THE PROJECT ON STUDENT DEBT

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Federal Student Loan Default Rates on the Rise

43 Percent of Defaulters Attended For-Profit Institutions

(Oakland, CA) – Today the U.S. Department of Education released new data showing that the national "cohort default rate" on federal student loans is 7.0 percent for borrowers who entered repayment in 2008, up from 6.7 percent last year. The default rate at for-profit colleges is highest at 11.6 percent – almost double the average rate for public colleges. Nearly half of all defaulters (43 percent) attended for-profit schools, even though these schools enrolled only about ten percent of all college students during the relevant time period.

"Students who attend for-profit colleges are the most likely to borrow, they borrow the most, and they are the most likely to default on their federal student loans," said Debbie Cochrane, program director at the Institute for College Access & Success, home of the Project on Student Debt. "They are also the most likely to take out risky private student loans, which are not even captured in these federal default rates."

The data released today measure the share of each college's federal student loan borrowers who default within the first two years of repayment. Since it takes at least nine months of non-payment to default, these are people who are unable to make their loan payments very soon after leaving school. The consequences of default for students are severe and long-lasting. The resulting debt can follow borrowers for the rest of their lives, subjecting them to harassment by collection agencies, ruining their credit, making it difficult to buy a car or a home, 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.

While high unemployment and the weak economy play a significant role in the highest default rates since 1997, they do not explain the large numbers and percentages of defaults at certain schools. The for-profit college industry's own recent study concluded that, even after accounting for differences in student demographics, its graduates are twice as likely to default as graduates of other types of colleges.

"Rising student loan default rates are troubling because of their costs for both students and taxpayers. These new data underscore the urgent need for the Obama Administration to adopt and enforce regulations to curb career education practices that leave students deep in debt they cannot repay," said Cochrane. A broad coalition of civil rights, student, consumer and college access advocates have called on the Administration to adopt a strong "gainful employment" rule that would help protect students and taxpayers from costly student loan defaults and poor quality, overpriced career education programs.

At schools where relatively few students borrow, cohort default rates may not be as useful as an indicator of how former students are faring. In 2007-08, only 13 percent of community college students took out student loans, compared to 97 percent of students at two-year for-profit colleges. This year, along with the official default rates, the Department has included enrollment numbers to help with the interpretation of the new rates.

The rates released today only include defaults within the first two years of repayment. In the coming months, the Department will release rates covering the first *three years* of repayment, which provide a more meaningful and accurate measure of defaults.

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