FOIA Number: 2017-1069-F

FOIA MARKER

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Collection/Record Group: Clinton Presidential Records

Subgroup/Office of Origin: National Economic Council

Series/Staff Member: Bob Shireman

Subseries:

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Folder Title:
[Student Loan Rates]: Default Rates

Stack:	Row:	Section:	Shelf:	Position:
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7933

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Shireman

PHONE: FAX:

FROM: Pauline

PHONE: FAX: (202) 401-0596

PAGE(S) TO FOLLOW: 6

MESSAGE:

CONFIDENTIALITY NOTICE

600 INDEPENDENCE AVE., S.W. WASHINGTON, D.C. 20202

Our mission is to ensure equal access to education and to promote educational excellence throughout the Nation.

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

1 pm

For Release: October 26, 1998

Contact: Julie Green (202) 401-3026

DRAFT

Remarks as prepared for delivery by
U.S. Secretary of Education Richard W. Riley

Press Conference -- Student Loan Default Rates

Thank you for joining us. This is a momentous day for the U.S. Department of Education -- more specifically, for the department's student financial aid programs and the people who manage them.

When I came to the Department in 1993, we had a crisis on our hands in the student loan programs. The default rate for student loans stood at an all-time high of 22.4 percent -- that means more than one out of every five new borrowers, for whatever reason, failed to meet his or her obligations and repay their loans. Reining in this problem was our number one management priority.

I'm pleased to announce that the default rate has dipped below 10 percent for the first time. The cohort default rate for FY 1996 -- the most recent data available -- stands at a record-low 9.6 percent.

This announcement is significant on a couple of fronts. It marks the sixth consecutive year that the default rate has declined. Since hitting that ~~peak of 22.4 percent, the~~ default rate has dropped steadily in every year that followed -- a period when student loan volumes *grew* exponentially.

The difference between the default rate we ~~are reporting~~ today and the peak of 22.4% is 12.8%. This reduction would result in more than $3 billion in taxpayer savings, a figure many times larger than the entire administrative costs ~~of the U.S.~~ Department of Education. ?

This reduction in defaults into single digits also marks the achievement of one of the broad management goals spelled out in the Department's strategic plan, which was drafted under the leadership of Acting Deputy Secretary Mike Smith. We hit this goal of 10 percent well before the target year of 2002.

Credit for reaching this milestone goes to several factors. First, I want to congratulate Mike Smith, David Longanecker, Diane Rogers, and the staff in the Office of Student Financial Assistance.

These folks oversaw the aggressive efforts that cleared a lot of bad loans. They implemented stronger management tools that prevented new loans from being issued to ineligible borrowers. They are the people who have made the difference within the Department -- with the result being greater accountability and savings to the taxpayer.

We must also acknowledge the hard work of the American people and the tools Congress provided to the Department in 1992. Under President Clinton's leadership and Vice President Gore's special attention to management of government, the American people built an economy that cut unemployment to its lowest levels in almost 30 years -- a development that enabled more borrowers to make their loan payments.

There's plenty of reason to think we can maintain these low rates. We're in the midst of a four-month-long window of opportunity for borrowers to consolidate their student loans at a lower interest rate. Cutting interest costs helps borrowers stay current in repayment.

There are several ways that borrowers interested in consolidating their student loans can take advantage of this lower interest rate. One way is by calling 1-800-557-7392.

The recent reauthorization of the Higher Education Act will help students keep their debt burden at manageable levels and help us here at the Department keep default rates down. Lower interest rates for federal student loans will save borrowers an estimated $11 billion over the next five years. And creation of the federal government's first Performance-Based Organization to run student aid programs will help us continue to improve management of these programs and keep default rates low.

These developments will augment the broad array of student aid policies that we have put in place over the past six years, including:

* Greater investment in the Pell Grant program to provide direct support to our financially neediest students;
* Expansion of College Work-Study to serve nearly one million students, and;
* Creation of the new HOPE and Lifelong Learning Tax Credits that will help students of all ages and working and middle-income families to reduce their taxes significantly in the 1998 tax year and thereafter.

