Student Loan Default Rates Skyrocket

September 13, 2011 â€“ Since 2005, default rates on federally backed student loans have jumped by a staggering 91%. For the year ending in September, 2010 (the last date for which numbers are available), the rate jumped to an overall 8.8%. Thatâ€™s up from 7% in 2008 and 4.6% in 2005. Interestingly enough, the data also provide a window into the effectiveness of certain types of educational institutions in preparing students for the work force. Both parents and students should look closely at the data in an effort to make sure that their tuition dollars are not simply being wasted.

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In a press release from the Department of Education, Education Secretary Arne Duncan said, â€œâ€œThese hard economic times have made it even more difficult for student borrowers to repay their loans, and thatâ€™s why implementing education reforms and protecting the maximum Pell grant is more important than ever.â€•

Certainly the economy is having a significant impact on the ability of borrowers to repay their loans; and not just with respect to student loans. But federally backed student loans are treated differently by the legal system than other loans. Even when declaring bankruptcy, these loans canâ€™t be discharged as a part of those proceedings.

There are however ways for students have their loans forgiven over time. Some of the options available include joining the Peace Corps, or going into teaching as a full time profession. These options may not be attractive to everyone, but they are available to those who choose to use them.

The new report on student loan default rates shows that the rate can vary substantially based on both geography and the type of school attended. For instance, Arizona had the highest default rate; 16%. On the other hand, North Dakota, which had the lowest rate of default, had a rate of 3.6%. Not surprisingly, North Dakota also has one of the lowest unemployment rates of any state in the country.

What was more telling about the report was the default rate for different types of colleges and universities. Private universities had the lowest rate of 4.6%. This is only an increase of 0.6% over the past two years. Public universities saw their default rate increase from 6% to 7.2% over the same period. These are relatively small numbers given the lack of job growth in the economy.

This stands in stark contrast to the default rates at for-profit colleges. Two years ago, these schools already had a substantially higher default rate than the other two categories. Then, the rate stood at 11.6%. In the current report, that rate jumped to 15%.

This brings up a variety of questions that prospective and current students, parents and the government need to address.

Given the fact that the ability to repay oneâ€™s loans is directly dependent on their ability to get a job, the logical conclusion based on this report is that anyone attending a for-profit college is likely to have a harder time finding employment. So, is it really worth the money to attend a for-profit college? Will you ever be able to recoup your tuition through the higher salary that college graduates expect?

Just as importantly, should the government be offering student loans for anyone attending for-profit colleges? If the answer is yes, should the interest rates on these loans be substantially higher than for loans to private and public universities?

Students need to be aware of the statistics regarding default before they start at any for profit school. Additionally, many for profit schools are not accredited. You can pretty well figure that if the credits earned at a particular school will not be accepted as transferable credits at other schools, the school you are attending is not accredited. While there is no data in the report to substantiate this, it is a pretty safe bet that those attending non-accredited institutions will not get the same level of education as those going to an accredited university. And even if they do, employers might not think so.

After all of this, if you or your child is still considering attending a for profit school, do your own research before you spend any money. Ask for employment statistics from the schools and then see if you can find other sources of data to refute or substantiate the schools claims.

It appears that there are substantial financial risks to anyone who chooses to take out a loan to attend a for profit school Give this, it is up the person attending to do their own research ahead of time to make sure that their â€œgreat educational opportunityâ€• doesnâ€™t turn into a â€œpersonal financial nightmareâ€•. Caveat Emptorâ€¦ Let the buyer beware.

byJim Malmberg
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