

Saturday, July 17, 2010

July 11, 2010

Government Vastly Undercounts Defaults

By Kelly Field

The share of borrowers who default on their student loans is bigger than the federal government's short-term data suggest, with thousands more facing damaged credit histories and millions more tax dollars being lost in the long run.

According to unpublished data obtained by The Chronicle, one in every five government loans that entered repayment in 1995 has gone into default. The default rate is higher for loans made to students from two-year colleges, and higher still, reaching 40 percent, for those who attended for-profit institutions.

The numbers represent thousands of students like Lourdes Samedy, of Boston, who ended up defaulting on about $7,000 in student loans after completing a nine-month-long medical-assistant program at Corinthian Colleges Inc. Everest College, and now cannot get a job.

They also show that the government's official "cohort-default rate," which measures the percentage of borrowers who default in the first two years of repayment and is used to penalize colleges with high rates, downplays the long-term cost of defaults, capturing only a sliver of the loans that eventually lapse.

While the data obtained by The Chronicle are not directly comparable to the two-year rate, which reports defaults by borrowers rather than loans, they reveal that default rates continue to climb years after borrowers have left college, particularly among students who attended two-year and for-profit colleges.

For loans made to community-college students, the 15-year default rate is 31 percent. David S. Baime, senior vice president for government relations at the American Association of Community Colleges, called that number "shockingly high."

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"It's really just a tragedy given the consequences of student loan default," he said.

Borrowers who default on their student loans face significant personal and financial burdens. They become ineligible for additional federal aid and may have their wages and tax refunds seized by the government. Their negative credit records make it harder for them to obtain car loans, mortgages, and credit cards, and even apartments or jobs. When they can get loans, they pay higher interest rates.



But it's the high rates of default at for-profit institutions that are likely to get the most attention from members of Congress, who have recently raised concerns about the cost and quality of for-profit higher education. Fifteen years into repayment, two out of every five loans made to students who attended two-year for-profit colleges are in default.

Last month the Senate education committee held what is expected to be the first in a series of hearings on the growth and risks of for-profit higher education. The hearing, which was stacked with critics of for-profit colleges, came a week after the education committee of the House of Representatives held a hearing focused on accreditors' oversight of online learning.

"We have a responsibility to ensure that taxpayer dollars are being spent wisely, and that for-profit colleges are serving students, not just shareholders," said Sen. Tom Harkin, chairman of the Senate committee, in his opening remarks. Shown the 15-year default data for for-profits after the hearing, he appeared taken aback. "Whoa," he said.

While for-profits educate less than 10 percent of students, those colleges' students received close to a quarter of Pell Grant and federal-student-loan dollars in 2008, according to the College Board. And they accounted for 44 percent of defaults among borrowers who entered repayment in 2007, according to the Institute for College Access and Success, a nonprofit organization that advocates making higher education more affordable. When the government can't collect on those loans, taxpayers pick up the tab.

For-profit colleges have long blamed the sector's higher-than-average default rates on the sociodemographics of their students. According to the Career College Association, 43 percent of students attending for-profits are members of minority groups, and almost half are the first in their families to attend college. More than three-quarters are employed.

Presented with the long-term data, Harris N. Miller, the association's president, stuck to that explanation. "Four-year public and nonprofit colleges and universities have more affluent populations," he said. "Four- and two-year career colleges have less affluent populations."

Mr. Miller added that the data may be skewed in favor of traditional colleges by the inclusion of PLUS loans, which have a higher repayment rate and most often go to parents of students attending traditional colleges. The two-year cohort-default rate that the Education Department releases annually does not include PLUS loans.

He argued that for-profits "more than hold their own" against community colleges in the long-term data, given that community-college students borrow less, and that many community colleges have opted out of the federal loan program to avoid the government penalties that a high default rate would bring. In theory, smaller debts should be easier to repay than larger ones.

But Gail O. Mellow, president of LaGuardia Community College, of the City University of New York, said comparing community colleges with their for-profit counterparts ignores the fact that far fewer community-college students borrow. So while the percentages of defaults may be similar, the number of defaulted loans of former community-college students is smaller.

Only 10 percent of community-college students took out federal Stafford loans—the most common type of federal education loan—in the 2007-8 academic year, and most borrowed less than $10,000, according to the College Board. At for-profit colleges, 88 percent of students took out Stafford loans, and nearly 20 percent of associate-degree recipients graduated with more than $30,000 in debt. Those borrowing rates reflect the higher cost of attending a for-profit college. In the 2009-10 academic year, the average for-profit institution charged $14,174 in tuition and fees, according to the College Board, and the average community college only $2,544.

"I think you're looking at very different numbers," Ms. Mellow said. "They're numbers that for-profit colleges do not want us to look at."

In fact, Ms. Samedy, the former Everest College student, now says she's "going straight to a community college," chiefly to avoid accumulating even higher levels of debt. She plans to attend Bunker Hill Community College for a degree in nursing, to try to improve her employability.

The defaults picture isn't likely to improve anytime soon. After falling steadily through the 1990s and reaching a low of 4.3 percent in 2003, the national two-year cohort-default rate began climbing in 2004. The rate for the 2008 cohort of borrowers was provisionally put at 7.2 percent, the highest since 1997.

At the end of the 2008 fiscal year, $39.1-billion worth of loans were in default, according to the Education Department. By the end of the 2009 fiscal year, that total had swelled to $50.8-billion, an increase of nearly 30 percent. As of the end of April, the government had recovered only $6.2-billion of that money.

Disproportionate Defaults

By any measure, for-profit colleges account for a disproportionate share of student-loan defaults. Two years into repayment, 11.9 percent of borrowers who attended for-profit colleges have defaulted on their federal loans, compared with 6.2 percent of those who attended public colleges and 4.1 percent who attended private colleges, according to provisional data that the Education Department released in February. Three years out, for-profit colleges' default rate has nearly doubled, to 21.2 percent of borrowers, and the gap between the sectors has widened.

That trend continues as the loans mature, according to the Education Department data provided to The Chronicle. For-profits accounted for 16 percent of all the loans (other than consolidated loans) issued from 1995 to 2007, but 34 percent of the defaults. Thirty percent of loans made to students attending four-year for-profit colleges have defaulted within 15 years of entering repayment, more than twice the default rates at public and private nonprofit four-year colleges, which are 15.1 percent and 13.6 percent, respectively.

