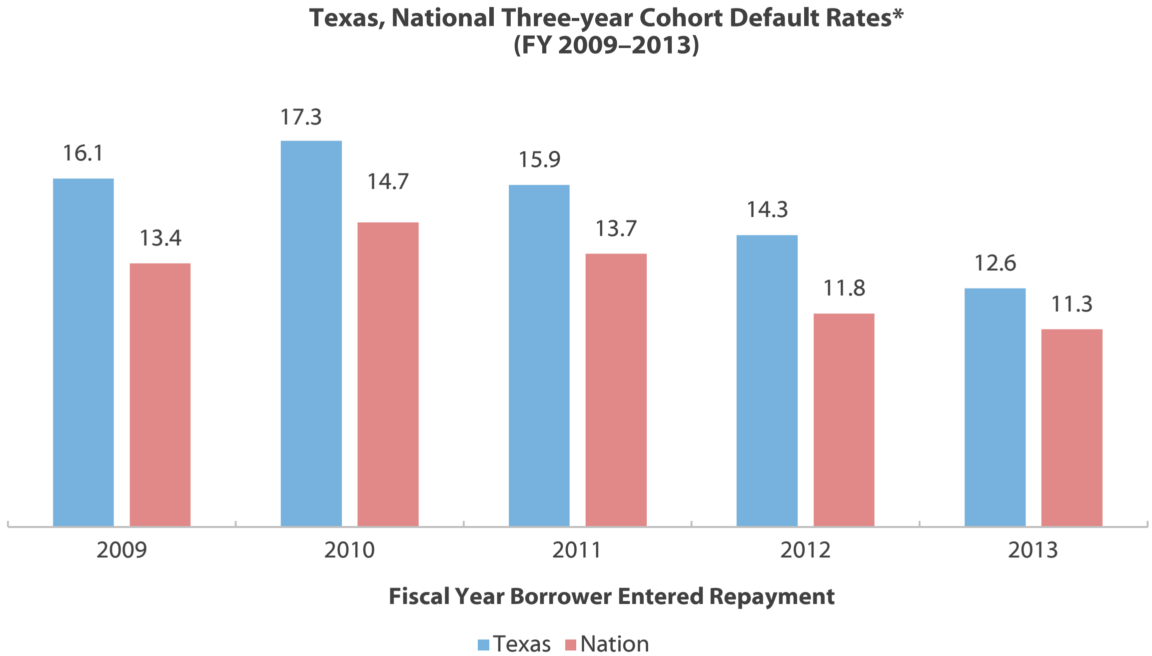
SECTION 9

Delinquencies, Defaults, and Collections

Default Rates for Texas and the Nation Decrease



The Higher Education Opportunity Act (HEOA) of 2008 redefined cohort default rates (CDRs) to cover a three-year period (as opposed to the previous two) and thus capture more borrowers who default. Publication of the new three-year rates began in 2012 for the cohort of borrowers who entered repayment on their loans in FY 2009. The Texas three-year CDR for the FY 2009 cohort was 16.1 percent, 2.7 percentage points higher than the national three-year CDR at 13.4 percent. The CDR for both Texas and the nation increased in FY 2010 before decreasing for the last three fiscal years. In FY 2013, the rates for Texas and the nation decreased by 1.7 and 0.5 percentage points, respectively.

