

## Default Rates by Institution Level vs. Degree Program

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### EXECUTIVE SUMMARY

The US Department of Education should consider publishing cohort and lifetime default rate statistics disaggregated by degree program and institution control instead of (or in addition to) institution level and control. The US Department of Education currently publishes national cohort default rate statistics disaggregated by level and control of institution.<sup>1</sup> A similar segmentation of the data is used in the federal budget for projections of lifetime default rates.<sup>2</sup>

Institution level specifies whether the college is a 4-year, 2-year or less-than-2-year institution. Institution control specifies whether the college is a public, non-profit or for-profit institution. Degree program specifies whether the student is enrolled in a Certificate, Associate's degree, Bachelor's degree or more advanced degree program.

But 4-year colleges can and do offer 2-year degree programs and 2-year colleges can and do offer less-than-2-year programs, so institution level is not necessarily the same as the duration of the degree programs offered by the institution. Program duration may be more relevant to default rate trends than institution level. This paper demonstrates that there is an imperfect correlation between institution level and degree program. Disaggregating default rates by degree program may be more meaningful than disaggregating default rates by institution level. For example, if a 4-year college provides both 4-year and 2-year degree programs, disaggregating the institution's default rates by degree program may yield insights into differences in the quality of the two types of degree programs at the institution.

Disaggregating default rate statistics is easier because it involves aggregating institution-specific statistics according to the type of institution. But the US Department of Education has access to student-level default and enrollment data, and so should be capable of aggregating these statistics according to degree program and institution control.

### INSTITUTION LEVEL DOES NOT CORRELATE WELL WITH DEGREE PROGRAM

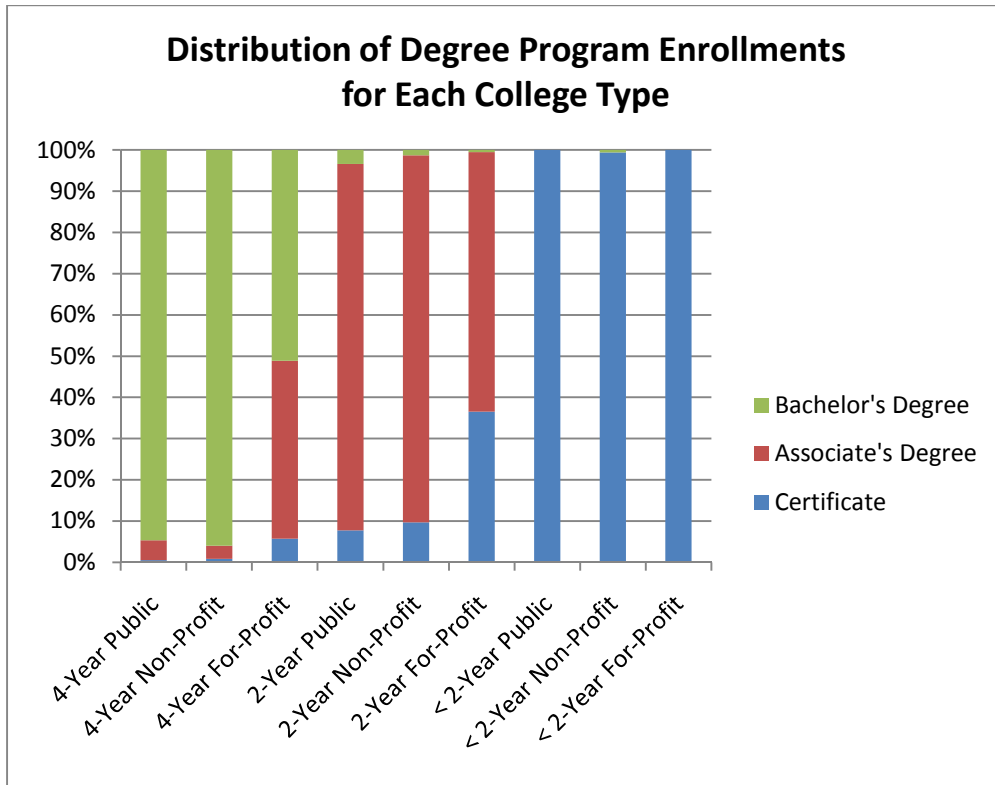
The following tables and charts are based on the data analysis system (DAS) for the 2007-08 National Postsecondary Student Aid Study (NPSAS). The NPSAS is a large survey conducted every four years by the National Center for Education Statistics at the US Department of Education. The 2007-08 NPSAS surveyed 114,000 undergraduate students.

