Student Loan Default Rates Rise Sharply in Past Year

By Tamar Lewin

The share of federal student loan defaults rose sharply last year, especially at for-profit colleges and universities, where 15 percent of borrowers defaulted in the first two years of repayment, up from 11.6 percent the previous year.

According to Department of Education data released Monday, 8.8 percent of borrowers over all defaulted in the fiscal year that ended last Sept. 30, the latest figures available, up from 7 percent the previous year.

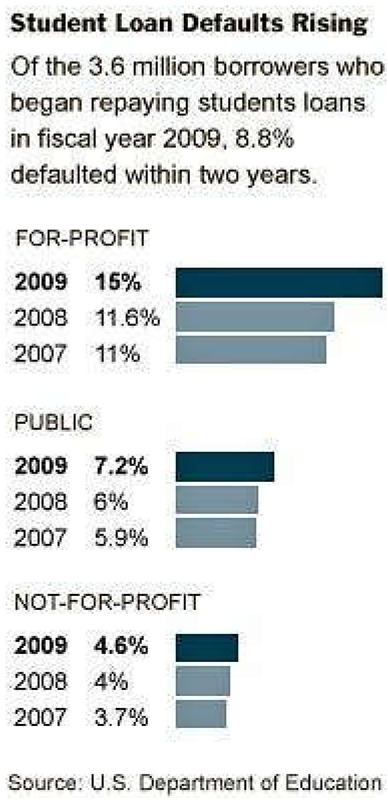
At public institutions, the rate was 7.2 percent, up from 6 percent, and at not-for-profit private institutions, it was 4.6 percent, up from 4 percent.

“Borrowers are struggling in this economy,” said James Kvaal, deputy under secretary of education. “We see a strong relationship between student default rates and unemployment rates.”

Although the new overall rates are the highest since the 1997, when they were also 8.8 percent, default rates peaked in 1990 at more than 20 percent.

The new rates represent a snapshot in time, covering the 3.6 million borrowers whose first loan payments came due between Oct. 1, 2008, and Sept. 30, 2009, and who defaulted before Sept. 30, 2010. More than 320,000 of those borrowers defaulted during that period.

Although for-profit colleges, which typically serve low-income students, enroll only about 10 percent of the nation’s undergraduates, Mr. Kvaal said, their students made up 150,000, or almost half, of the defaults.



The problem may be even greater. “Some research has shown that as few as one in five defaults at a for-profit college occur in the two-year window,” said Debbie Cochrane, program director at the Institute for College Access & Success, which runs the Project on Student Debt. “The extent of borrower distress is barely touched upon with these rates.”

A recent study by the Institute for Higher Education Policy found that for every borrower who defaults, at least two more fall behind in payments. The study found that only 37 percent of borrowers who started repaying their student loans in 2005 were able to pay them back fully and on time.

The Department of Education is in the process of switching to a three-year default rate, in an effort to capture a more accurate picture.

The high default rate at for-profit colleges, the fastest-growing sector of higher education, has become an increasing concern for the government, since such institutions depend on federal student aid for more than 80 percent of their revenues. Last spring, in internal documents gathered from the publicly traded for-profit colleges for hearings on the student debt problem, the Senate Health Education Labor and Pensions Committee found that some companies estimated that their students had staggeringly high lifetime default rates — in one case, 77.7 percent.

Colleges with excessive default rates, either exceeding 40 percent in the latest year, or 25 percent for three consecutive years, can lose their eligibility for federal student aid programs. This year, five institutions — four of them for-profits — lost eligibility, Mr. Kvaal said.

In part because of the high default rates at the for-profit colleges, the department recently adopted regulations designed to curb recruiting abuses, and cut off eligibility for federal aid at programs that leave students with high debt loads and poor job prospects.

Student borrowing has been increasing in recent years, as tuition has grown faster than inflation or family income. And with the recession, and high unemployment rates for young workers, default rates may continue to rise for some years. Borrowers who default can face a lifetime of consequences, including inability to borrow for a car or a house, wage garnishment, seizure of tax refunds, or even, in an era when employers increasingly check credit reports, difficulty in getting a job.

Many borrowers, even those who are unemployed or earning little, can avoid default by participating in an income-based repayment program that began in 2009 but is not as widely used as might be expected. Under the program, borrowers who pay 15 percent of their discretionary income for 25 years — 10 years if they are in public service — can have the rest of their federal student loan debt forgiven; in 2014, that will go down to paying 10 percent of discretionary income for 20 years.

"In the age of income-based repayment, there is no reason for a student to default, since even a payment of zero dollars is acceptable payment, if you have zero discretionary income," Ms. Cochrane said. "But as of April of this year, only about 350,000 borrowers have entered income-based payment, a small subset of the eligible population. Students need to understand the options, colleges need to share the information, and the department needs to make it as easy as possible for students to enroll."

A version of this article appears in print on Sept. 13, 2011, Section A, Page 14 of the New York edition with the headline: Student Loan Default Rates Rise Sharply In Past Year.