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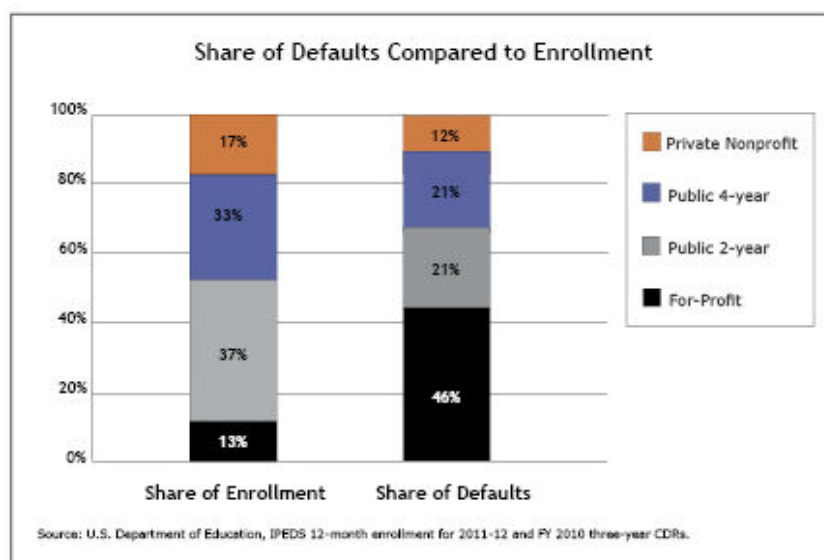
FOR IMMEDIATE RELEASE: 09/30/13

## New Data Confirm Troubling Student Loan Default Problems

### *For-Profit Colleges Still Have Highest Rate*

(Oakland, CA) – More than 600,000 federal student loan borrowers who entered repayment in 2010 defaulted on their loans by 2012, new federal data show. The largest share of these students – 46 percent – attended for-profit colleges, which enrolled just 13 percent of students nationally. For-profit colleges also had a much higher average default rate than other types of schools: 21.8 percent, compared to 13.0 percent at public and 8.2 percent at nonprofit colleges. Across all colleges, 14.7 percent of borrowers defaulted within three years of entering repayment.

Colleges' "cohort default rates" (CDRs) measure the share of their federal student loan borrowers who default within a certain period after entering repayment. It takes at least nine months of nonpayment to default on a federal student loan. Colleges with significant borrowing rates and high CDRs can lose eligibility to provide federal grants and loans to their students. These sanctions have long been based on how many borrowers default within two years of entering repayment, but beginning next year, sanctions will be based on how many borrowers default within three years of entering repayment.



"Default rates can help gauge the risk of spending time and money at a particular school, but they don't tell the whole story," said **Debbie Cochrane**, research director at [The Institute for College Access & Success](#) (TICAS). "Even at schools where lots of students borrow, CDRs don't tell you how many students are behind on payments, overloaded with debt, or defaulting after more than three years. And some colleges are manipulating their default rates to look safer than they really are."

### Questionable drops at for-profit colleges

Compared to other types of schools, for-profit colleges have long had by far the highest student borrowing rates and the largest share of defaulted borrowers. These patterns persist in the new data, although colleges in the for-profit industry saw a decrease in their three-year CDRs, from 22.7 to 21.8 percent, compared to increased rates at public and nonprofit colleges.

However, the data may not indicate any real improvement at for-profit colleges given the documented industry practices used to artificially keep default rates down during the period when the schools are held accountable for them. For example, some for-profit colleges are combining 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. The [Department's own investigation](#)

found many borrowers who “expressed the view that they were pressured or ‘forced’ to apply for forbearance and were not made aware of other options, such as deferment or the income-based 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.

“Some colleges are simply masking default problems until the federal government stops watching,” said TICAS vice president **Pauline Abernathy**. “These kinds of deceptive tactics protect colleges while putting students and taxpayers at even greater risk after the school is off the hook.”

### **A Better Option: Income-Driven Plans**

For most borrowers, there are better options than forbearance. Borrowers who enroll in Income-Based Repayment (IBR) have their monthly loan payments capped at a modest share of their income, and any remaining loan balance is discharged after 25 years in repayment. A similar plan for recent graduates and current students, called Pay As You Earn (PAYE), offers lower payments and forgiveness after 20 years of payments. These plans help struggling borrowers stay on track and avoid default, with payments as low as \$0 when income is very low. President Obama recently proposed expanding PAYE eligibility, targeting its benefits, and improving outreach and communication so more who could benefit from income-driven plans can find out about them and enroll.

“The more than 600,000 borrowers who defaulted on their loans in the last few years deserved to know all their options before it was too late,” said TICAS president **Lauren Asher**. “The President’s proposal to expand and target outreach is sorely needed to keep more borrowers from falling through the cracks.”

The consequences of default for students are severe and long lasting, no matter when they default. The 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.

### **Greater Accountability Needed**

While CDRs remain a crucial measure of college accountability, they are not an accurate gauge of student defaults when they are manipulated. The Department can improve the integrity of CDRs by cracking down on manipulation through administrative actions and stronger regulations, as [TICAS](#) and more than a dozen other organizations have recommended. The rates are also not a good measure of whether schools are leaving students with manageable debt burdens, which is why the Administration’s efforts to define gainful employment – and ensure programs designed to prepare students for careers actually do so without unreasonable debt – are so critical. The new data underscore the urgent need for the Department to move forward on both of these fronts, in addition to other efforts to improve college affordability.

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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 [spreadsheets of CDRs by institution](#). To learn more about IBR and how it can make 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. For more information see [ticas.org](#) or follow us on [Twitter](#).*