When you consider those policies in light of today's announcement, our message is clear: We support broad access to higher education with strong accountability for the taxpayer's dollar. We believe the attainment of record-low loan default rates while expanding investment in student financial aid shows this commitment to access and accountability.

Thank you -- I'll be happy to take your questions.

###

UNITED STATES
DEPARTMENT OF EDUCATION NEWS

1pm

DRAFT

FOR RELEASE:
October 26, 1998

Contact: Jane Glickman (202) 401-1307
Stephanie Babyak (202) 401-2311

STUDENT ~~LOAN~~ DEFAULT RATE NOW UNDER 10 PERCENT

The national student loan default rate has dropped below 10 percent for the first time, falling to 9.6 percent for fiscal year 1996, U.S. Secretary of Education Richard W. Riley announced today. This marks a decline in the default rate for the sixth consecutive year, since rates hit a high of 22.4 percent for FY1990.

"Reducing historically high default rates has been a priority for the department as well as our nation's postsecondary schools," Riley said. "With hard work, commitment and responsible use of enforcement sanctions authorized by Congress, we have met our target date of lowering rates to 10 percent or less by the year 2002 well ahead of schedule. We've kept faith with taxpayers and students to ensure that federal dollars aren't wasted on shoddy education programs and that borrowers from the federal government take their financial obligations seriously."

Riley said that the strong economy and low unemployment have contributed to the decline in defaults and credited efforts by all the participants in the student loan programs -- students, schools, lenders and guaranty agencies, as well as the department.

The new national default rate is for FY 1996 -- the most current data available -- and represents the cohort of borrowers whose first loan repayments came due in FY96, and who defaulted sometime before Oct. 1, 1997. The national rates reflect default rates for more than 7,000 individual schools that participated in the Family Federal Education Loan Program (FFEL) and the William D. Ford Federal Direct Loan Program at that time. [Lists of individual school default rates provided to reporters do not include some 1,500 schools that are no longer participating in the federal loan programs.]

This year the default rates have declined for every type of institution -- public and private, both four-year and two-year institutions, and proprietary schools with programs of all durations.

Student loan volume has more than doubled in this decade. In FY1998, some 5.9 million students borrowed $38 billion in federal loans.

"There's no safe harbor remaining for schools that aren't doing the job of educating students," Riley said. "Protecting the public's investment in all our federal student aid programs is a priority."

Riley noted that an important new provision in the Higher Education Amendments of 1998 can help keep the default rates down if borrowers act quickly. "Between now and Jan. 31," Riley said, "borrowers can refinance their outstanding federal student loans at the low current interest rate of 7.46 percent by taking out a Direct Consolidation Loan or contacting any FFEL lender, which can also provide the new rate although are not required to do so. I would encourage graduates with debt to consolidate their loans now while the interest rate is low, and lower their monthly payments."

After Jan. 31, the consolidation rate will rise to the average rate of the underlying loans, weighted by loan size and capped at 8.25 percent. The Clinton Administration had sought to keep the interest rate on consolidation loans consistent with the rate on new loans, currently at 7.46 percent, but the Congress extended the low rate only until Jan. 31, 1999.

Riley noted that while the rise in the cost of a college education continues to outpace inflation, the Clinton Administration has helped secure several new initiatives in the past few years to limit the amount of debt students have after they graduate and make it easier to manage the debt they do take on. He cited new tax breaks through the $1,500 Hope Scholarship Tax Credit for the first two years of college; the Lifetime Learning tax credit for juniors, seniors, graduate students and working adults; deductions for interest on student loans, and Education IRAs. He added that Pell Grants for the neediest students have increased 36% in the last few years, from a $2,300 maximum award in FY 1994 to $3,125 for FY 1999, college work study opportunities have expanded, and students can now repay debt on an income-contingent basis.

Today's release of the FY96 default rates includes the rates for schools that issue direct loans. A total of 1,076 schools had direct loans entering repayment for FY96, with a default rate of 5.0 percent. The national cohort default rate data is comprised of 7 percent direct loan data. The William D. Ford Federal Direct Loan Program began in the 1993-94 school year.