The differences are smaller at the two-year level, where 40 percent of loans made to students attending for-profits have gone into default within 15 years of entering repayment, compared with 31.3 percent of loans made to community-college students and 29.3 percent of those made to students who attended two-year nonprofit private college.

One reason for that narrowing may be demographics. Compared with four-year public and private nonprofit colleges, four-year for-profits tend to enroll more students who are older, lower-income, from minority groups, and of the first generation of their families to attend college, characteristics that correlate with higher dropout rates. For-profit and nonprofit two-year colleges tend to serve similar high-risk populations.

Recent studies lend some support to that interpretation but also conclude that demographics do not fully explain the differences in default rates between for-profit and nonprofit colleges. One analysis, by Education Sector, a nonprofit public-policy group, found that the biggest factor in explaining differences in those rates among two-year colleges is the percentage of students receiving Pell Grants.

But the group also said that only 15 percent of the variation in two-year colleges' default rates could be explained by measurable demographic differences—evidence, the analysts wrote, "of the influence institutions have over whether students stay in good standing on their loans."

[A Chronicle analysis](http://chronicle.com/article/Business-Is-Up-in-Keeping/66226/#analysis) of three-year default rates published by the Education Department illustrates how the differences among colleges shrink, but do not disappear, when for-profit colleges are compared with nonprofit institutions serving similar kinds of students.

Still, for-profits say it's unfair for the government to penalize them for serving a riskier population. Under the Higher Education Act, colleges with consistently high default rates can lose their eligibility to award federal financial aid, a penalty that is a death sentence for most colleges. At some publicly traded higher-education companies, the proportion of revenue coming from federal aid approaches 90 percent, the maximum allowed under law.

To account for differences in student populations, Mark Kantrowitz, who runs Finaid, a Web site that provides student financial-aid information, suggests that the Education Department publish separate cohort-default rates for Pell Grant recipients and students who do not receive Pell Grants, and use the non-Pell number only to determine which colleges should be cut off from federal aid.

He also recommends that the department develop an independent measure of institutional quality that could yield an "objective ranking of for-profit colleges" and serve as a guide for prospective students. One possibility, he said, is a standardized test of achievement for graduates from each degree program, administered by one of the major test developers.

"If such tests evaluated mastery of material from a real-world perspective, it would provide value not just for public policy but also for employers," Mr. Kantrowitz said.

Mr. Baime, of the community-college association, agreed that default rates are a "crude proxy" for quality, particularly because relatively few students at community colleges borrow to attend. "The link between default rates and institutional quality is a questionable one," he said.

Asked who was to blame for rising default rates, if not colleges, Mr. Baime hesitated.

"I don't know how to answer that question," he said. "But whoever is ultimately responsible, it seems like it's a really severe problem."

Toward a 'Truer' Default Rate

The new, long-term data provided to The Chronicle don't capture all defaults, since many borrowers take longer than 15 years to repay their loans. But the information provides a more complete picture of student-loan defaults than do any publicly available data.

Under federal law, the Education Department is required to publish only a two-year cohort-default rate, which is the percentage of borrowers who default in the first two years of repayment. However, because it takes so long for borrowers to default, the statistic really reflects only those who do so in the second year of repayment.

The short-term rate also undercounts defaults because it puts borrowers who have received deferments and forbearances on their loans into the repayment category, even though they may have never made a payment on their debt and are likelier than other borrowers to default later on.

The proportion of borrowers in such plans grew from 10 percent in fiscal 1996 to 22 percent in fiscal 2007, as lenders and colleges have pushed students into deferment or forbearance to keep default rates down, so as to avoid federal penalties. Institutions with default rates greater than 25 percent for three consecutive years, or 40 percent for a single year, lose their eligibility to award federal student aid.

Acknowledging those statistical flaws, Congress passed legislation in 2008 that extended the time frame over which cohort-default rates are calculated by a year and raised the three-year penalty threshold to 30 percent. While that change, which will take effect in 2011, will capture more defaults, it still won't prevent colleges and lenders from pushing defaults beyond the window being measured, since borrowers can receive deferments for up to three years and forbearances for up to five.

James Kvaal, U.S. deputy under secretary of education, said the Education Department had known that cohort default rates were lower than lifetime rates. "Student-loan-default rates are a serious concern," he said. "They're something we're watching closely."

He cited efforts by the Obama administration to make student loans more affordable, such as by improving the benefits of income-based repayment options for borrowers and increasing funds for federal student aid. The Education Department will continue to look for more ways to make sure students can afford the loans they take out, he said.

Over time, though, the Education Department has resisted calls to publish a lifetime default rate, saying it would be too administratively complicated, as well as unfair, to hold colleges responsible when their students default years after they drop out or graduate.

When the department's own inspector general suggested that it publish a lifetime rate in 2003, officials initially agreed to do so in terms of dollars in default (rather than per borrowers) but then brokered a compromise. In addition to the two-year cohort-default rate it already provided, the department would publish an annual projection of default rates for the next 20 years, by dollar amount, and an account of actual defaults, by number of loans, for each of the past five cohorts.

The result is a hodgepodge of data that confuses as much as it illuminates, says Alan Collinge, founder of StudentLoanJustice.Org, an advocacy group for borrowers.

"They are putting on an elaborate dog-and-pony show designed to baffle, not elucidate," said Mr. Collinge, who had defaulted on his own student loans.

Asked why the department would want to mask the true default-rate picture, he said, "The Department of Education makes a lot of money off of defaulted loans."

At first glance, the federal budget suggests that's the case. According to estimates by the White House Office of Management and Budget, the government is expected to collect roughly $111 on every $100 of defaulted direct loans and $122 on every $100 of defaulted guaranteed loans in 2011.

But those numbers do not take into account collection costs or inflation. In 2009 the federal government paid $258.3-million to collection agencies, according to President Obama's budget plan.

Including those and other costs in the budget estimates could reduce the government's recovery rate to as little as half of the dollars lost through default, according to a 2007 study by Damien Moore, an analyst at the Congressional Budget Office, and Deborah Lucas, a professor of finance at Northwestern University.

