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Sharp Uptick in Federal Student Loan Default Rates

More than half the increase is from students who attended for-profit colleges

(Oakland, CA) – New data released today by the U.S. Department of Education shows a sharp increase in the rate at which student loan borrowers are defaulting. The official "two-year cohort default rates" show that 8.8 percent of student loan borrowers who entered repayment in 2009 had defaulted by the end of 2010, up from 7 percent for those entering repayment in 2008. Across all colleges, about 320,000 borrowers who entered repayment in 2009 defaulted by the end of 2010 – 81,000 more than the 239,000 borrowers who entered repayment in 2008 and defaulted by the end of 2009. More than half of this increase came from students who attended for-profit schools: about 49,000 of the 81,000.

"Two-year cohort default rates are just the tip of the iceberg when it comes to demonstrating the extent of borrower difficulty," said Debbie Cochrane, program director at the Institute for College Access & Success (TICAS), home of the Project on Student Debt. "Research indicates that most student loan borrowers who default do so after the two-year window is over."

The consequences of default for students are severe and long-lasting. The resulting debt can follow borrowers for the rest of their lives, ruining their credit, making it difficult to buy a car or a home or even rent an apartment, limiting their job prospects, and making it impossible to get federal grants or loans to return to school. Colleges with high cohort default rates may lose the ability to offer federal grants and loans to their students.

As in previous years, for-profit colleges overall have the highest two-year cohort default rates. For borrowers entering repayment in 2009, 15 percent of borrowers from for-profit colleges defaulted – more than twice the rate at public colleges (7.2 percent) and more than three times the rate of non-profit colleges (4.6 percent). For-profit colleges also experienced the biggest increase between 2008 and 2009 rates – a 29 percent jump compared to 19 percent at public colleges and 17 percent at non-profits.

"The weak economy does not explain the tremendous variation in default rates by type of school. These data make clear that students who attend for-profit colleges are at much greater risk of defaulting than students who attend other colleges," said Cochrane. "That's not just because the default rates of borrowers is so much higher, but also because students at for-profit colleges are so much more likely to borrow in the first place."

In 2007-08, the most recent year of data available, 92 percent of students at for-profit colleges borrowed student loans, compared to 27 percent of students at public colleges and 60 percent of students at private non-profit colleges. The percentage of students borrowing is lowest at community colleges at just 13 percent.

The new data, combined with continued revelations related to fraud and abuse by for-profit colleges, clearly demonstrate the need for greater action to protect both students and taxpayers from schools with high borrowing and default rates. Beginning in 2014, college sanctions for high cohort default rates will be based on defaults that occur during a three-year window of time, rather than the current two-year window. This is an important step, but more must be done by Congress and the Administration. The Department of Education is preparing to enter into a new round of negotiated rulemaking, providing an opportunity to offer much-needed protections for students and taxpayers.

Please visit the Project on Student Debt's Cohort Default Rate Resources for more information.

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An independent, nonprofit organization, the Institute for College Access & Success works to make higher education more available and affordable for people of all backgrounds. The Institute's Project on Student Debt works to increase public understanding of rising student debt and the implications for our families, economy, and society. For more information see www.projectonstudentdebt.org and www.ticas.org.