Schools with excessive default rates may be dropped from one or more federal student aid programs. Schools with default rates of 25 percent or greater for three consecutive years face loss of eligibility to participate in the FFEL, direct loan and Pell Grant programs. Schools have appeal rights and can remain in the loan programs while an appeal is pending.

This year, 138 schools are affected by this provision, including 44 institutions affected for the first time and 94 whose loss of eligibility was extended another year based on their 1996 rates. However, 12 of the 44 schools have already either withdrawn or have been removed from the loan programs for other reasons. 32 schools that were participating in the loan programs on or after Oct. 7, 1998, may also lose access to Pell Grants, according to a new provision in the Higher Education Amendments of 1998.

In addition, under department regulations, schools with a one-year default rate over 40 percent may have their eligibility for all federal student aid programs restricted or terminated. Based on the 1996 rates, 66 schools fall in this category. The total number of schools affected by one or both sanctions is 165.

Historically Black Colleges and Universities, tribally controlled institutions, and Navajo community colleges are exempt from sanctions until July 1999.

The secretary also said the department's improved gatekeeping activities -- both at the front end for institutions initially seeking to participate in the federal student aid programs as well as accountability measures schools must meet to stay in the programs -- have helped weed out schools that often had the highest default rates.

Borrowers who default on federal loans face serious repercussions, such as the withholding of federal income tax refunds, wage garnishment, adverse reports to credit bureaus, and denial of further federal student aid.

To avoid these sanctions, defaulters have the option to consolidate their loans and establish an income-based repayment plan that more realistically matches their ability to pay.

Borrowers who believe they may be in default on a federal student loan should contact the holder of the loan for more information about available repayment options. For accounts currently being handled by the department or to locate a past due account, borrowers may call the department's Debt Collection Service Center at 1-800-621-3115.

Individual school default rates are posted on the department's web site at: http://www.ed.gov/PressReleases/index.html.

###

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

FAX TRANSMITTAL

TO: Bob Shireman - NEC
Nanda/Julia - Press Office

PHONE: ______ **FAX:** 456-2223
456-6201/6210

FROM: Julie Green

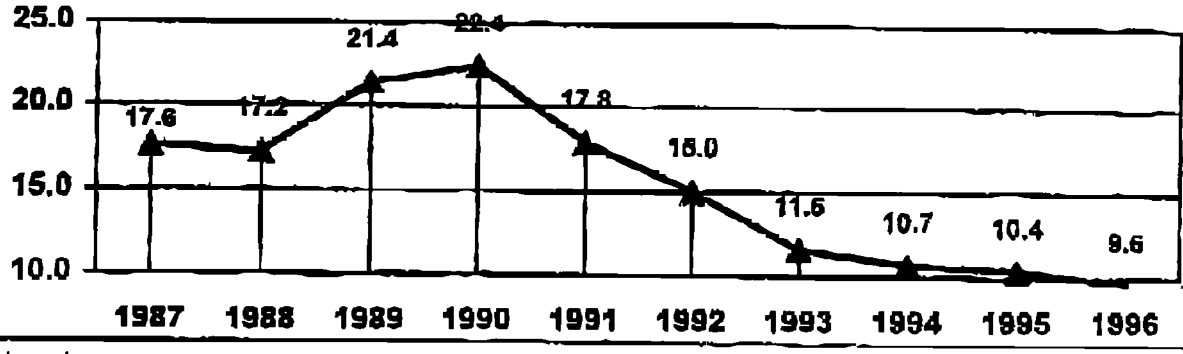
PHONE: 401-3026 **FAX:** (202) 401-0596

PAGE(S) TO FOLLOW: 3

MESSAGE: default rate info

CONFIDENTIALITY NOTICE

National Cohort Default Rates: FY 1987–FY 1996



Issued Date:	1989	1990	1991	1992	1993	1994	1995	1997	1997	1998

Highlighted Information

- Cohort Default Rates must be calculated for a prior period, i.e., 1996 rates are issued in 1998 for example.
- Referenced default rates for approximately 7,000 schools.
- The first national cohort default rate was calculated in 1987.
- As a result of the Default Management Initiative, sanctions were imposed for the first time with the release of the 1989 rates.
- The first year that direct loan data was part of the cohort default rate calculation was for the FY 1995 rates.
- Approximately 1,065 schools have lost loan eligibility since the Default Management Initiative.