When borrowers default on their student loans, taxpayers are on the hook for 97 to 100 percent of the losses, depending on whether the default is on a guaranteed or direct loan. For example, if a student with $30,000 in debt were to default without making a single payment, taxpayers would be responsible for $29,100 to all of it. In practice, though, many borrowers pay down a portion of their loan before defaulting, and the government collects on some of the remainder.

Some of the recent rise in defaults may be a result of the economic downturn, which has left a growing number of students unable to find jobs or earning too little money to pay back their loans. The unemployment rate among 16- to 24-year-olds was 18.1 percent in May, almost twice as high as the national rate of 9.7 percent, according to the Bureau of Labor Statistics. That month there were 1.2 million unemployed Americans between the ages of 18 and 24 who had completed some college or a college degree.

Some of the increase in defaults may also be due to the expansion of the for-profit higher-education sector, in which enrollments more than doubled between 1998 and 2008, according to a report by Senator Harkin's office.

Critics of for-profit colleges say a growing share of those new students are unqualified to do college-level work and are likely to drive defaults even higher. As evidence, the critics point to the Education Department's data, which show that nearly a quarter of the loans awarded to students at two-year for-profit colleges were already in default only three years into repayment.

"While the data from 15 years ago is very interesting, we are learning how much the industry has changed over that time period, including the major institutions, the composition of students, and the type of degrees being offered," said a Senate Democratic aide. "It just underscores how little we understand the real risk."

Jeffrey Brainard contributed to this article.

1. tenstring - July 12, 2010 at 08:07 am

The problem is that higher education is ridiculously expensive and not subsidized to the degree that it is in many other countries. In France, for example, my understanding is that if you pass the entrance exams, you go sans tuition. That would considerably lesson the debt burden, n'est ce pas? In the U.S., students are saddled with debt, a policy designed from the top-down to make a handful of people a lot of money, yet student loan borrowers don't have the same protections that all other borrowers have. It's a travesty that we can give billions to Wall Street bankers who run ponzie schemes on the national economy but we don't help out college students with their debt. These students are much more crucial to our future than a handful of Wall Street gamblers. Check out www.studentloanjustice.org.

2. trendisnotdestiny - July 12, 2010 at 08:14 am

"It just underscores how little we understand the real risk."

Yep, academe should be creating a cost-benefit analysis for in-coming students using the Roth IRA as a comparison tool.

$5K put towards an education in \_\_\_\_\_\_\_\_\_\_ based on debt for diploma model or

$5K put in a Roth IRA for 5 years in students's mid 20's (always with the opportunity to go back to school when it is affordable and meaningful)

\*\*\*\* not when the system entertains you at the most vulnerable financial position you will ever be in barring some major life event (health, divorce etc)

Work out the finances....Private schools $35k/year or 140K/degree
Public schools etc etc
Amortization table to pay off debt
Disclosure statements just like Tabacco

Why not fund their retirement first since social security is being deleveraged..... why expect them to have massive amounts of debt to get to the degree.... how is that helping our society to increase the risks of young people in the system?

3. unabashedmale - July 12, 2010 at 08:44 am

Solution - easy

Students granted fedreal loans or grants must maintain a 2.5 cum average.

That will eliminate the ones that are just in school for the free ride, and ultimately unemployable anyway.

It still allows for opportunity for those who are serious about improving their lives.

4. trendisnotdestiny - July 12, 2010 at 08:54 am

Solution - not so easy

We need to sell alternatives of college that do not suggest inferiority, but different life paths.... your performance suggest reeks of social darwinism since most everyone I know is serious about improving their lives, but systems fail them...

5. signaledu - July 12, 2010 at 10:18 am

Hedge funds have been suggesting this data is coming for weeks suggesting a close connection to the Chron's "sources."

Why no critical reporting on the official/unofficial leak of this department? Sourced from the Dept of Education but with full deniability, and no definition or sourcing? Department data is notoriously shoddy and always corrected following official release. This is political/bureaucratic version of a drive-by.

No data still on financial defaults independent of student number defaults. How much do these defaults really total in $ terms? Aside from heart-rending and un-fact-checked anecdote (source?) is there any data on how much money these 15 year-old defaults actually involve in aggregate or per student?

GAO study on ATB students stated definitively that defaults correlated to socio-economic status only. Why was that report no covered in your story. Why make it sound like some unsubstantiated claim by for-profit lobby?

Trace Urdan
Signal Hill

6. murleenray - July 12, 2010 at 10:34 am

When faced with the decision to accept an unsubsidized Stafford loan at 9% with repayment years away, or pay tuition using my credit card with a 8% interest rate and make montly payments, it quickly became obvious that using my credit card was a smarter, less costly, way to pay for school than accepting a loan that continues to accrue interest while I'm in school and doesn't require me to pay. The damage done by years of unpaid interest accumulating on an increasing loan debt means that students leave school even deeper in debt than they expect. I am not convinced that students fully realize what this means. This is exactly like having a credit card and only making minimum payments; one is never able to dig out of the hole.

We can't ignore the demographics of the students trying to complete a degree, especially since having at least a bachelor degree has become a virtual necessity in the job market. I considered a for-profit institution but the cost of attending that school, compared to cost of attending the local public university, made no sense whatsoever, since the for-profit was 5 times the cost of the university and a BA wouldn't provide me with enough education to even get a job (I want to teach).

What all educational institutions try to sell is the notion that a job awaits the student at the completion of her/his degree; this is simply not so. One can also see that, statistically, defaults rose as the job market has tightened and dried up.

It bothers me tremenously that we have made getting an education such a commodity. That we strap young people with mountains of debt (except those you can already afford it) just to have a chance at getting a job. With the country bleeding out jobs to the overseas market, can it be any wonder that students default on loans if they can't find a job anyway?

And I agree with trendisnotdestiny: I have only met one student who is in college and only there for the degree, not to improve his life. Virtually every student I know considers her or his education a matter of necessity; why else would we invest so much time, energy, and expense in something if we didn't value it?

7. rickochet - July 12, 2010 at 10:48 am

Money awarded, in any form, to a student should be a function of the degree they are seeking as well as their GPA. Each degree has "value" to our economy. A nursing student will most likely find a job quickly compared to someone majoring in Art History. I was an engineering student back in the early 80's and there were more jobs than there were students. I had no problems paying off my loans.