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<sup>1</sup> [www2.ed.gov/offices/OSFAP/defaultmanagement/instrates.html](http://www2.ed.gov/offices/OSFAP/defaultmanagement/instrates.html)

<sup>2</sup> [ifap.ed.gov/eannouncements/121409CDRLifetimeRate2009.html](http://ifap.ed.gov/eannouncements/121409CDRLifetimeRate2009.html) and [www.whitehouse.gov/omb/budget/fy2011/assets/edu.pdf](http://www.whitehouse.gov/omb/budget/fy2011/assets/edu.pdf)

The first table and chart show the percentage of students at each level and control of institution that are enrolled in each degree program. As this table demonstrates, only about half of the students enrolled at 4-year for-profit colleges are pursuing a Bachelor's degree and only about two-thirds of the students enrolled at 2-year for-profit colleges are pursuing Associate's degrees. Clearly, if a college can claim to be a higher level institution it will do so because of the added prestige. But this also suggests that there are enough semantic differences between the meaning of institution level at for-profit and traditional colleges that comparisons of default rates according to institution level may not be meaningful.



Enrollments Institution Type	Degree Program		
	Certificate	Associate's Degree	Bachelor's Degree
<b>4-year</b>	1.1%	8.0%	90.9%
<b>Public</b>	0.5%	4.8%	94.7%
<b>Non-Profit</b>	0.8%	3.2%	96.0%
<b>For-Profit</b>	5.7%	43.2%	51.1%
<b>2-year</b>	9.5%	87.3%	3.2%
<b>Public</b>	7.7%	88.8%	3.4%
<b>Non-Profit</b>	9.7%	89.0%	1.3%
<b>For-Profit</b>	36.5%	63.0%	0.5%
<b>&lt; 2-year</b>	100.0%	0.0%	0.0%
<b>Public</b>	100.0%	0.0%	0.0%
<b>Non-Profit</b>	99.4%	0.0%	0.6%
<b>For-Profit</b>	100.0%	0.0%	0.0%

A similar trend applies even when the enrollments are restricted to students with federal student loans, as shown in the following table.

Enrollments with Federal Student Loans Institution Type	Degree Program		
	Certificate	Associate's Degree	Bachelor's Degree
<b>4-year</b>	1.3%	9.6%	89.1%
<b>Public</b>	0.2%	1.9%	97.8%
<b>Non-Profit</b>	0.4%	3.2%	96.4%
<b>For-Profit</b>	5.9%	43.4%	50.7%
<b>2-year</b>	14.1%	83.8%	2.1%
<b>Public</b>	3.4%	93.6%	2.9%
<b>Non-Profit</b>	3.8%	94.5%	1.7%
<b>For-Profit</b>	35.9%	63.6%	0.5%
<b>&lt; 2-year</b>	100.0%	0.0%	0.0%
<b>Public</b>	100.0%	0.0%	0.0%
<b>Non-Profit</b>	99.3%	0.0%	0.7%
<b>For-Profit</b>	100.0%	0.0%	0.0%

Likewise, a similar trend applies to completions, as demonstrated in the following table.

Completions Institution Type	Degree Program		
	Certificate	Associate's Degree	Bachelor's Degree
<b>4-year</b>	1.7%	6.7%	91.6%
<b>Public</b>	0.8%	4.1%	95.2%
<b>Non-Profit</b>	1.1%	3.1%	95.7%
<b>For-Profit</b>	11.5%	43.4%	45.0%
<b>2-year</b>	18.3%	79.3%	2.4%
<b>Public</b>	14.5%	82.8%	2.7%
<b>Non-Profit</b>	12.2%	87.3%	0.5%
<b>For-Profit</b>	47.1%	52.8%	0.1%
<b>&lt; 2-year</b>	99.9%	0.0%	0.1%
<b>Public</b>	100.0%	0.0%	0.0%
<b>Non-Profit</b>	98.8%	0.0%	1.2%
<b>For-Profit</b>	100.0%	0.0%	0.0%

