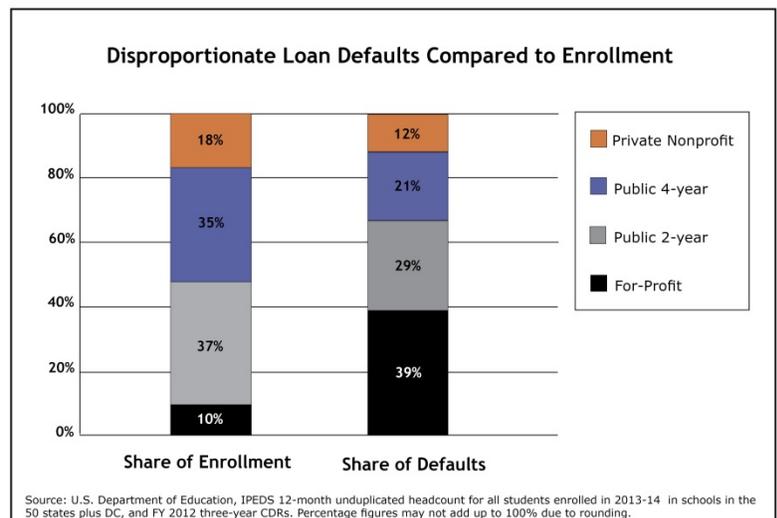


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## Default Rate Declines, Yet 611,000 Defaulted on Federal Student Loans Despite Decreases, For-Profit Colleges Account for the Greatest Share of Defaults

(Oakland, CA) – Federal student loan borrowers’ rates of default three years into repayment are down, show new federal data released today. Among borrowers who entered repayment in 2012, 11.8% had defaulted on their loans by 2014, a decline from 13.7% for borrowers who entered repayment the prior year. Still, 611,000 borrowers who entered repayment in 2012 defaulted within three years, and the total number of federal loan borrowers in default has risen to 7.5 million. The three-year rates declined across all types of colleges. For-profit college rates declined particularly sharply, though the sector still makes up a disproportionate share of student loan defaults compared to enrollment and accounts for the largest share of all defaults in the cohort (39%).



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.

“The drop is clearly the result of multiple factors, including an improving economy, increased borrower enrollment in income-driven repayment plans, greater school focus on student outcomes, as well as some for-profit colleges manipulating their default rates,” said **Lauren Asher**, president of [The Institute for College Access & Success](#) (TICAS). “How much of the drop is due to each of these factors is impossible to say, and likely differs from college to college.”

### Consequences of Default for Students and Colleges

Colleges with three consecutive default rates at or above 30 percent can lose eligibility for all federal aid; colleges with a default rate above 40 percent in a single year can lose eligibility for federal loans only. Based on the rates released today, 15 schools, 12 of which are for-profit colleges, may lose

eligibility for federal 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**, research director at TICAS.

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.

### **Importance of Borrowing Rates**

Cohort default rates include only those students who borrow federal loans, and the share of students who borrow varies from zero to 100 percent, depending on the college. The chance that any *student* at a school will default is the product of the school’s borrowing rate and its default rate. The likelihood of a *student* defaulting at a for-profit college is *three times higher* than at a 4-year public or nonprofit college and *three and a half times higher* than at a community college (where a student’s chance of defaulting is just 3.2% 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 borrow. Federal law acknowledges the importance of borrowing rates, as colleges where fewer than 21 percent of students borrow have protections from CDR sanctions.

“At schools with both high borrowing rates and high default rates, too many students are leaving school worse off than before they started,” said **Cochrane**. “When borrowing isn’t the norm, high default rates are troubling but say less about the school as a whole.”

### **Rising Concerns about CDR Manipulation; Need to Look at CDRs in Tandem with Repayment Rates**

The Department recently released repayment rate data for individual colleges that complement school CDRs: together they give a clearer picture of borrower outcomes. 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.

“Default rates alone only tell you how many borrowers end up in dire straits, and repayment rates only tell you who’s doing well,” said **Cochrane**. “Having both rates tells you much more about how borrowers from any given college are doing overall.”

Using default and repayment rates together also gives an indication of how many students have avoided default but may not be faring well. These students may be behind on their loan payments, in forbearance or deferment, or in a repayment plan where their balance is growing rather than shrinking. Across all schools, about 21 percent 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 percent of borrowers are in this middle category, and the vast majority of them 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.

“Colleges that manipulate their default rates appear safer than they really are for both students and taxpayers. The Department should take immediate actions to prevent CDR abuse, including using colleges’ repayment rates to help ferret out the most egregious abusers,” said **Cochrane**.

Immediate actions the Department can take to improve the integrity of CDRs and protect borrowers include:

- Cracking down on CDR manipulation through administrative actions and strengthening regulations in the [upcoming negotiated rulemaking](#), as [TICAS](#) and many others have recommended;
- Improving loan servicing, including adopting consistent, enforceable minimum standards, increasing transparency, and enhancing outreach and counseling about income-driven repayment plans, so that neither colleges nor borrowers are harmed by poor servicing;
- Eliminating defaults from borrowers’ records if their defaults are [eliminated from schools’ CDRs due to improper servicing](#);
- Improving guidance and processes for colleges to challenge and appeal CDRs and CDR sanctions, including [simplifying appeals for low-borrowing colleges before 2017](#); and
- Adding to the new College Scorecard the average student’s risk of defaulting at that institution (i.e., the school’s borrowing rate multiplied by the school’s CDR which is the Student Default Risk Indicator, or SDRI).

Even with the decline in defaults, default rates are still too high and additional tools and reforms are urgently needed. For instance, the new gainful employment regulation, aimed at ensuring that programs required by law to prepare students for careers actually do, is [under attack](#). This rule may be responsible for some of the decline in default rates; in anticipation of it, many for-profit colleges have eliminated some of their worst programs, frozen tuition, and implemented other reforms, such as giving students free trial periods. There is also growing bipartisan interest in the concept of college risk-sharing. TICAS has [proposed](#) replacing the current CDR thresholds with college risk sharing and rewards based on schools’ SDRIs to better hold schools accountable, provide greater incentives for schools to improve, and to encourage schools that serve students well to innovate and enroll more low-income students.

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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, nonpartisan 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](http://www.ticas.org) or follow us on Twitter at [www.twitter.com/TICAS org](https://www.twitter.com/TICAS_org).*