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Share of Federal Student Loan Borrowers Entering Default Declines

Yet a Record Number of Borrowers are in Default

(Oakland, CA) – The rate at which new federal student loan borrowers enter default declined for the third year in a row. New federal data show that among borrowers who entered repayment in 2013, 11.3% had defaulted on their loans by 2015. That is down from 11.8% of borrowers who entered repayment the prior year and 13.7% the year before that. While the lower default rate among borrowers entering repayment is good news, the total number of borrowers in default has continued to grow and is now at a record 8.1 million—more than the entire population of 38 states.

The "cohort default rates" (CDRs) released today measure the share of a college's federal student loan borrowers who default within three years of entering repayment. It takes at least nine months of nonpayment to default on a federal student loan. The U.S. Department of Education calculates CDRs as a measure of whether schools are a good investment of student and taxpayer funds. Colleges with significant borrowing rates and high CDRs can lose access to federal grants and loans for their students.

"It's great that recent borrowers are entering default at a slower rate," said **Lauren Asher**, president of The Institute for College Access & Success (TICAS). "Yet the escalating number of people in default demonstrates that more must be done to help students avoid and get out of default."

Consequences of Default for Students and Colleges

Colleges with three consecutive default rates at or above 30% can lose eligibility for all federal aid; colleges with a default rate above 40% in a single year can lose eligibility for federal loans only. The rates released today indicate that 10 schools may lose eligibility for some or all federal financial aid. Colleges facing sanctions may appeal their rates or penalties based on certain criteria, such as poor loan servicing or low borrowing rates.

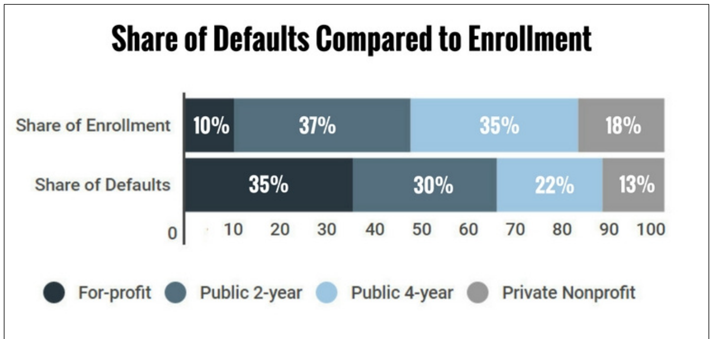
"Schools are only held accountable for defaults in the first three years of repayment, while borrowers face severe and long lasting consequences no matter when they default," said **Debbie Cochrane**, vice president at TICAS.

Defaulted student loan debt can follow borrowers for the rest of their lives, ruining their credit, making it hard to buy a car or rent an apartment, limiting job prospects, and making it impossible to get federal grants or loans to return to school. Defaulted borrowers may also face garnished wages, seized income tax refunds, and diminished Social Security checks.

Disproportionate Defaults at For-Profit Colleges; Defaults Rates for Closed Schools Not Reported

Of the 593,000 borrowers who entered repayment in 2013 and defaulted by 2015, 209,000 (35%) attended for-profit colleges, which enrolled only 10% of all students. Of the 10 schools facing potential sanctions, nine are for-profit colleges.

While the Department does not release school-level default rates for closed schools, the 8.1 million borrowers currently in default include students who attended schools that have now closed. Many of the schools that closed recently, such as Corinthian-owned Everest, Wyotech, and Heald College campuses and Marinello Schools of Beauty, are known to have committed widespread fraud, putting their former students at greater risk of default.



Source: U.S. Department of Education, IPEDS 12-month unduplicated headcount for all students enrolled in 2013-14 in schools in the 50 states plus DC, and FY 2013 three-year CDRs. Percentage figures may not add up to 100% due to rounding.

"It is unconscionable to subject students to the consequences of default when the law entitles them to have their student loans discharged," said **Pauline Abernathy**, executive vice president of TICAS. "We call on the Department to stop requiring individual discharge applications from borrowers the Department knows were defrauded and automatically cancel their loans instead."

Importance of Borrowing Rates in Interpreting CDRs

Cohort default rates include only those students who borrow federal loans. The chance that any student at a school will default is based on what share of students at the college borrow and the default rate among borrowers. For example, a 10% default rate at a school where 100% of students borrow means students have a 1 in 10 chance of defaulting, while a 10% default rate at a school where 20% of students borrow means odds are a much lower 1 in 50 (2%). The likelihood of a student defaulting at a for-profit college is three times higher than at a 4-year public college and three and a half times higher than at a community college (where a student's chance of defaulting is just 3.1% after considering the borrowing rate).

All defaults have severe consequences for borrowers, and schools should always work to prevent them. However, CDRs say much less about a whole school when only a small share of students borrow. Federal law acknowledges the importance of borrowing rates, as colleges where fewer than 21% of students borrow have protections from CDR sanctions.

CDRs and Repayment Rates Together Can Help Identify CDR Manipulation

While CDRs show the share of borrowers who have not made any payments for close to a year, repayment rates show the share of borrowers who are paying down their principal loan balance. Using default and repayment rates together gives an indication of how many students have avoided default but are not making progress in paying off their loans. These students may be behind on their payments, in forbearance or deferment, or in a repayment plan where their balance is growing rather than shrinking. Across all schools, about 22% of borrowers fall in this category. At schools that are manipulating their cohort default rates by pushing borrowers into forbearance or deferment, this middle group – those who are neither in default nor paying down their debt – will be particularly large.

A new TICAS analysis found hundreds of colleges where at least 40% of borrowers are in this middle category. The vast majority are for-profit colleges, some of which have acknowledged using forbearance to avoid accountability. While forbearance can help borrowers with short-term financial problems avoid default by postponing payments, interest keeps accruing and later capitalizes, making eventual repayment even more difficult.

Recommendations for the Department of Education

To ensure appropriate accountability for schools and relief for students, there are several steps the Department can and should take, including:

- Improve student loan servicing and collections to better help borrowers stay out of default and to get back on track after defaulting;
- Provide automatic loan discharges to students entitled to them under federal law. The Department has the authority to do this currently and is expected to formalize a process for doing so in forthcoming regulations; and
- Crack down on CDR manipulation through administrative actions, including investigating where CDR manipulation may be occurring.

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NOTE: For more information, please see our CDR Resources Page for the latest CDRs, CDRs from previous years, and our sortable spreadsheet of CDRs by institution.

An independent, nonprofit organization, The Institute for College Access & Success (TICAS) works to make higher education more available and affordable for people of all backgrounds. Our 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.ticas.org or follow us on Twitter and Facebook.