8. kudera - July 12, 2010 at 10:55 am

The trends are very disturbing; an older generation--more likely to have tenure and all kinds of well-compensated senior positions at our thousands of universities--is willing to sacrifice the credit ratings of millions of young people to pad their own superior pay and benefits. Parents and high school teachers naively insist that all young people should "go to college" and then years later the student-victims are living at home and can't get a fair interest rate for a house or a car (credit rating squandered on college, what was supposed to life them out of the nest in the first place). I don't feel we should blame the students because the college recruiting process begins when they are under 18--college fairs, parental pressure, teacher's insisting that a college education is the ticket out, etc. On the screen I'm looking at I see the familiar University of Maryland advertisement recruiting part-time faculty. I hope others out there appreciate the sad irony here.
Alex Kudera
http://kudera.blogspot.com

9. forprofitscam - July 12, 2010 at 10:55 am

Trace, please provide a link to said study...because I have seen most of GAO's documents on the subject and they have NEVER definitively concluded that demographics are the sole correlated factor to for profit's level of defaults. In fact, just the opposite as they have found several major correlations. They have also stated on numerous occasions that the body of research on the topic tends to suggest that demographics alone cannot explain the entire gap.

10. johnblee - July 12, 2010 at 11:01 am

It is helpful to remember that default as it is used in student loan conversations is not the same as a non-perfoming loan in the banking industry. Many defaulted loans enter repayment at a later date, so it is not a full loss.

The second point is that even with defaults, loans are cheaper than grants. If we are to increase the proportion of the population with a postsecondary degree, we need to find a way to finance and support students who have minimal resources. Most of the wealthier families already send their children to college.

11. steveburd - July 12, 2010 at 11:13 am

Sorry Trace, you have mischaracterized the GAO report. While it says that demographics are an important factor, it lists other possible factors as well. In addition, the GAO simply summarized the results of previous studies, but did not conduct it's own study -- I'm sure GAO officials would readily acknowledge that their statements on this subject were not mean to be "definitive."

12. intered - July 12, 2010 at 11:34 am

Any thoughtful read of this report will conclude that this is a complex arena admitting of multiple causes some of which reach far beyond higher education.

Thus far, the response to this complexity -- from congress, the Department, and especially from readers of the Chronicle -- has been sophomoric. How can we find room to criticize congress for its dysfunctional hyperpolarized gridlock when we function the same way?

Turning an intentional blind eye to its defining attribute of critical reasoning, traditional higher education has declined to analyze its own shortcomings and contributions to the default problem. Instead, it has chosen to label the for-profits are the bad guys. This label leaves no room for assembling and dispassionately evaluating the full range or relevant principles and purported facts . . . minds are made up and beliefs can be confirmed with a single snide quip (often factually incorrect). We academics seem to have a larger than average toolbox for justifying tergiversations, principles included.

Here are a few of many issues that might broaden and refine the debate and eventual solutions pursuant to student loan defaults:

(a) What is the net financial status of the student loan industry? Defaults are clearly a liability but we also need to know how they fit into the larger picture. The limited data I see suggests that student loans turn in a large profit, now for the government if they can manage it as well as or better than the private sector.

(b) We speak of defaults as if they were identical to non-collections. They are not. Short of death or escaping the country, student loans are virtually impossible to discharge. The only credible figures I have seen suggested that the Department collects $106 for every $100 of defaulted loan. I doubt that this figure includes collection costs. It needs to. I am not suggesting that defaults should be ignored. I am suggesting that rationality has yet to develop with respect to this issue.

(c) What is the economic contribution of the 40 year trend in which higher education budgets have increased at rates that outstripped the growth of the economy (or the cost of living) by a factor of from 2 to 4? The HEPI cannot be employed to justify this economically irresponsible behavior. The HEPI was invented to hide it from the public.

(d) Thinking only of the for-profits for a moment, I note that there are almost 1,000 degree granting institutions. Yet, the attention and the rhetoric are focused on a handful of the very large for-profits. What is the rest of the story here?

(e) What do the all-in base, upside, and downside economic cases look like when students who would not be accepted anywhere else attend a 2-year for-profit and sometime over the course of their loan history default on that loan? What is the average duration of the default? What is the economic cost of the default period? Are these defaulters otherwise contributing to the economy? Were they contributing before they earned the 2-year degree? What changes have occurred in their net economic contribution to society, how does this change amortize over their working lifetime, and what is its magnitude in contrast to the coast of the default?

These are only a few of the issues that should and would be explored in a non-politicized, rational environment. I think we all understand that Congress is incapable of such rational exploration. Sadly, neither have the professionals in higher education done much to facilitate such analyses and debate. It is incumbent upon them and more treasonous in its absence.

Robert W Tucker

13. tranzetta - July 12, 2010 at 12:17 pm

A few blog posts that have also recently focused on this subject from the SLA Blog (of which I am the publisher):

\*\* How much are students struggling with student loan debt?: http://studentlendinganalytics.typepad.com/student\_lending\_analytics/2010/05/how-much-are-students-struggling-with-federal-student-loans-pick-a-number-72-or-37.html

\*\* Why I have never been more worried about student loan defaults: http://studentlendinganalytics.typepad.com/student\_lending\_analytics/2010/03/why-i-have-never-been-more-worried-about-student-loan-defaults.html

\*\* Following up on Robert Tucker's questions above, here are a dozen more questions on student loan defaults: http://studentlendinganalytics.typepad.com/student\_lending\_analytics/2009/12/a-dozen-questions-about-student-loan-defaults.html

Tim Ranzetta
Founder, Student Lending Analytics

14. 11132507 - July 12, 2010 at 12:36 pm

Mr. Tucker's last paragraph hits many nails right on the head. No leadership has been exhibited from lawmakers on either the federal or state levels, but colleges themselves are at least as much to blame, with often baseless tuition increases (and no end in sight), shameless and wasteful one-upsmanship and glitz in the name of recruitment that does nothing to improve education, and an aversion to both transparency and efficiency. And let's not forget students, parents and guidance counselors, many of whom are motivated and blinded by the quest for USN&WR-fueled name-brand prestige. I've certainly worked with many students and parents who couldn't come close to affording the college they were attending, but since the unaffordable college was the highest-rated college the kid was admitted to...well, you know the rest of the story. Kid graduates with a mini-mortgage at the age of 22. Add to this the fact that even a lot of smart people are financially illiterate, people save little if anything for college because of the myth that it kills one's chances for financial aid, and then add to that the state of the economy...I'm afraid it's a perfect storm for rising loan default rates. Disclosure is already there, cynicism about higher education is creeping in, but none of that will fix this, because nobody signing on the student loan dotted line expects to fail. They all expect to get good jobs and pay back their loans just as they've watched mom and dad overextend themselves (again, financial illiteracy).