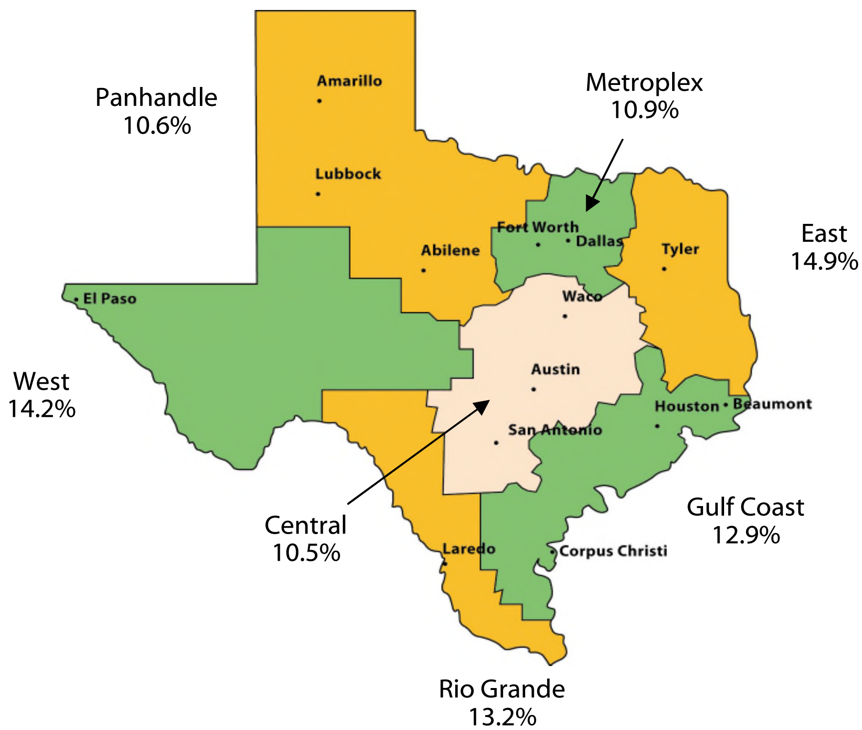
While the precise reason(s) for the recent decline in the CDR is not known, past evidence and other recent trends suggest it may have been caused at least partially by general economic improvement (particularly the falling unemployment rate) and increased usage of repayment flexibility options like income-driven repayment plans. The federal government and many institutions have made new efforts to inform borrowers of these repayment plans, which cap monthly payments at a percentage of income and require no payments at all below a certain income threshold. These efforts may be partially responsible for the declining default rate.

*A three-year cohort default rate is the percentage of student borrowers with loans entering repayment in a given fiscal year who default on their obligations during that given fiscal year or in the next two fiscal years that follow. The FY 2013 cohort default rate, for example, is based on student borrowers who entered repayment during FY 2013 and subsequently defaulted by the end of FY 2015.

Source: U.S. Department of Education, Fiscal Year Three-Year Official Cohort Default Rates, Washington, D.C., 2016.

Texas Three-year Cohort Default Rates Vary by Region

Three-year Cohort Default Rates*
(FY 2013)



The overall Fiscal Year (FY) 2013 three-year cohort default rate (CDR) for Texas was 12.6 percent (compared to 14.3 percent in FY 2012). Texas' FY 2013 CDR was 1.3 percentage points higher than the 11.3 default rate for the nation. Student loan default rates are higher in Texas despite lower than average total household debt per capita and lower delinquency rates on household debt.

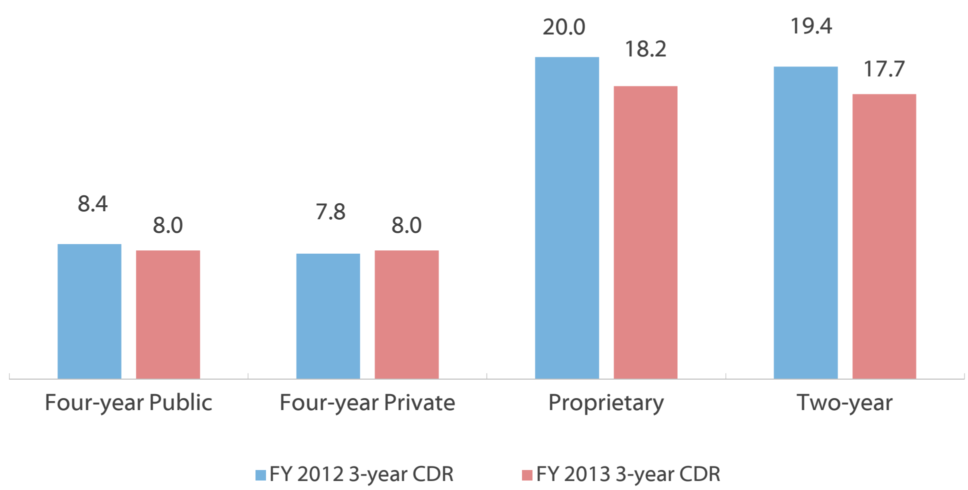
Cohort default rates vary substantially from region to region. In FY 2013, every regional CDR that was lower than the overall Texas CDR was also lower than the national CDR. The CDRs for the different regions of Texas vary from 14.9 percent in the East Texas region to a low of 10.5 percent in the Central Texas region. All of the Texas regions experienced a decrease in the three-year default rates between FY 2012 and FY 2013 except for the West Texas region, where the CDR increased from 13.3 percent in FY 2012 after dropping from 15 percent in FY 2011. The largest difference was seen for schools in the Rio Grande Valley region, where the three-year CDR continued to fall from 16.9 percent in FY 2012 and 17.4 percent in FY 2011. The Metroplex region has remained the most constant, having fallen by only .1 percentage points in each of the last two fiscal years.

