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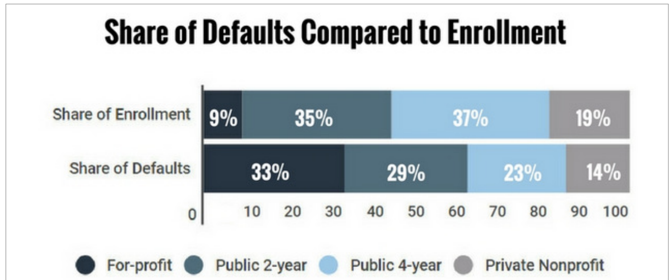
Federal Student Loan Default Rate Rises for the First Time in 4 Years

Recent Education Department Actions Will Lead to Even More Defaults

Oakland (CA) – Data released today by the U.S. Education Department show that the share of new federal student loan borrowers defaulting rose for the first time in four years. Despite the availability of income-driven repayment plans that are helping millions of borrowers stay on top of their payments, a record 8.5 million federal student borrowers were in default as of June 30, 2017, including over 500,000 who defaulted in the first six months of 2017. More than one in ten outstanding federal student loan dollars - $140 billion – is in default.



Source: Calculations by TICAS on data from the U.S. Department of Education, IPEDS 12-month unduplicated headcount for all students enrolled in 2015-16 in schools in the 50 states plus DC, and FY 2014 three-year CDRs. Percentage figures may not add up to 100% due to rounding.

"Now is the time to be *improving* student loan policies and *increasing* oversight and accountability," said **Pauline Abernathy**, TICAS executive vice president. "But the Department is doing the opposite. The Department's rollback of critical protections and enforcement will only lead to *more* student loan defaults, *higher* debt burdens, and *wasted* taxpayer dollars. Thankfully, state attorneys general and the Consumer Financial Protection Bureau are working to ensure the law is enforced, regulations implemented, and students and taxpayers protected from waste, fraud, and abuse." Just yesterday, 19 state attorneys general publicly demanded that the Department stop its systematic rollback of protections. The CFPB and state attorneys general are also suing two of the largest student loan servicers for systematically failing borrowers instead of helping them manage their payments.

While cohort default rates are not a perfect metric, they are longstanding, well-defined, and capture the unequivocally worst outcome for student loan borrowers: default. Defaulting on a federal student loan has severe consequences, including ruined credit that can make it hard to buy a car or rent an apartment, as well as limit job prospects. Defaulted borrowers may also face steep fees, garnished wages, seized income tax refunds, and diminished Social Security checks.

Students who attended for-profit colleges continue to account for a greatly disproportionate share of student loan defaults. For-profit colleges enrolled only 9% of all students, yet 33% of the borrowers who defaulted attended for-profit colleges (194,000 of 581,000 borrowers who entered repayment in 2014 and defaulted by 2016). Considering both borrowing and default rates, the likelihood of a student defaulting at a for-profit college is three times higher than at a 4-year public college and *three and a half times higher* than at a community college.

Many of the 8.5 million borrowers currently in default may have loans eligible for discharge, either because their school closed before they could complete or because the school committed fraud. For instance, as of last fall, nearly 80,000 former students of Corinthian Colleges were in debt collection on defaulted federal loans that were issued during the time the Department found that the schools were engaged in fraud that rendered the loans eligible for discharge. More than 45,000 former Corinthian students have “borrower defense” discharge applications pending at the Department, some of which have been pending for years.

“It is unconscionable to subject students to the consequences of default when the law entitles them to have their student loans discharged. Yet the Trump Administration has not approved a single loan discharge application, and Secretary DeVos has suggested that students seeking discharges are simply raising their hands to claim “free money,” as if these students were perpetrators of fraud rather than the victims of it,” said TICAS vice president **Debbie Cochrane**.

NOTE: For more information, please see our CDR Resources Page, which has a sortable spreadsheet with the newly released cohort default rates by institution.

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