DRAFT 11:20 AM

Fiscal Year 1996 Student Loan Default Rate
October 26, 1998

National rate dropped to 9.6 percent. The national student loan default rate fell to 9.6 percent in fiscal year 1996, down from 10.4 percent in fiscal 1995. As a result, the Department has met its goal of reducing the rate below 10 percent four years early. The rate has fallen for six consecutive years and is now the lowest it has been since first calculated in fiscal 1987.

Lower default rate in all sectors. The fiscal 1996 default rate is lower than the fiscal 1995 rate in every sector of postsecondary education: down from 8.9 percent to 8.5 percent among public schools; down from 7.4 percent to 7.0 percent among private schools; and down from 19.9 percent to 18.2 percent among proprietary schools.

Direct Loan default rate. The default rate among direct loan borrowers is 5.0 percent, while the rate among FFEL borrowers is 9.7 percent. However, relatively few direct loan borrowers entered repayment in fiscal 1996.

Why is the default rate falling? The lower default rate is principally due to job opportunities created by the strong economy, improved loan servicing efforts, and more stringent eligibility requirements for schools seeking to participate in the loan programs. Over 1,300 domestic institutions have withdrawn from the student aid programs or been removed by the Department since January 1995. The lower rate is also evidence that schools are preparing students for the workforce and that students are fulfilling their responsibility to pay the cost of their education.

How many schools will be sanctioned? As a result of the fiscal 1996 default rates, a total of 165 schools are subject to Departmental sanctions. Schools may appeal the default rate findings and continue to participate in the student aid programs while the appeal is resolved.

> 138 schools had a default rate of 25.0 percent or greater for the third consecutive year. Of these schools, 94 had already been suspended from the FFEL and Direct Loan programs and will see their suspension extended one more year.
>
> The remaining 44 schools may be suspended from the loan programs until October 2001. In addition, due to a provision in the recently-enacted Higher Education Amendments, 32 of these schools may be suspended from the Pell Grant program as well.
>
> Finally, 36 schools had a fiscal 1996 default rates that was greater than 40 percent and, therefore, may have their eligibility for all federal student aid programs restricted or terminated. (21 of these 36 schools are among the 138 schools described above.)

How did the Higher Education Amendments of 1998 change the Title IV eligibility requirements?

For the first time, schools that are ineligible to participate in the FFEL and Direct Loan programs as a result of their cohort default rate will also be ineligible to participate in the Pell Grant program. This provision will be effective beginning with the fiscal 1996 default rates for schools participating in one or both of the loan programs on or after October 1, 1998.

Second, the HEA extends the default rate exemption for historically black and tribal colleges until July 1999.

Third, the law requires postsecondary institutions to earn at least 10 percent of their revenues from sources not derived from Title IV federal student aid. Prior to this law, schools were required to earn 15 percent of their revenue from non-Title IV sources.

Finally, the law requires the Department to make NSLDS available to students to allow them to track their loan obligations and correct any errors. The Department has already begun developing this capacity.

Cap and [illegible]

FY

DRAFT POTUS STATEMENT II

When I came into office, there was a student loan default crisis in this Nation. Nearly one out of every four students was failing to pay back his loans. Some of these Americans were victims of fly-by-night schools, which never came through on their promises. I am proud that over the past six years, my Administration has eliminated [~~X,000~~] schools from the student loan program, protecting students and taxpayers from fraud and abuse.
's policies have resulted in elim. of 1,065

Other students had difficulty affording their loan payments, because they were just getting on their feet, or they decided to take a low-paying job serving their community. I am pleased that the reforms that I fought for have provided those borrowers with a wide variety of options, including paying off their loans as a percentage of their income over time. **And because of my strategy of reducing the deficit while investing in people's skills, there are jobs for those who finish college, so they can pay off their loans.**

Unfortunately, there will always be some who just do not take their responsibilities seriously, and expect taxpayers to cover for them. Fortunately for the taxpayers, this government has expanded the tools that it has to find these defaulters and arrange for payment. That has taught others that a student loan is not a free ride.

