of Borowers in Default	# of Borrowers Entered Repayment	Borrower Default Rate (%)
Alabama	65	10,219	83,428	**12.2%**
Alaska	9	627	5,375	**11.6%**
Arizona	98	49,405	350,645	**14.0%**
Arkansas	66	6,105	43,606	**14.0%**
California	604	46,437	443,976	**10.4%**
Colorado	117	12,875	111,782	**11.5%**
Connecticut	72	4,190	48,968	**8.5%**
Delaware	17	1,195	11,948	**10.0%**
District of Columbia	23	3,887	45,561	**8.5%**
Florida	315	43,498	306,411	**14.1%**
Georgia	145	17,996	148,941	**12.0%**
Guam	1	33	547	**6.0%**
Hawaii	24	1,057	10,145	**10.4%**
Idaho	33	3,030	27,459	**11.0%**
Illinois	249	21,671	230,233	**9.4%**
Indiana	117	24,474	171,454	**14.2%**
Iowa	87	11,827	99,246	**11.9%**
Kansas	83	5,975	55,740	**10.7%**
Kentucky	87	12,150	78,112	**15.5%**
Louisiana	81	7,518	60,838	**12.3%**
Maine	41	2,085	19,998	**10.4%**
Maryland	82	7,267	73,211	**9.9%**
Massachusetts	169	6,348	103,758	**6.1%**
Michigan	136	22,316	187,809	**11.8%**
Minnesota	108	14,062	159,343	**8.8%**
Mississippi	44	6,527	44,697	**14.6%**
Missouri	168	12,343	107,299	**11.5%**
Montana	24	1,416	14,338	**9.8%**
Nebraska	45	2,723	32,925	**8.2%**
Nevada	28	2,245	17,540	**12.7%**
New Hampshire	39	1,901	24,210	**7.8%**
New Jersey	133	8,153	89,886	**9.0%**
New Mexico	29	4,634	24,417	**18.9%**

State	# of Schools	# of Borowers in Default	# of Borrowers Entered Repayment	Borrower Default Rate (%)
New York	401	23,403	290,601	**8.0%**
North Carolina	143	11,662	99,941	**11.6%**
North Dakota	24	899	13,773	**6.5%**
Ohio	256	30,573	224,678	**13.6%**
Oklahoma	83	7,184	57,401	**12.5%**
Oregon	78	10,761	78,306	**13.7%**
Pennsylvania	335	21,266	229,458	**9.2%**
Puerto Rico	48	4,098	35,057	**11.6%**
Rhode Island	21	1,825	22,997	**7.9%**
South Carolina	80	8,428	63,732	**13.2%**
South Dakota	23	2,623	21,170	**12.3%**
Tennessee	130	10,441	90,824	**11.4%**
Texas	312	39,349	311,065	**12.6%**
Utah	51	5,724	62,482	**9.1%**
Vermont	28	865	11,956	**7.2%**
Virgin Islands	1	43	416	**10.3%**
Virginia	123	11,183	122,755	**9.1%**
Washington	104	7,746	74,000	**10.4%**
West Virginia	53	8,035	49,330	**16.2%**
Wisconsin	91	9,192	95,128	**9.6%**
Wyoming	11	1,256	8,945	**14.0%**

Appendix C



Source: U.S. Department of Education estimates of outstanding balnce and the number of borrowers with outstanding Direct Loan or FFEL loan as of Jan. 2015, by State. Retrieved from https://www.whitehouse.gov/sites/default/files/docs/state_by_state_number_of_borrowers_and_outstanding_balance_final.pdf

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Kentucky Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort KY 40601
Ph: (502) 573-1555
Fax: (502) 573-1535
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