15. fizmath - July 12, 2010 at 01:45 pm

It does not help that some state governments will not hire people who are in default on their student loans.

16. eli\_whitney - July 12, 2010 at 04:11 pm

A look at some data from the Illinois Community College Board reveals that only 20% of their funding comes from tuition - which is around $2500. The other 80% is from local, state, and federal subsidies, which, of course, we don't get back. (I'm acutally inclined to think we do get it back - in a more educated and productive population, but that's besides the point) For-profits don't receive direct subsidies (subsidized loans, yes. But that's different). 100% of their funding comes from tuition, which by definition, needs to be 5x larger than community colleges if we assume a fairly competitive market. So, how is it surprising that the institution that is 80% subsidized has lower default rates than the institution based on 100% loans? I'm surprised that the ratio isn't more skewed!
Why isn't there a better look at our post-secondary education policy as a whole? TOTAL federal spending - TOTAL federal loans - Net costs to the taxpayer. Who is serving the at-risk population? At what cost? If we kicked all the students out of for-profit institutions, are public institutions ready to pick up the slack? Do we care?
What does scapegoating for-profits acheive? I see many people jump all over this stat or that stat... but no one stepping back to get a look at the broader picture.

17. intered - July 12, 2010 at 05:29 pm

eli\_whitney,

I agree with your post and have been calling for Senator Harkin and others to expand the GAO audit planned for the for-profits to all three institutional types. There is little interest in such an expanded view because the agenda is substantially biased.

We need more voices supporting an examination of the larger picture. Elsewhere, I have posted a dozen or so questions such an audit should ask, across the board. Your questions present a very good start.

The bottom line is that taxpayers and the public deserve a transparent look at the productivity associated to all types of control. 'Productivity' would subsume such metrics as cost per unit of outcome (current and trend lines), student and taxpayer costs (all-in, current and trend lines), and all forms of error terms, including defaults, etc. with their contributions to productivity metrics.

Robert W Tucker

18. bagel100 - July 12, 2010 at 05:34 pm

I suppose that in a discussion on this subject someone had to point out how overpaid, greedy, and comfy we aged and tenured senior faculty are and how our pampered lives are resulting in the high costs of higher education. So, Alex Kudra's comment came as no surprise. Let me suggest some counter-evidence.

The Chronicle and other news outlets have been running articles for the last few years indicating that colleges and universities in the United States have been hiring more and more adjuncts and instructors to fill the positions vacated by tenured or tenure line faculty who have left to either retire to go to greener pastures. At our public, research institutions adjunct faculty are paid around $3,000 per course and receive no fringe benefits. Instructors, who are not eligible for tenure, get hired at $45,00 - 55,000; not much of a salary for people with doctorates. Our tenured and tenure earning faculty have not received a raise in three years and our benefits are being reduced regularly.

On the other hand, the amount of money spent for administrators has gone up considerably. Our faculty union issued a report about a year ago that showed that salaries to administrators increased 66.2% from the 2002-03 academic year to the 2008-2009 academic year while faculty salaries rose only 10.7%. For the past two academic years we have raised tuition for undergraduates 15% each academic year, primarily to make up for a sharp decrease of support from the state government.

At the same time, the default rates on student loans seems to be highest at private, for profit institutions, many of which operate almost entirely on line. These institutions hire faculty at very low wages and do not offer the opportunity for faulty to obtain tenure. Many do not even award their faculty academic rank. Where do you think this tuition money is going?

Yes, higher education is in trouble in our country and students seeking higher education are often victimized by unscrupulous people at unscrupulous institutions, including the banks that were giving government backed students loans until recently. So, let us look for our solutions by identifying the real sources of the problem. Coddled tenured full professors is not one of them. But a long as people like Alex Kudera use us as scapegoats we are going to get nowhere.

19. vickieucb - July 12, 2010 at 05:41 pm

I have seen the abuse of financial aid and student loans over the last five years or so, especially at the community college level. Students use it as a form of welfare. Word gets around, and others enroll, get their money, and quit attending classes.
The answer is quite simple: students who do this one semester, should not be eligible for students loans again.
Many students ask not to be dropped just for this reason. The rules and oversight must be more effective.

20. kfield - July 12, 2010 at 05:46 pm

In response to one poster's question about the source of the data - this is data I requested from the Education Department. It was not leaked to me. In fact, I went to some lengths to obtain it and it took several weeks to get.
The GAO report on demographic factors is a literature review, as another poster noted. It can be found here: http://www.gao.gov/new.items/d09600.pdf

21. actlibrary - July 12, 2010 at 10:29 pm

I don't understand why federal student grants and loans should be able to be used at for-profit "colleges". For-profits intentionally market their degrees to low-income and minority students and then they blame the demographics on the very populations they recruit.

22. feudi - July 13, 2010 at 09:13 am

For profit comnanies like Appolo Group are doing for education what Tenet Healthcare did for hospitals, to the great detriment of the American public. The problem is very basic and difficult to control in a free economy. The essential mission of all for profit companies is to maximum shareholder wealth. That is the raison d'etre of capitalism and it is usually a good thing. However, when we allow for profit companies to merge this mission with other basic societal needs, such as education and healthcare, we run the risk of letting less than savory business practices seep into the water. Phoenix and Tenet are two examples of companies willing to "game" the system to make a fast buck. In these two cases, the gamimg was fraudulent and the public was left holding the bag.

The sorry truth is now apparent with default rates exploding in our faces as unemployment among college grads soars to at least 17%. Student loans are the newest "bubble" to burst. They are next class of toxic assets and are insidious on their nature due to the terms of the promissory notes that trigger these loans. There is nothing under the new Direct Loan program that will prevent this disatrous situation from just rolling forward and expanding. The problem wil be exacerabated as more people return to college to try to re-educate themselves for the new economy.

Man, how did we ever allow ourselves to get into this mess?