Today, I am proud to announce that we have brought the default rate down below 10 percent, the lowest rate since this data has been collected. The student loan program is now a shining example of government providing opportunity with accountability. This success comes from the hard work of government. It is a testament to our Secretary of Education, to the policies that we have implemented, and to the people that put them into practice.

Robert M. Shireman
10/25/98 08:37:02 PM

Record Type: Record

To: Jonathan Orszag/OPD/EOP, Melissa G. Green/OPD/EOP

cc: Jonathan A. Kaplan/OPD/EOP, Jake Siewert/OPD/EOP, julie_green @ ed.gov @ inet
Subject: Draft POTUS Statement

A draft is below. Two questions (other than the general approach): Should it also cite the economy, which has clearly also been a factor? Should it say "more than one out of five" instead of "nearly one out of four" (22.4%).

Loan ↓ rates / defaults

the focus reducing
→ ↓ rates...
→ reason to repay...

DRAFT POTUS STATEMENT

When I came into office, there was a student loan default crisis in this Nation. Nearly one out of every four students was failing to pay back his loans. Some of these Americans were victims of fly-by-night schools, which never came through on their promises. I am proud that over the past six years, my Administration has eliminated X,000 schools from the student loan program, protecting students and taxpayers from fraud and abuse.

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Unfortunately, there will always be some who just do not take their responsibilities seriously, and expect taxpayers to cover for them. Fortunately for the taxpayers, this government has expanded the tools that it has to find these defaulters and arrange for payment. That has taught others that a student loan is not a free ride.

~~Today's~~ student loan program is new a shining example of government providing opportunity with accountability. ~~And~~ the success ~~that we are announcing today in bringing defaults to a record low level~~ comes from the hard work of government. It is a testament to our Secretary of Education, to the policies that we have implemented, and to the people that put them into practice.

Today, I am proud to announce that ~~the default rate has dropped~~ we have managed to bring the default rate below 10 percent, the lowest rate ever. The

Robert M. Shireman
10/25/98 04:15:59 PM

Record Type: Record

To: Jonathan Orszag/OPD/EOP, Melissa G. Green/OPD/EOP

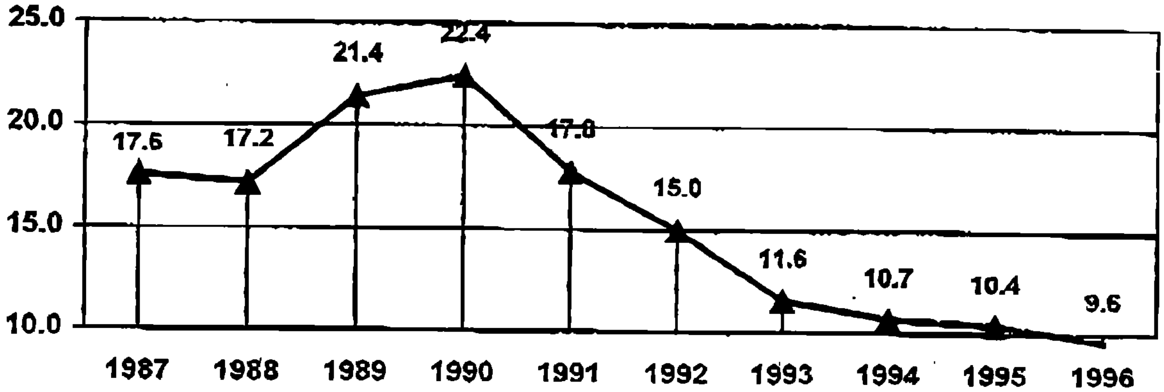
cc: Jonathan A. Kaplan/OPD/EOP, Jake Siewert/OPD/EOP, julie_green @ ed.gov @ inet
Subject: Student Loan Default Rates