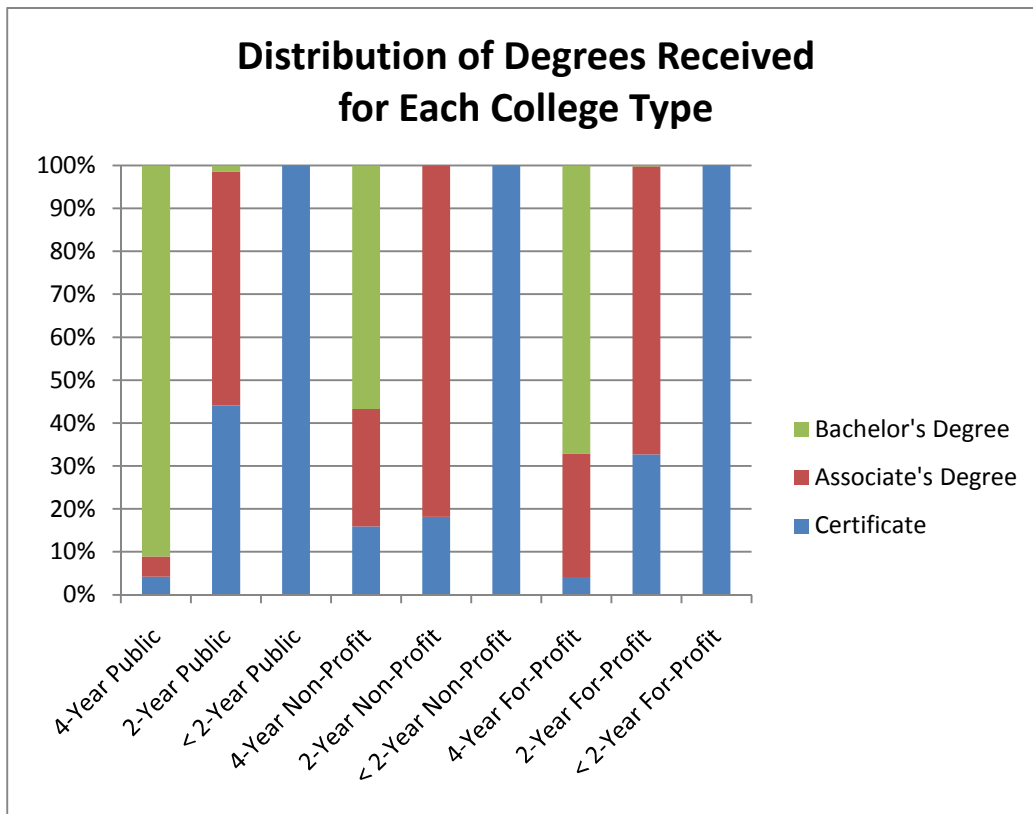
The following table shows the distribution of degree completions according to institution level. While Bachelor's degrees are strongly correlated with 4-year institutions, about a tenth of Associate's degrees are awarded at 4-year institutions and nearly half of Certificates are awarded at 2-year institutions.

Completions Degree Program	Institution Level		
	4-year	2-year	< 2-year
<b>Certificate</b>	6.5%	48.2%	45.3%
<b>Associate's Degree</b>	10.9%	89.1%	0.0%
<b>Bachelor's Degree</b>	98.2%	1.7%	0.0%

When the data is further disaggregated by institution control, there are significant differences among public, non-profit and for-profit colleges. Non-profit and for-profit colleges have a similar distribution of Associate's degrees, with about half of the degree recipients enrolled at 4-year institutions. Both have

almost two-thirds of the Certificates awarded at less-than-2-year institutions, but about a quarter of the Certificates are awarded at 4-year non-profit colleges and a quarter at 2-year for-profit colleges. At public colleges more than three quarters of Certificates are awarded at 2-year institutions and less than a fifth at less-than-2-year institutions, but there is a much stronger correlation of Associate's degrees with 2-year public institutions.

