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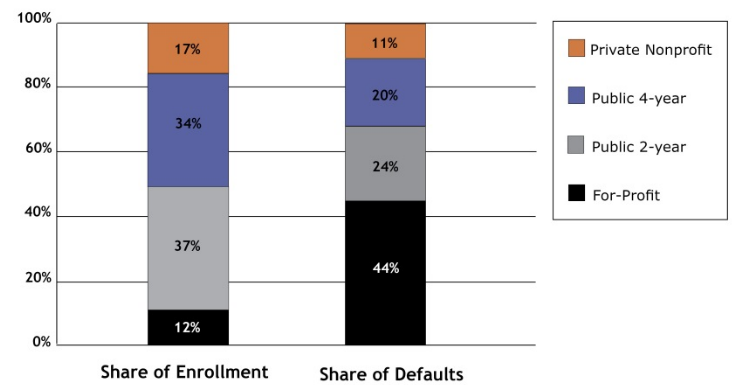
CONTACTS:
Gretchen Wright, 202/371-1999
Shannon Gallegos, 510/318-7915

Despite Lower Rates, More Than 650,000 Defaulted on Federal Student Loans

For-Profit Colleges Account for Nearly Half of all Defaults

(Oakland, CA) – More than 650,000 federal student loan borrowers who entered repayment in 2011 defaulted on their loans by 2013, new federal data show. For-profit colleges account for nearly half of these defaults (288,000 or 44%) despite enrolling just 12 percent of students nationally. For-profit colleges also continue to have a much higher average default rate than other types of schools: 19.1 percent, compared to 12.9 percent at public colleges and 7.2 percent at nonprofit colleges. Across all colleges, 13.7 percent of borrowers defaulted within three years of entering repayment, a slight decrease from the rates reported for the previous year, but still higher than just two years ago.

Disproportionate Loan Defaults Compared to Enrollment



Source: U.S. Department of Education, IPEDS 12-month enrollment for 2012-13 for schools in the 50 states plus DC, and FY 2011 three-year CDRs.

These "cohort default rates" (CDRs) 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. CDRs are calculated by the U.S. Department of Education as a measure of whether schools receiving federal money are a good investment of student and taxpayer funds. Colleges with significant borrowing rates and high CDRs can lose eligibility to provide federal grants and loans to their students. Based on the rates released today, 21 schools, 20 of which are for-profit colleges, may lose eligibility for federal aid.

"The threat of CDR sanctions is intended to provide colleges with a powerful incentive to help keep students out of default, and the sanctions themselves protect students and taxpayers from investing in colleges that leave too many students with debt they can't repay." said **Debbie Cochrane**, research director at The Institute for College Access & Success (TICAS).

Importance of Borrowing Rates

Cohort default rates include only those students who borrow federal loans, and the share of students who borrow varies from college to college. The chance that any *student* at a school will default is the product of both the school's borrowing rate and its default rate. The likelihood of a *student* defaulting at a for-profit college is more than three times higher than at a 4-year public or nonprofit college and almost four times higher than at a community college (where a student's chance of defaulting is just 3.5% after considering the borrowing rate).

While all defaults have severe consequences for borrowers, and schools should always work to prevent them, CDRs say much less about a whole school when only a small share of students borrows. Federal law acknowledges the importance of borrowing rates in conjunction with CDRs, as colleges where fewer than 21 percent of students borrow have protections from sanctions. Indeed, the only public school currently slated for sanction, Ventura Adult and Continuing Education in California, reported a borrowing rate of just 13 percent for 2012-13 – a rate that would allow it to successfully appeal the sanctions.

"At schools with both high borrowing rates and high default rates, too many students are clearly leaving school worse off than before they entered," said **Cochrane**. "At schools where borrowing isn't the norm, high default rates are troubling but say less about the school as a whole."

Consequences of Default for Students and Colleges

Colleges have long been held accountable for keeping default rates in check. Previously, college sanctions were applied based on the share of borrowers who defaulted within two years of entering repayment, but Congress in 2008 changed the calculation to include borrowers who default within three years. Colleges have had six years to prepare for the new standards being enforced this year. Currently, colleges with three consecutive default rates at or above 30 percent can lose eligibility for all federal aid; colleges with a single year's default rate above 40 percent can lose eligibility for federal loans only.

The move to measuring defaults that occur within three years of entering repayment is long overdue, because the two-year measurement captured only those defaults that occurred in a very narrow window of time. Borrowers face severe and long lasting consequences no matter when they default, and the new calculation more closely aligns the consequences for students and for colleges. Defaulted student loan debt can follow borrowers for the rest of their lives, ruining their credit, making it difficult to buy a car or rent an apartment, limiting their 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.

More and Better Accountability Needed

Some schools have admitted to artificially keeping their default rates down during the period when they are held accountable. For example, some for-profit colleges are combining default data from multiple campuses to mask serious default problems at specific locations, and some are systematically putting delinquent borrowers in forbearance rather than helping them enter a suitable repayment plan. 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. Borrowers in forbearance are not reflected in colleges' CDRs.

"Colleges that manipulate their default rates appear safer than they really are for both students and taxpayers," said **Cochrane**. "The Department needs to act quickly to ensure that unscrupulous schools aren't able to evade accountability."

The Department can improve the integrity of CDRs and protect borrowers by immediately taking the following actions:

- Cracking down on CDR manipulation through administrative actions and strengthening regulations in the upcoming negotiated rulemaking, as TICAS and more than a dozen other organizations have recommended;
- Eliminating defaults from borrowers' records if the Department is eliminating those defaults from schools' CDRs due to improper servicing;
- Improving guidance to colleges and the processes for colleges to challenge and appeal CDRs;
- Continuing to improve loan servicing, including outreach and counseling about income-driven repayment plans, so that colleges and borrowers have greater assurance that they will not be penalized unjustly; and
- Making CDRs a more useful consumer tool by releasing them accompanied by colleges' borrowing rates, or by using a Student Default Risk Index (a school's borrowing rate multiplied by its CDR) to help students better compare their risk of default at different schools.

Still, CDRs cannot be the sole measure of college accountability. They address only the share of borrowers who end up in extreme financial distress (default), not whether borrowers are successfully repaying their loans or whether schools are leaving students with manageable debt burdens. The Administration's effort to define gainful employment – to ensure that programs required by law to prepare students for careers actually do so without unreasonable debt – is a critical step in the right direction.

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NOTE: For more information, please see our CDR Resources Page for the latest CDRs, CDRs from previous years, and our interactive spreadsheet of CDRs by institution. To learn more about income-driven repayment plans and how they can make federal loan payments more manageable, go to IBRinfo.org.

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. Learn more at ticas.org and follow us on Twitter.