- This afternoon, the Secretary of Education will release a report showing student loan default rates at the lowest level since this data began being collected 10 years ago.
- The national average default rate (in the first two years after borrowers finish school) is now below 10 percent (9.6%) for the first time. **Just six years ago, it was at crisis levels, more than double today's rate** (22.4%).
- Lower defaults means lower taxpayer costs, because the government picks up 98 to 100% of the cost of defaults.
- The lower rates are a result of a number of factors: (1) problem schools have been kicked out of the student loan program by the strong actions of the Congress and the Education Department, (2) a strong economy means students have jobs and can repay their loans, and (3) borrowers have more flexible repayment options as a result of reforms that this Administration has pursued.
- **Local info:** The report this afternoon will provide default rates for all colleges, and will list those that are in danger of losing their eligibility for federal aid due to high default rates.

First Draft: October 9, 1998

WORKING DRAFT DOCUMENT
EMBARGOED

National Cohort Default Rates: FY 1987–FY 1996



Highlighted Information

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- Approximately 1,065 schools have lost loan eligibility since the Default Management Initiative.

DRAFT – AS OF 10-14-98

Secretary's Federal Family Education Loan Program Institutional Default Rate Reduction Initiative Comparison of FY 1994, FY 1995, and FY 1996 Cohort Default Rates

	1994				1995				1996			
	# Schools	# Borrowers Defaulted	# Borrowers Entered Repayment	Borrower Default Rate (%)	# Schools	# Borrowers Defaulted	# Borrowers Entered Repayment	Borrower Default Rate (%)	# Schools	# Borrowers Defaulted	# Borrowers Entered Repayment	Borrow Defau. Rate (%
Public 4-yr	676	48,129	707,981	6.8%	682	54,946	772,375	7.1%	673	58,902	844,276	7.0
Public 2-yr	1,362	32,388	235,318	13.8%	1,355	36,944	260,036	14.2%	1,298	37,035	279,630	13.2
Private 4-yr	1,551	31,089	489,879	6.3%	1,575	34,889	506,475	6.9%	1,578	35,834	549,798	6.5
Private 2-yr	709	5,947	44,088	13.5%	633	5,504	38,162	14.4%	612	5,266	37,553	14.0
Proprietary (all)	3,236	81,489	385,477	21.1%	3,010	66,893	335,772	19.9%	2,924	60,129	330,124	18.2
4-yr+	89	6,731	40,308	16.7%	109	8,108	52,036	15.6%	130	8,805	59,469	14.8
2-4 yrs	516	21,441	113,255	18.9%	731	25,182	141,575	17.8%	750	24,226	145,457	16.7
Less than 2 yrs	2,631	53,317	231,914	23.0%	2,170	33,603	142,161	23.6%	2,044	27,098	125,198	21.6
Foreign	377	147	2,586	5.7%	374	136	2,467	5.5%	438	166	3,224	4.8
Unclassified	24	44	1,091	4.0%	15	34	1,166	2.9%	3	16	990	1.6
Total	7,935	199,233	1,866,420	10.7%	7,644	199,346	1,918,453	10.4%	7,524	197,338	2,045,595	9.6

Robert M. Shireman
10/22/98 04:05:37 PM

Record Type: Record

To: Shannon Mason/OPD/EOP, Jonathan Orszag/OPD/EOP, Jake Siewert/OPD/EOP

cc: Jonathan H. Schnur/OPD/EOP, Wayne Upshaw/OMB/EOP
Subject: Good News Announcement - Available for Wednesday 10/28 or Thurs-Fri

Student Loan Default Rates Dip Below 10%. For the first time in the 10 years since data has been collected, the default rate on federally-backed student loans is below 10% [someone will announce next week]. The rate -- the percentage of borrowers who are in default two years after they were supposed to begin paying -- peaked at 22.4 percent for loans entering repayment in 1990, and this year has dropped to 9.6 percent for loans entering repayment in 1996. The reduction is due to sanctions imposed on high-default schools, improved management, and a strong economy.