Completions Degree Program	Public Colleges			Non-Profit Colleges			For-Profit Colleges		
	4-year	2-year	< 2-year	4-year	2-year	< 2-year	4-year	2-year	< 2-year
<b>Certificate</b>	4.5%	77.0%	18.5%	28.1%	11.5%	60.4%	6.2%	27.9%	65.9%
<b>Associate's Degree</b>	5.0%	95.0%	0.0%	48.2%	51.8%	0.0%	42.8%	57.2%	0.0%
<b>Bachelor's Degree</b>	97.4%	2.6%	0.0%	99.9%	0.0%	0.0%	99.8%	0.2%	0.0%



All of these results demonstrate that degree program and institution level are not necessarily good proxies for each other.

### IMPACT OF INSTITUTION LEVEL AND DEGREE PROGRAM ON DEFAULT RATES

The following tables are based on the second follow-up to the 1995-96 Beginning Postsecondary Students Longitudinal Study (BPS:96/98/01), comparing default rates disaggregated according to combinations of institution control with institution level or degree program.

Of students enrolling in 1995-96, 6.6% of students at 4-year colleges, 10.7% of students at 2-year colleges and 25.7% of students at less-than-2-year colleges defaulted on their loans by 2001. Similarly, 6.2% of students in Bachelor's degree programs, 10.9% of students in Associate's degree programs and 19.3% of

students in Certificate programs defaulted on their loans by 2001. However, even though both measures show a monotonically increasing trend, this does not necessarily imply that the two trends are correlated.

The following table shows default rates by institution level further disaggregated by degree program. (Data listed as “NA” was too sparse to yield statistically significant results.) If default rates by institution level correlated strongly with default rates by degree program, the overall default rates for each type of 4-year institution would be very close to the default rates for Bachelor’s degree programs, the overall default rates for each type of 2-year institution would be very close to the default rates for Associate’s degree programs, and the overall default rates for each type of less-than-2-year institution would be very close to the default rates for Certificate programs. But the other degree programs might still differ significantly in the default rates.

Default Rates Institution Type	Degree Program			
	Certificate	Associate’s Degree	Bachelor’s Degree	Overall
<b>4-year</b>	7.4%	11.8%	6.2%	6.6%
<b>Public</b>	9.1%	9.7%	5.9%	6.2%
<b>Non-Profit</b>	NA	12.9%	6.1%	6.3%
<b>For-Profit</b>	NA	NA	24.7%	24.8%
<b>2-year</b>	9.8%	10.8%	NA	10.7%
<b>Public</b>	NA	8.8%	NA	8.5%
<b>Non-Profit</b>	NA	16.6%	NA	17.3%
<b>For-Profit</b>	12.8%	26.2%	NA	21.0%
<b>&lt; 2-year</b>	25.1%	NA	NA	25.7%
<b>Public</b>	9.3%	NA	NA	9.3%
<b>Non-Profit</b>	NA	NA	NA	NA
<b>For-Profit</b>	26.3%	NA	NA	26.8%
<b>All Colleges</b>	19.3%	10.9%	6.2%	9.8%

As the highlighted data indicates, there is a pretty good correlation between the overall default rates for each college type and the corresponding degree program. But the available data also shows significant differences within each institution type according to degree program. For example, 4-year non-profit colleges have a 6.1% default rate for Bachelor’s degree programs, not much different than the overall 6.3% default rate, but the default rate for Associate’s degree programs is more than double at 12.9%. But since Associate’s degrees account for only 3.2% of the enrollments at 4-year non-profit colleges, the higher default rate for Associate’s degree recipients contributes minimally to the overall default rate, about 22 basis points. Similarly, 2-year for-profit colleges have a 26.2% default rate for Associate’s degree programs, somewhat higher than the 21.0% overall default rate, but the default rate for Certificate programs is less than half that rate at 12.8%. Since the Certificate programs represent 36.5% of the enrollments at 2-year for-profit colleges, the lower default rate contributes more significantly to the lower overall default rate, a reduction of about 489 basis points.

These results demonstrate that while there is a pretty good correlation between default rates by level and default rates by degree program, there are nevertheless significant differences.

