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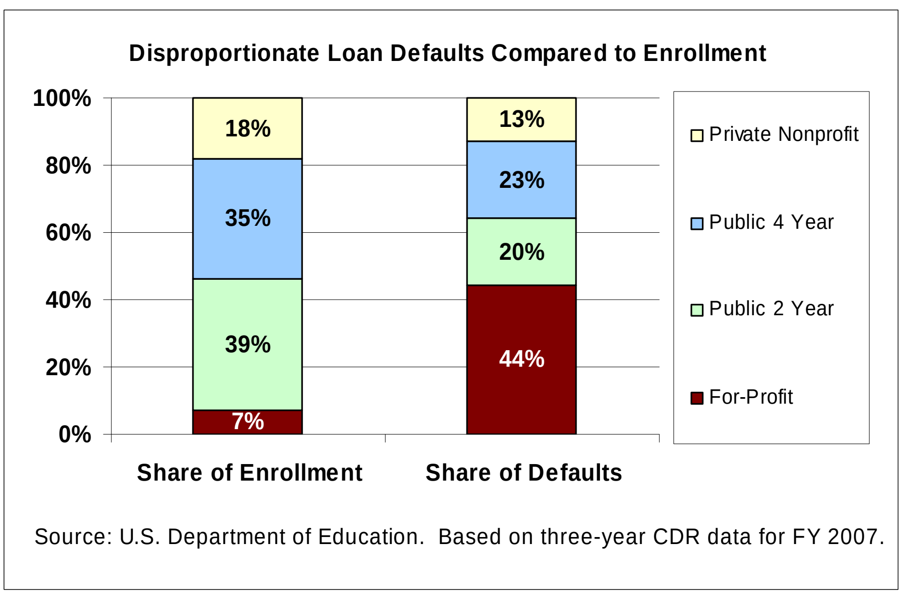
New Default Rate Data for Federal Student Loans: 44% of Defaulters Attended For-Profit Institutions

Berkeley (CA) – Yesterday the U.S. Department of Education released a preview of college "cohort default rates" for federal student loans using a more robust methodology that will take effect in 2011. The new data show nearly 400,000 students who entered repayment in 2007 had defaulted by 2009, representing 12 percent of all students who entered repayment that year. Nearly half of these borrowers (44 percent) attended for-profit schools, even though only 1 in 14 students (7 percent) attend such schools.

Since 1989, cohort default rates have measured the share of students who defaulted on their student loans within the first *two* years of repayment. The Higher Education Opportunity Act of 2008 changed the cohort default rate calculation to measure the share defaulting in the first *three* years of repayment. The three-year CDRs preview what the default rates would look like if the 2011 policy were in effect today.

"These data can help colleges prepare for the coming change and send a wake-up call to schools with high default rates and significant numbers of borrowers," said Deborah Cochrane, program director at the Institute for College Access & Success. "While some increase in overall defaults may be the result of unemployment and the economy, those factors do not explain the large numbers and percentages of defaults at certain schools. Disturbingly high default numbers mean the education students received did not give them the earning power to repay their student loans. The new 'three-year CDR' is a more accurate and meaningful measure of defaults, increasing colleges' accountability for their students' financial well-being."



Defaulting on a federal student loan is a disastrous and long-lasting financial problem for borrowers. It ruins their credit and makes them ineligible for further federal financial aid. The government can garnish their wages and seize income tax refunds without a court order, and can add large collection fees to the outstanding debt. There is no statute of limitations on federal student loan collections, and those unable to pay are unlikely to get relief through bankruptcy. It takes 270 days of non-payment to default on a federal student loan.

The Department also provided important information about enrollment at each school in this preview of the new rates, which shows that student loan defaults are disproportionately a problem for proprietary colleges and their students. Community colleges and for-profit colleges both enroll large numbers of lower income students, but far fewer students borrow and default at community colleges.

Schools with default rates above certain levels risk losing access to federal student aid. The new data indicate that very few public or nonprofit colleges would be at risk of sanctions under the new methodology. While default rates rise for almost all institutions under the new methodology, they rise less at public and nonprofit colleges than at for-profit colleges. For-profit colleges already have the highest default rates using the current methodology, and they appear to be at even higher risk of losing access to federal aid programs under the new methodology.

The Institute's recent report, *Getting with the Program: Community College Students Need Access to Federal Student Loans*, examined the issue of public two-year colleges opting not to offer federal student loans, due in large part to fears of high default rates. Few community colleges are likely to be at risk of sanction under the new methodology, as the vast majority of public two-year colleges' rates still fall below sanction thresholds. Low numbers of borrowers at these schools further reduce their risk of sanction. Schools where only a small proportion of students borrow – often the case at public two-year community and technical colleges – can appeal potential sanctions on that basis. This is called a "participation rate index appeal."

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See the U.S. Department of Education's preview of draft three-year cohort default rates by institution.