*A three-year cohort default rate is the percentage of student borrowers with loans entering repayment in a given fiscal year who default on their obligations during that given fiscal year or in the next two fiscal years that follow. For example, the FY 2013 cohort default rate is based on student borrowers who entered repayment during FY 2013 and subsequently defaulted by the end of FY 2015.

Source: U.S. Department of Education, Fiscal Year 2011 and Fiscal Year 2013 Three-Year Official Cohort Default Rates, Washington, D.C., 2016.

Short-Term Programs Have Higher Three-year Default Rates

Texas Three-year Cohort Default Rates* by School Type



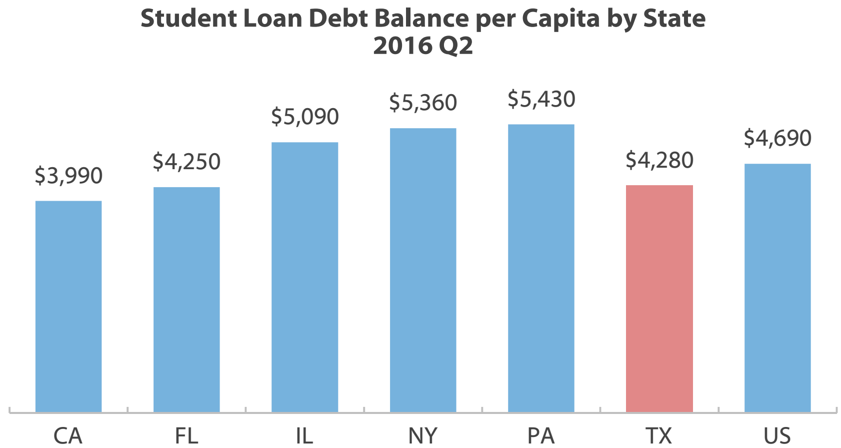
Texas borrowers who attended short-term programs have a combined FY 2013 three-year cohort default rate (CDR) more than twice the rate of those who attended four-year schools (17.8 percent and 8.0 percent, respectively). Although some proprietary schools offer bachelor's degrees or higher, most proprietary schools in Texas offer short-term programs exclusively. At 18.2 percent, the highest FY 2013 three-year CDR is for the proprietary sector, followed closely by the two-year sector with a 17.7 percent CDR. This is a minor reversal compared to the nation as a whole, where the proprietary sector had a 15 percent CDR (16.8 percent for 2-3 year programs) and the public two-year sector had an 18.5 percent CDR.

There are several factors that contribute to the tendency toward higher CDRs for short-term programs, as compared to four-year schools. For example, borrowers from short-term programs are more likely to have risk factors for dropping out of school, such as attending school part time and working full time, than are students from four-year colleges and universities.