The following table shows the distribution of defaulted borrowers by institution level for each degree program. A non-trivial percentage of the defaults in Certificate programs occurred at 2-year institutions and a non-trivial percentage of the defaults in Associate’s degree programs occurred at 4-year institutions.

Defaults Degree Program	Institution Level		
	4-year	2-year	< 2-year
Certificate	2.3%	15.8%	82.0%
Associate’s Degree	9.1%	90.9%	0.0%
Bachelor’s Degree	100.0%	0.0%	0.0%

The following table shows the same data but disaggregated by institution control. Note how more than a third of the defaults in Associate’s degree programs at non-profit colleges occur at 4-year institutions and more than a tenth of the defaults in Certificate programs at for-profit colleges occur at 2-year institutions.

Defaults Degree Program	Institution Level		
	4-year	2-year	< 2-year
<b>Public Colleges</b>	45.0%	53.9%	1.1%
Certificate	NA	NA	NA
Associate’s Degree	6.7%	93.3%	0.0%
Bachelor’s Degree	100.0%	0.0%	0.0%
<b>Non-Profit Colleges</b>	85.7%	14.3%	0.0%
Certificate	NA	NA	NA
Associate’s Degree	37.9%	62.1%	0.0%
Bachelor’s Degree	100.0%	0.0%	0.0%
<b>For-Profit Colleges</b>	5.7%	31.5%	62.8%
Certificate	0.0%	11.2%	88.8%
Associate’s Degree	5.6%	94.4%	0.0%
Bachelor’s Degree	NA	NA	NA

The following table shows the distribution of defaulted borrowers by degree program for each institution level. Again, more than a tenth of the defaults at 4-year institutions were in Certificate or Associate’s degree programs and more than a tenth of the defaults at 2-year institutions were in Certificate programs.

Defaults Institution Level	Degree Program		
	Certificate	Associate’s	Bachelor’s
4-Year	1.7%	9.2%	89.1%
2-Year	11.5%	88.5%	0.0%
< 2-Year	100.0%	0.0%	0.0%

## CONCLUSION

These results demonstrate that the correlation between institution level and degree program is imperfect when used to analyze default rates. The disaggregation of default rates by institution level as opposed to degree program may be masking important differences in the default rates at public, non-profit and for-profit colleges. The US Department of Education should consider publishing cohort and lifetime default rates disaggregated by institution control and degree program instead of (or in addition to) the same rates disaggregated by level and control of institution.

Disaggregating the default rates by degree program and institution control will yield some differences as compared with the current disaggregation by institution level and control. Default rates for Bachelor’s degree programs will likely be slightly lower than the previous default rates at 4-year institutions, although it is possible that the default rates for Bachelor’s degree programs at non-profit colleges will be higher than the previous default rates at 4-year non-profit colleges. Default rates for Associate’s degree programs at public colleges will be slightly higher than default rates at public 2-year institutions. Default rates for Associate’s degree programs at non-profit colleges will be slightly lower than default rates at non-profit 2-year institutions. Default rates for Associate’s degree programs at for-profit colleges will be significantly higher than default rates at for-profit 2-year institutions. Default rates for Certificate programs will likely be similar to the default rates at less-than-2-year institutions. These differences are illustrated in the following table.

<b>Institution Control</b>	<b>Degree Program</b>	<b>Comparison</b>	<b>Institution Level</b>
<b>Public</b>	Bachelor’s Degree	Slightly lower	4-year
<b>Non-Profit</b>	Bachelor’s Degree	Slightly lower, possibly higher	4-year
<b>For-Profit</b>	Bachelor’s Degree	Slightly lower	4-year
<b>Public</b>	Associate’s Degree	Slightly higher	2-year
<b>Non-Profit</b>	Associate’s Degree	Slightly lower	2-year
<b>For-Profit</b>	Associate’s Degree	Significantly higher	2-year
<b>Public</b>	Certificate	Similar	< 2-year
<b>Non-Profit</b>	Certificate	Similar	< 2-year
<b>For-Profit</b>	Certificate	Similar	< 2-year

Switching from disaggregating default rates by institution level and control to disaggregating default rates by institution control and degree program will be somewhat unfavorable for the for-profit colleges, especially for Associate’s degree programs, but such a change is necessary to properly inform public policy and to accurately project lifetime default rates.