23. bettyboop - July 13, 2010 at 09:41 am

Agree with Tucker. It really is a mystery why so little research has been done by institutions of higher education on the causes and solutions of loan default given how much cash-flow is derived from the college loan programs. Current Education Department regulations require that schools conduct a self-assessment pointing at the source of default risk for their students only when they achieve a default rate of 30% or more. This wholly inadequate for purposes of protecting the taxpayer and the student borrower, not to mention any sense of civic responsibility on the part of schools. The regulations should be changed to require that ALL schools that participate in Federal loan programs conduct a self-assessment to determine the source of default risk and, as a consequence, put in place a set of interventions to reduce default risk for their particular cohort of borrowers.

24. redweather - July 13, 2010 at 10:06 am

This is merely anecdotal evidence so automatically discredit it if you wish.

I teach at a large community college where almost all of the students are receiving some form of financial aid. Most of these students are young -- between 18 and 20 -- and have little experience handling their finances. On top of that, they are attending a community college because they didn't have the grades or test scores to get into a four year college. In fact, many of them must first complete remedial courses before they can even enroll in college level courses. Finally, they are often the first persons in their immediate family to attend college. It would be foolish to ignore or deny the importance of these demographic factors when attempting to deal with the loan default problem. Having said that, I don't have a solution to the problem.

25. trendisnotdestiny - July 13, 2010 at 11:25 am

redweather, good point as it seems very few national standards or programs exist for financial literacy for high school and soon to be college students... its like we say practice, repeat, try again with so many subjects, but when it comes to handling money we expect young launched adults to make crucial decisions without resources..... (for some)

26. chicago\_48 - July 13, 2010 at 11:26 am

I agree with #1. Have long been a proponent of free college education the FIRST year after graduation based on test scores.

27. fruupp - July 13, 2010 at 12:38 pm

"I suppose that in a discussion on this subject someone had to point out how overpaid, greedy, and comfy we aged and tenured senior faculty are and how our pampered lives are resulting in the high costs of higher education. So, Alex Kudra's comment came as no surprise."

Not only unsurprising but tiresomely predictable. ....

28. quicksilver - July 13, 2010 at 01:11 pm

Why not use what we already know about demographics and admissions information from 4-year institutions to determine who receives education loans? Admissions offices at 4-year institutions, for example, know that x% of students in the bottom half of their graduating class and who have a GPA below X at application will never graduate. Applying this same knowledge to the 2-year institutions will go a long way in predicting who will finish and who will not. That many 2-year schools have completion rates in the range of 10-40% tells us that the majority of 2-year enrollees are a very risky group to be lending to.

29. redweather - July 13, 2010 at 01:57 pm

It's safe to say that there is some risk involved with all financial aid. It also isn't difficult to understand why the risk is disproportionately higher at 2-year colleges. Most of these students are from families that cannot afford the cost of college. In addition to being financially challenged, so to speak, these students are also educationally challenged.

But what does the larger society get in return? Fewer uninformed indivuals? Fewer chronically unemployable workers? Fewer welfare recipients? Fewer criminals? If the answer to all of those questions is Yes, then is maybe that good enough?

30. veganroadrunner - July 13, 2010 at 02:20 pm

Although I was in the gifted program from elementary to high school, my grades floundered by the time I graduated. By some suggestions, I shouldn't have been allowed to go on to college because of my previous grades, especially since I come from a high-risk population (low income). Well, when I was ready, I went to community college. I only took out the loans I absolutely needed to survive while in school, and refused the unsubsidized ones. I chose not to have a car, a house or kids and paid off my loans in 5 years. THEN I bought a house. Ten years later I decided to go to grad school, and 4 years after graduation my loans are paid off.

This is NOT to diminish the problems people have paying back their loans. Instead, I'm saying that profiling students prior to loan approval is not a good solution. I'm a productive, tax-paying contributor to society.

I was able to handle my loans because my mother taught me how to be smart with the little money we had, and I carried that into adulthood. I agree that financial literacy is essential for students. I was required to do a little online tutorial prior to getting my loans and it was pathetic! It provided no real financial literacy instruction. I think this is one of the keys to changing things, along with greater flexibility to refinance or consolidate (did you know that you can only do that ONCE in the life of the loan?), and better options for people who are unable to pay back loans due to economic circumstances. Instead of ruining their lives, find ways to make payment arrangements that will not indebt them forever. Why would someone be motivated to pay every month, when they don't see the principle going down? Lower the interest rate and recoup what they can pay. Coming down on them with a hammer is just cutting off your nose to spite your face.

31. intered - July 13, 2010 at 02:37 pm

@quicksilver,

Empirically, I believe you are correct. At the outer one-third of the curve on either side, we can predict successes and failures with reasonable accuracy. The problem I see is that applying these predictive models runs counter to our culture. We want to give everyone a chance to fail, as it were, and we often champion the dark horse who succeeds against predictions.

The current student loan structure is abused . . . across the board. For-profits have incentives to push the envelope. Formula funded colleges have similar incentives. Independents have yet other compelling incentives. All of these incentives contain perverse elements.

In spite of the current legislative and regulatory furor in which we have decided that students attending for-profits are dupes (even though their average age is around 35 and most have been making consumer choices for a decade or more), the greatest abuses I see are committed by the students themselves. We can thank taxpayers for the fact that average annual tuition at community colleges is under $5,000. Even without taxpayer subsidies, average annual tuition at for-profits is around $14,500. How, then, do students end up with $50,000 in debt for a two year program? The specific answers vary but the generality is that student loans have become a substitute for part-time or full-time jobs, stopping out to earn a little more money, and savings accounts.

The real solution will be complicated but I wonder how readers here feel about a general direction for a solution that loans money incrementally, contingent upon incremental success with options provided for "getting back on the horse" should one fail along the way.

Additionally, we need to remove the current incentives to institutions and students for prolonging time-to-degree. We might accomplish this by reducing loan ceilings as the median time to degree is passed for that specific program. (Currently, it is possible to borrow $10,000 to complete a fourth year of a two-year associate's program.)

Finally, very few institutions or programs exploit the findings of modern learning and evaluation sciences. Such exploitation would improve the efficiency, durability, and generalizability of learning. Learning how to teach better than our pre-scientific ancestors would lead to cost reduced time to degree, and reduced time to proficiency and workforce impact. These changes would produce substantial economic benefits to the nation and financial benefits to the student. The higher education community has demonstrated unbelievably durable abilities to ignore science when it comes to their own behaviors.

