Explaining Student Loan Default Rates Across U.S. Universities

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Explaining Student Loan Default Rates Across U.S. Universities

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Abstract
The question being asked in this research paper is what explains student loan default rates across the three types of United States universities. The three types of universities are non-profit, for-profit, and public. This paper uses regression analysis to regress several explanatory variables on the dependent variable, which is the default rate. The explanatory variables used are the median SAT scores for incoming freshman, admission percentage, the average net price to attend a university for students, percentage of the student body who is black, percentage of the student body who is taking all online classes, non-profit universities, and for-profit universities. The public universities variable is used as the base level group. The most important finding from this research is that high default rates do not rest on the university, but the type of students the university caters to.

Introduction
Default rates have been increasing in all three types of United States universities. The three types of universities are non-profit, for-profit, and public. The question being asked in this research paper is what explains the student loan default rate across these three types of universities. This paper uses regression analysis to regress several explanatory variables on the dependent variable, which is the default rate. The goal of this is to see if one variable influences the default rate more than others or does a combination of certain variables influence the default rate more.

Data and Methodology
The data on student loan defaults comes from the United States Department of Education’s Federal Student Aid Website. All other variables in this study come from the National Center for Education’s Statistics’ IPEDS database. The variables correspond to the 2016-2017 academic year, the 2016 fiscal year, or fall 2016. Several variables are used in this research to explain student loan default rates across United States universities. The dependent variable used is the default rate and is labeled as default_rate. The explanatory variables used are the median SAT scores for incoming freshman (sat_act), admission percentage (admit_pct), the average net price to attend a university for students (price_avg_net_aid), percentage of the student body who is black (black_pcttotal), percentage of the student body who is taking all online classes (online_all_pct), non-profit universities (2.control), and for-profit universities (3.control).

Selected Results
Once the sixth explanatory variable is added to the regression model, the regression suggests that both the non-profit and for-profit variables are not statistically significant. Once the full model regression is used, the default rate for non-profit and for-profit universities are .083 and .073 percentage points lower compared to the control group. Getting Pell Grants is associated with a .071 increase in the average student loan default rate; however, the full model reveals no statistical difference in default rates between the three types of universities once student demographics, admission rate, and the median SAT score of students are controlled for.

Conclusion
The data suggest that high default rates do not rest on the university, but the types of students that the university caters to. Initially, the type of university appears to be related to the average student loan default rate; however, the full model reveals no statistical difference in default rates between the three types of universities once student demographics, admission rate, and the median SAT score of students are controlled for.

References

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