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PRESS RELEASES

Student Loan Defaults Remain at Historic Lows

FOR RELEASE:
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U.S. Secretary of Education Rod Paige today announced that the national student loan default rate remained at a historically low level-5.9 percent for FY 2000.

"The national student loan default rate continues to remain at a historically low level," Paige said. "Student loan repayment, like other consumer debt, is sensitive to changes in the economy, and there is a slight increase in the default rate this year compared to last year. For this reason, we need to remain steadfast in our commitment to provide borrowers with flexible repayment options and to help them keep their monthly payments manageable."

The national student loan default rate reached a high of 22.4 percent in FY 1990 and declined steadily to the FY 1999 low of 5.6 percent. Schools with excessive default rates of 25 percent or greater for three consecutive years, or greater than 40 percent for one year, face loss of eligibility to participate in the loan and/or Pell Grant programs. They have appeal rights and retain eligibility while an appeal is pending. This year, five schools faced loss of loan eligibility and two of these schools may also lose Pell Grant eligibility. (See fact sheet below.)

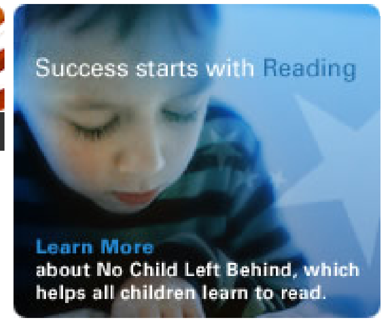
Paige credited colleges and universities for their concerted, ongoing efforts to increase borrower awareness of flexible repayment options that can help them avoid default. He also cited private sector partners in the loan programs for their diligent efforts to track borrowers and provide them with financial counseling to help manage their debt.

In addition, Paige noted that the Department, as part of its continuing effort to improve management of the student aid programs, has put in place a number of additional tools for identifying delinquent borrowers and collecting debt. For example:

- The Late Stage Delinquency Program assists schools in finding and counseling severely delinquent borrowers;
- The National Student Loan Data System provides schools with data on individual students scheduled to go into repayment so that they can counsel borrowers on their financial obligations;
- The Department's Default Prevention Day symposiums, held annually in cities across the country, have helped hundreds of colleges share practices proven effective in reducing defaults;
- The National Directory of New Hires, a database that houses employment and income information of all persons employed in the United States, is matched with the entire defaulted loan portfolio and has enabled the Department to gain current location information on almost two million defaulted borrowers;
- Performance-based contracts with private collection agencies have increased collections as well as reduced the costs of collection efforts; and
- The capture of income tax rebate checks, wage garnishments, legal proceedings and other collection tools recouped over $2.6 billion in FY 2002.

During FY 2002, which ends on Sept. 30, approximately 5.8 million federal student loan recipients will have borrowed $37.8 billion, more than triple the $11.7 billion borrowed in FY 1990. "College costs continue to increase, leading to ever greater levels of student indebtedness. The Bush administration, working together with Congress, has succeeded in securing initiatives to make college more affordable, especially for the neediest students, such as the $1 billion in supplemental Pell Grant funds recently approved by Congress. But clearly colleges can and should do more," Paige said.

The request for additional Pell Grant funds reflects the Bush administration's strong support for students pursuing higher education.



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- Since taking office, President Bush has proposed nearly $3 billion in increased funds for the Pell Grant program " the largest amount proposed by any president. Under the president's budget plan, nearly half a million more students would receive Pell Grants than before he took office.
- President Bush signed a new law in February that keeps interest rates low in the Stafford student loan program. Interest rates on student loans are currently as low as 4.06 percent.

Paige also noted that there are more than $22.7 billion in education-related benefits for American working families in the president's tax relief measure enacted last year, including provisions that:

- Eliminate the 60-month limitation on student loan interest deductions and increase the income levels of individuals able to claim the deduction, thus making the tax benefit simpler to administer and increasing the affordability of student loan repayment;
- Increase the annual limit on contributions to education savings accounts from $500 to $2,000;
- Add a new above-the-line deduction for qualified higher education expenses;
- Allow tax-free distributions from Qualified Tuition Plans (Section 529 plans) used to pay education expenses and permit private institutions to offer such plans; and
- Make the income exclusion for employer-provided education assistance permanent and extend the benefit of the exclusion to graduate-level courses.

Paige encouraged borrowers who believe they may be in default on a federal student loan to contact the holder of the loan immediately for more information about available repayment options. "Borrowers have a responsibility to repay their loans, but if they face financial difficulties, there are a number of options available to avoid default and its consequences," Paige said. Borrowers who need help locating past due accounts may call the Department's Debt Collections Service Center at 1-800-621-3115.

NOTE TO EDITORS: Individual school default rates are posted on the Department's Web site at:
http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html

Student Loan Default Fact Sheet

Cohort default rate is defined by statute as the percentage of borrowers who enter repayment in a certain fiscal year and default before the end of the next fiscal year. The new national default rate is for FY 2000"the most current data available-and represents the cohort of borrowers whose first loan repayments came due on or after October 1, 1999, the beginning of FY 2000, and who defaulted before September 30, 2001. A default is defined as 270 days without a payment.

The national rate reflects loans made to borrowers who attended some 6,400 individual schools that participated in the Family Federal Education Loan Program (FFEL) and the William D. Ford Federal Direct Loan Program.

Default Sanctions and Incentives

The Department has both regulatory and statutory authority to take action against high-default schools. The regulations were implemented in 1989, giving the Department the authority to terminate high-default schools from the federal student aid programs. Congress strengthened and expanded the Department's collection tools in 1990.

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 in the loan and Federal Pell Grant programs. Schools with a default rate of greater than 40 percent for one year face loss of eligibility in the loan programs. This year, five schools are faced with loss of loan eligibility and two schools may also lose Pell grant eligibility.

In the last decade nearly 1,200 schools lost eligibility to participate in the federal loan programs due to their high default rates.

The 1998 Higher Education Amendments created various incentives for schools to lower their default rates by providing additional regulatory flexibility to schools with rates below 5 and 10 percent.

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