Robert W Tucker

32. weilunion - July 13, 2010 at 02:52 pm

Oh but there has been research and much of it. But you will never hear if from the corporate press for their job is to take the ads from this predatory for-profit colleges that masquerade as educational institutions.

You can see a full investigative report, many at www.dailycensored.com by clicking at Author's posts at the home page, finding my name, Danny Weil and click for a look at my coverage.

Also, at www.dissidentvoice.dorg I wrote an article entitled 'The Impropriety of it all' as I pose as a for-profit college student. This is a four part series that details the predation of this unregulated mess called for profit colleges and how it is the next iceberg or bubble to burst.

None of these loans are discharageable in bankruptcy.

Danny Weil

33. atana09 - July 13, 2010 at 03:28 pm

Being the arena where the most obvious problems occur the for profit schools tend to be the poster child for the troubled lending system.

However the unfortunate reality is that the entire educational lending system in the US is a toxic mire. It has created a situation where the escalating costs of college are closely linked to its structure. What are current system does is to transfer the costs of academe down the generational line to parents and students, and so too often from the perspective of college administrators out of sight and out of mind are the consequences of escalating college costs. State representatives are equally blind because our lending system transfers their obligation to properly support higher education onto the generational line. The tragedy is that monies we as a nation spent to establish and propagate the collegiate lending system (in all its forms) we just could as well have provided direct subsidies to academe and students. Fewer glittering bell towers perhaps, but more efficient education and less social costs.

And the problem of student debts (and now appalling default rates) is a looming social and economic disaster. The 580 billion + of student debt in this country is unsustainable, and the draconian measures used to collect and preserve that debt will not be able to pressure the increasing numbers of people ruined by it and our current depression to pay what they no longer possess. So the choice will come down to making arrangements to lessen this burden or to turn an entire generation into lifelong educational debt servitude.
Given the involvement of the speculative finance industry (even after Obama's reforms) in educational lending unfortunately the latter alternative is more likely.

The core realityis that educational lending as structured in the US will eventually destroy academe. Debt, defaults, and draconian treatment of those who don't make the big bucks from their education will soon enough turn going to college into a fools game. And the increasing reliance on adjuncts will eventually dictate that only a fool would elect to pursue a collegiate teaching career. Those silver haired gentry who entered academe before the perversion of it by our current lending system, better enjoy their status as they will be the last.

The best thing to do would be ensure only a certain proportion of income can be taken for student debt, and after a certain number of years end its obligation. That just might free up billions for our staggering consumer economy. Than finally, after two generations of toxic effect end the lending system entirely and use that money to directly fund academe and students. It may mean the end of the glittering student center, trophy pay for administration, but it could mean a new birth of what public higher education was supposed to be-a means of elevation for the common man.

34. d\_and\_der - July 13, 2010 at 04:12 pm

Good intellectual debate.
1) Yes, education is too expensive in America. A foreign school in Asia charges $2,500 per semester, built 5 new state of the art buildings in the last two years, receives little subsidies from the govt, and pays it's faculty well.
2) Yes, some students use college loans like welfare and they have no intention of ever paying them off
3) Stop entitlement. Parents should assume the financial responsibility of their children not the government. Why don't parents start investing/saving for their kid's education the day they are born.
4) College was NOT intended, in the begining, to be a "means of elevation for the common man." It WAS intended as a country club for the intellectual elite.
5) Total cost of defaults since the begining = one half TRILLION dollars. (source: student loan default rates, fed gov)

35. atana09 - July 13, 2010 at 05:17 pm

"College was NOT intended, in the beginning, to be a "means of elevation for the common man." It WAS intended as a country club for the intellectual elite."

In higher educations original incarnation to a degree that is true. But going well back to Ruskin's 19th century seminars for the middle and working classes there has been trends in higher education which did hold that education and elevation of the common man was a function and moral obligation for higher education.

Since the era of the last depression education has been pushed as a essential component of the American middle class dream. Our system stated that if one obtained a education, and worked within the system the stability of the middle class was a potential gain.
Now due to the perversion of higher education by lending, often in terms that no other borrower would accept or has to accept, the aspect of higher education as social stabilizer is being lost. Rapidly due to the escalating debt inherent to escalating collegiate costs higher ed is becoming the equivalent of the company town, rent to own or other equally morally reprehensible endeavors. Do the work, but never pay the tolls.

The unfortunate reality is that the middle class in America has lost ground for a generation. And the engineered debt for education system the US has allowed to propagate, has been a seminal contributor to the impending demise of that middle class.

The decision to be made is that we can recycle the myths of Horatio Alger and continue to fund our education system on the backs of its progeny, and wait for the inevitable middle class demise. Or we can take the higher road and restore educational opportunity, with all the common good that implies, without turning the best and most ambitious of each generation into educated sharecroppers.

The defaults and other troubles are a sign that it must change.

36. haohtt - July 13, 2010 at 05:18 pm

eli-whitney has identified a major flaw in nearly all reporting on this issue. As long as the focus is exclusively on one source of taxpayer funding (federal student loans), while deliberately ignoring the largest (by far) source of taxpayer funding (state and local taxpayer subsidies), then the "for-profit" versus "non-profit" debate will always be skewed and less-than-honest. Why is it that a student at a public college or university who uses tens of thousands of dollars of state/local taxpayer funds and then drops out is not compared to the student who takes out a few thousand dollars of federal taxpayer funds who defaults. I doubt that many of us are federal taxpayers without being state and local taxpayers (and vice versa). Let's count ALL taxpayer funding in the mix.

37. reformhigheredu - July 13, 2010 at 06:55 pm

For profit universities seem to be the target but there are many private, not-profit universities who should also be investigated for their unscrupulous practices. In terms of financial aid and student loans, as #19 stated "Students use it as a form of welfare. Word gets around, and others enroll, get their money..". Except instead of dropping out, they are passed along so that the university's administrators can fill their pockets with financial aid from the goverment. Many universities are passing underprepared students because they just care about the headcount and laugh in the faces of an idiotic government who don't even know how to keep track of student debt.

38. kudera - July 13, 2010 at 07:15 pm

Bagel100,

Not sure if you would come back to this, but I did want to apologize for using the word "positions" as opposed to adminstrators or administration. My typo of "life" for "lift" was not on purpose but seems fitting.

