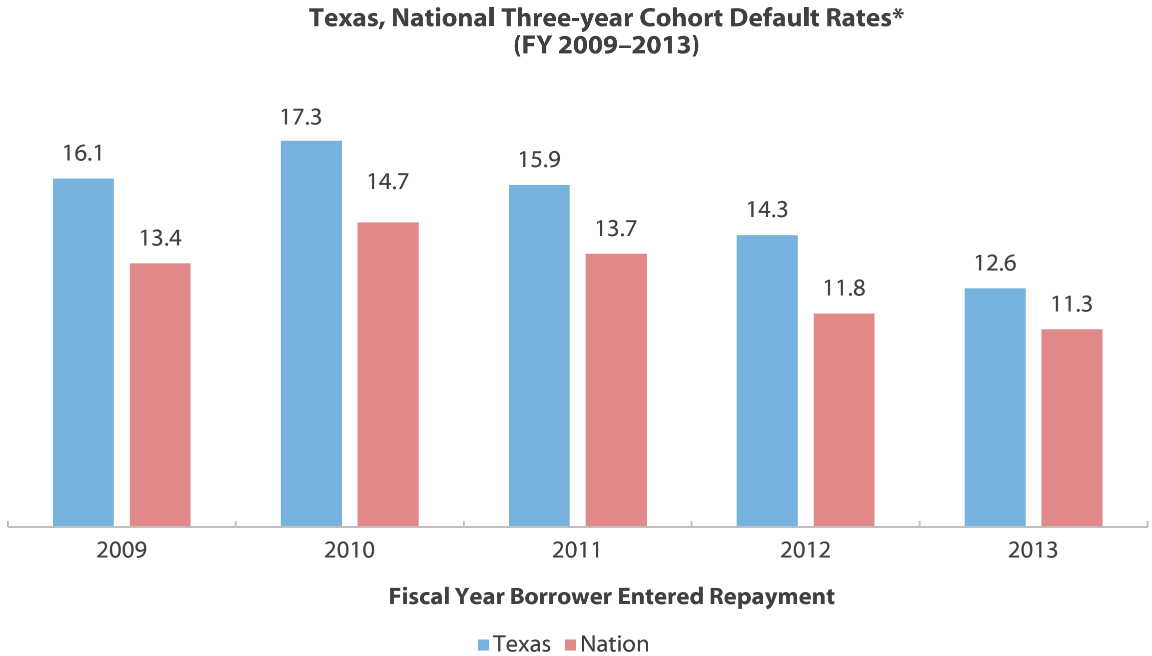
Default Rates for Texas and the Nation Decrease



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.