THE PROJECT ON STUDENT DEBT

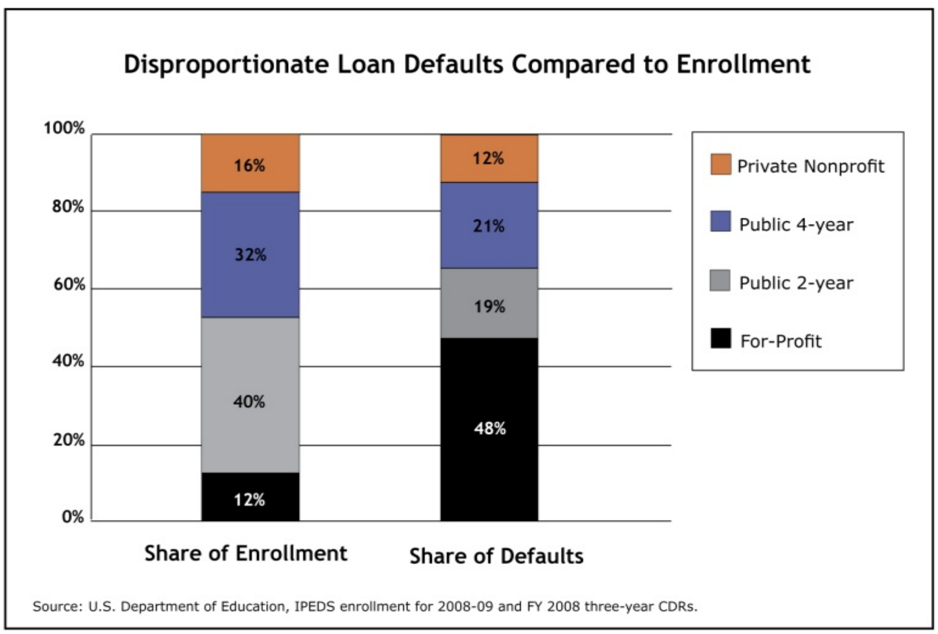
EMBARGOED UNTIL
February 3, 2011 -- 11:59 PM EST
(updated April 22, 2011)

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

For-Profit College Student Loan Default Rates Soar
Underscore urgent need for stronger regulation

(Oakland, CA) – New data released late today by the U.S. Department of Education show 13.8 percent of student loan borrowers defaulting on their loans within three years of entering repayment. The cohort default rate (CDR) at for-profit colleges was highest at 25.0 percent, nearly double the national average. At private non-profit schools the rate was 7.6 percent, and at public schools it was 10.8 percent.

The new "three-year CDR" data reveal that about 467,000 students who entered repayment in 2008 had defaulted by 2010. Nearly half (48 percent) of defaulters attended for-profit colleges, which enroll about one in 10 students and receive one in four federal student aid dollars.



Default rates are particularly meaningful measures of student outcomes at schools where most students take out federal student loans. In 2007-08, nearly all (92 percent) undergraduate students at for-profit colleges borrowed, compared to 27 percent of public college students and 60 percent of students at non-profit colleges. At community colleges, which enroll the largest share of low-income, minority and non-traditional students, just 13 percent of students borrowed. For the first time, the CDRs are accompanied by data showing the share of undergraduate students at each institution that borrowed, providing important context.

"Because nearly all students at for-profit colleges take out loans, these very high default rates should set off new alarms about the return on student and taxpayer investments at these colleges," said Debbie Cochrane, program director at the Institute for College Access & Success. "These new data underscore the urgent need for a strong 'gainful employment' regulation so that taxpayer dollars are not wasted on exploitative or ineffective career education programs."

College eligibility to participate in federal student aid programs is tied to specific CDR thresholds. Since 1989, CDRs have been based on the share of students who defaulted on their federal loans in the first *two* years of repayment. The Higher Education Opportunity Act of 2008 adjusted the calculation to base it on the share defaulting in the first *three* years of repayment, beginning with students entering repayment in 2009. The "trial" three-year CDRs released today show what the default rates would look like if the new policy were in effect for students who entered repayment in 2008. While still an incomplete picture of student loan defaults, the three-year rates are a better indication of borrower experience than the two-year rates, since they include a longer timeframe. However, college eligibility to receive federal student aid will not be tied to the more meaningful three-year CDRs until September 2014 (for students entering repayment in 2011).

Unlike colleges, students are held accountable for defaults regardless of when they occur. Federal student loans go into default after at least 270 days (about nine months) of nonpayment. Defaults can follow borrowers for the rest of their lives, ruining their credit, making it difficult to rent an apartment, buy a car or a home, limiting their job prospects, and making it impossible to get federal grants or loans to return to school.

In addition to having the highest three-year default rate, for-profit colleges also saw the largest jump in the share of students defaulting when the third year of repayment was included. By including the third year of repayment, the default rate at for-profit colleges increased 114 percent, compared to 78 and 90 percent at public and non-profit colleges, respectively.

The 2014 effective date for the new three-year CDRs underscores the need for U.S. Department of Education's proposed gainful employment regulation, which would start protecting students and taxpayers from wasteful career education programs at any type of college beginning July 2012. The gainful employment law and regulation are also more targeted than the CDR statute, which applies sanctions for high default rates to whole schools, with exemptions for schools where few students borrow. By contrast, the proposed gainful employment regulation will only restrict funding for individual programs with very low loan repayment rates and very high debt burdens, rather than eliminate funding for the entire school.

NOTE: Individual school's default rates will be available tomorrow on our new CDR resource page and at www.ed.gov. Our resource page also has quick links to individual colleges' federal student loan repayment rates and other background information. For more about the proposed gainful employment regulation see http://ProtectStudentsandTaxpayers.org.
http://projectonstudentdebt.org/CDR_resources.vp.html

UPDATE (April 22, 2011): This week the Department of Education issued recalculated trial three-year CDRs for students who entered repayment in 2008, excluding defaults that occurred after three years and were inadvertently included in the original calculations. While the recalculated rates for all schools are slightly lower than those described above, they reveal the same troubling trends. For more about the recalculated rates, see our blog post.

# # # #

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.