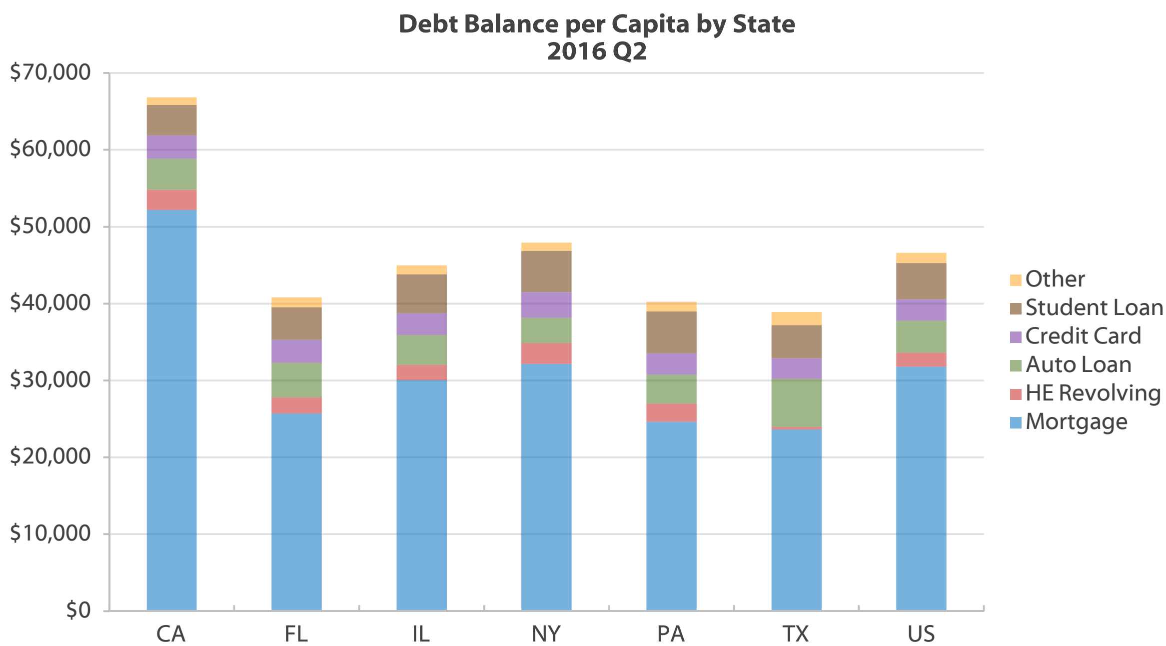
*A three-year cohort default rate is the percentage of student borrowers with loans entering repayment in a given fiscal year who default on their obligations during that given fiscal year or in the next two fiscal years that follow. The FY 2013 cohort default rate, for example, is based on student borrowers who entered repayment during FY 2013 and subsequently defaulted by the end of FY 2015.

Source: Cohort Default Rates: U.S. Department of Education, Fiscal Year 2013 Official Cohort Default Rates, Washington, D.C., 2015. ; All Other: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2012" (http://www.nces.ed.gov/das/).

Texas Student Loan Balance Per Capita Lower Than National Average



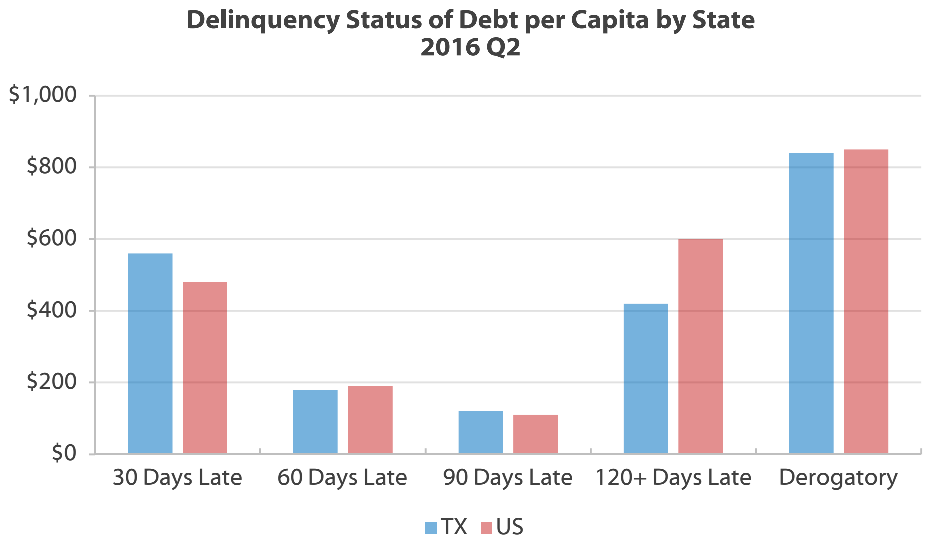
In the second quarter of 2016, Texans had a per capita student loan debt balance of about $4,280, higher than the national balance of $4,690. Texas has the second lowest student loan debt balance among the six largest states. Student loans in this analysis include loans to finance educational expenses provided by banks, credit unions and other financial institutions as well as federal and state governments.

