(Oakland, CA) – New data released today by the U.S. Department of Education confirm that student loan default continues to plague far too many borrowers. However, the data paint an uneven picture behind the overall trend, with three-year default rates at for-profit colleges double those of public colleges and triple those of nonprofit colleges. Nearly half (47 percent) of defaulters attended for-profit colleges, which enroll only 13 percent of students. These data underscore the need for more oversight and stronger standards at schools where poor student outcomes are the norm, and for intensified efforts to help borrowers enroll in affordable repayment plans before they default.

Colleges’ “cohort default rates” (CDRs) measure the share of their federal student loan borrowers who default within a certain time period after entering repayment. It takes nine months of nonpayment to default on a federal student loan. The rates have long looked at borrowers who default within two years of entering repayment, but today’s release includes the first official rates based on a longer, more meaningful three-year window. Colleges with significant borrowing rates and high CDRs can lose eligibility to provide federal grants and loans to their students.

“At schools where lots of students borrow, cohort default rates serve as a critical measure of risk for both students and taxpayers,” said Debbie Cochrane, research director at The Institute for College Access & Success (TICAS). “By tracking defaults for a longer period of time, the new three-year rates capture more of what’s really happening to borrowers. Still, while schools are held accountable for defaults only in the first two or three years, the consequences for borrowers are severe no matter when they default.”

The new, official three-year rates released today show that 13.4 percent of student loan borrowers who entered repayment in 2009 had defaulted by the end of 2011. This represents an increase of 53.4 percent over the two-year default rates for the same cohort (released last year), demonstrating that many more (169,000) borrowers defaulted in the third year alone.

Also released today were narrower two-year rates for borrowers entering repayment in 2010 and defaulting by 2011. While less meaningful data, the rate increased to 9.1 percent, the highest in over a decade.

**Income-Based Repayment (IBR)**

The three-year rates released today are the first in which most borrowers could have enrolled in the Income-Based Repayment (IBR) plan. Available since July 2009, IBR caps monthly loan payments at a manageable share
of income and forgives any debt that remains after up to 25 years. TICAS’ Project on Student Debt developed the policy framework that, with support from coalition partners, led to IBR.

“Far more must be done to help struggling borrowers find out about and enroll in IBR, which prevents default by keeping payments manageable – as little as $0 if your income is very low,” said TICAS president Lauren Asher. “Especially in this economy, IBR could be helping millions more people make regular, affordable payments instead of falling so deep in the hole that they can’t climb out. Defaulted loans don’t qualify for IBR.”

The consequences of default for students are severe and long-lasting. The resulting 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 federal student loan borrowers may also face garnished wages, seized income tax refunds, and diminished Social Security checks.

**Default Rate Manipulation**

There is overwhelming evidence that some for-profit colleges are artificially keeping their default rates below the threshold for receiving taxpayer funding. For example, some colleges are systematically putting delinquent borrowers in forbearance regardless of their particular circumstances, when they may be much better off enrolling in IBR or another repayment plan. Payments are postponed while loans are in forbearance, but interest continues to accrue and gets added to the loan balance, making eventual repayment even more difficult. Borrowers in forbearance are not reflected in colleges’ CDRs.

Compared to other types of colleges, for-profit schools have long had by far the highest student borrowing rates and the largest share of borrowers going into default. The new CDR data show that this pattern remains firmly in place, with 22.7 percent of borrowers defaulting within three years at for-profit colleges compared to 11.0 percent at public colleges and 7.5 percent at nonprofit colleges. Given the admitted gaming by some of the largest for-profit college companies, it is not surprising that their two-year default rates declined while their three-year default rates rose.

“Internal documents and investor communications spell out how some companies are using forbearance to delay defaults until the school is off the hook while leaving borrowers even more likely to default after the CDR window closes,” said Cochrane. “Such tactics, wherever they’re used, undermine the intent and integrity of CDRs and put both students and taxpayers in harm’s way.”

**Urgent Need for More Outreach and Enforcement**

The new CDRs underscore the urgent need for the Department to take action on multiple fronts. Improved loan counseling can help borrowers make more informed borrowing decisions, and increased outreach focused on income-based repayment options can help borrowers keep payments affordable and stay out of default. Further, the Department can and should take immediate action to address colleges’ abuse of student safeguards, such as forbearances, to avoid accountability for routinely leaving students worse off than when they started school.

###

For more information, please go to our CDR Resources Page to find 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.