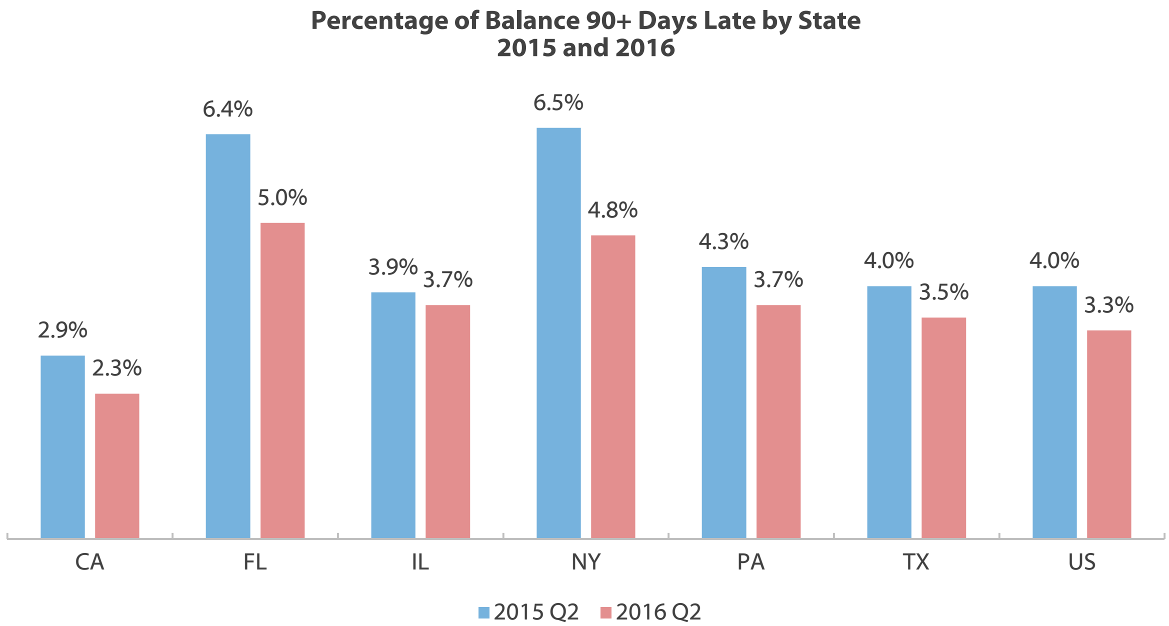


With a per capita average of $38,910 in debt, Texans have the lowest debt balance among the six largest states and the national average. This debt profile includes mortgage accounts, home equity revolving accounts, auto loans, bankcard or credit card accounts, student loans, and other loans (such as consumer finance and retail loans).

Source: Federal Reserve Bank of New York, The Center for Microeconomic Data, Data & Reports, 2016 Q2 (https://www.newyorkfed.org/microeconomics/data.html).

Texas Has Similar Rates of Delinquency on Household Debt Compared to the Nation





The amounts of debt in each stage of delinquency were not very different when comparing Texas and the US. Overall in the US and in the six largest states, the percentage of the debt balance that is severely delinquent – that is, 90 or more days late – had decreased by the end of the second quarter of 2016 compared to the end of the second quarter of 2015. Texas had the second lowest percentage of severely delinquent borrowers among the six largest states, but still higher than the overall US percentage.

Note: The Derogatory delinquency status includes a person with any level of delinquency combined with repossession, charge off to bad debt, or foreclosure.

Source: Federal Reserve Bank of New York, The Center for Microeconomic Data, Data & Reports, 2016 Q2 (https://www.newyorkfed.org/microeconomics/data.html).