But yes, the phenomena you describe is more or less what has taken place at the research universities where I have taught (and I've been paid less than $3000 per class with no benefits). One of them even did such a good job compensating administration that the school won space on the front page of The Wall Street Journal.

I was mainly trying to express concern for the students, people going into dangerous debt as young adults in order to support all of our working habits (so to speak). I hope my words did not allow you to imagine septuagenarian tenured professors lurking in high school halls and handing out college brochures. The adminstration hires others for that.
Well, good luck as you fight for your long day.
Best,
Alex Kudera

39. fiscalsense - July 14, 2010 at 01:11 am

If someone enters the Income Based Repayment (IBR) plan paying an amount less than would be required under normal amortization, then isn't that also a loss to the taxpayer? Shouldn't this also be tracked? The required monthly payment on a Graduate debt maximum debt load of $138,500 is approximately $900 per month for 25 years. How many online MBA or Liberal Arts Grads will actually pay this amount? Where's the incentive for schools to encourage responsible borrowing or for the student to minimize their loans, when they can simply pay a fraction of their income and let the taxpayer eat the rest? IBR assumes that all of a student's loan debts were needed, when in fact so much of the average student's debt is for "living expenses" (e.g taking $10K per term when $5K would have covered tuition books and fees, to make mortgage payments while attending night school, pay credit cards, make car payments, etc.) Living expenses for full time working adults? Room and Board allowances for online students? Where's the common sense? With IBR, you might as well borrow the max, pay off all your credit cards, your car loans and a fair amount of your mortgage, then you'll only have to repay a fraction of the total if your household earnings are average (You'll pay about $60K of the $138,500 owed if you earn $65K a year with a family of four).

40. jaynicks - July 14, 2010 at 02:39 am

Is it needful to point out, "for every dollar the government invested in education under the GI bill, the nation received at least $5, and as many as $12.50, of benefits."

http://www.eric.ed.gov/ERICWebPortal/search/detailmini.jsp?\_nfpb=true&\_&ERICExtSearch\_SearchValue\_0=ED331587&ERICExtSearch\_SearchType\_0=no&accno=ED331587

or, http://tinyurl.com/285v839

Would not a fiscally prudent democracy expand spending on education until the conservatively estimated return approached 1.0? Does this conversation regarding loans have the wrong premises to usefully advance?

41. purly01 - July 14, 2010 at 03:30 pm

The default rate would be infinitely higher if the consequences were not so dire. I would be in default myself (I have over $175,000 in debt for 4 years of undergrad at a private university), however, since my mother is the one that holds the loans (she cosigned) she would be the one to suffer the effects of me failing to pay. I simply cannot throw her under the train. This is what they have the legal right to do to my mother if I can't keep paying, for any reason:

\*Steps will be taken to place the loan in default and to turn the loan over to the guaranty agency of the state. \*This means (and this is very, very important) that the bank gets their money at this point. They have absolutely nothing to lose by lending students more than they could ever afford to pay back, and have absolutely no interest in settling or negotiating interest rates (mine is 8%). I was told this directly when I called to try and do just that.

\*The loan holder may "accelerate" a defaulted loan, which means that the entire balance of the loan (principal and interest) becomes due in a single payment \*That's right; in my case $149,000, all at once.

The Department of the Treasury may offset my mothers federal and/or state tax refunds and any other payments to repay the defaulted loan.

We would have to pay additional collection costs after the loan is assigned to a private collection agency for collection.

She would be subject to Administrative Wage Garnishment, whereby the Department will require my mothers employer to forward 15% of her disposable pay toward repayment of the loan.

\*They can take legal action to force her to repay the loan. \*aka, sue her for the entire amount, plus fees.

My mothers State drivers and professional licenses can be suspended

Finally, credit bureaus will be notified, and her credit rating will suffer (dearly).

Keep in mind that there is no way to declare bankruptcy, renegotiate the interest rates, settle, and, the kicker, if I should die, my mother would still have to repay my student loans, for pretty much the rest of her working life. They can all these things without any limits, it can just spiral down and down and down, without any hope of relief, because there are no standard bankruptcy protections for student loans.

Where do you even start to cope with this? I have no answer, but I am disappointed that I will not count in these statistics because I have no choice but to pay. The state of American education is tragic, but I am at least somewhat relieved to see that people are finally starting to sit up and take notice.

42. reformhigheredu - July 14, 2010 at 07:09 pm

I completely agree with #39, fiscalsense's entire comment. Many students borrow $200,000 for a worthless degree that has nothing to do with medical science for example. I am concerned about the new student loan forgiveness where after 10 years their debt is forgiven if they work at a non-profit institution. By that time the student would have paid off the mortgage, finished making car payments on their luxury car, etc. all thanks to their overextended student loans (its offensive to taxpayers). I also believe that all colleges (for profit and non-profits) should undergo the same scrutiny when it comes to receiving government financial aid. As I am unable to post a comment for the chronicle article entitled "Nonprofit colleges have their own concerns about new federal rules" (posted 7/8/10), I will state here that I am glad private, non-profit institutions are shaking in their boots. Many private, non-profits engage in unscrupulous practices as well. Students need to be properly advised when taking out loans to pay for college. If a student has been properly advised and he/she is aware about the consequences of borrowing more than what is really needed, then the responsibility lies with the student.

43. cragie - July 15, 2010 at 12:09 am

Mr. Urdan seems to have fallen victim to the "GIGO" principle. Based on the article and the comments, colleges are reporting (1) enrollment info; (2) loan volumes; and (3) default info to the government. These categories of data -- at least (2) and (3) -- are highly-variable and subject to repeated adjustment/revision over time. It sounds like, if the quality of the data is considered "bad," then the place to turn for enacting improvements in data quality is the colleges. "Garbage in, garbage out" (GIGO), Trace? And it would seem logical, as colleges' data improve, that these updates/revisions would be incorporated into the government data reports, rather than sticking stubbornly to older, possibly outdated info, simply to avoid the "embarrassment" of posting a "correction."

I do agree that the single anecdote about "Lourdes Samedy, of Boston" seems to come from out of nowhere and adds little-to-nothing to the article's gravitas.

44. jpredington - July 15, 2010 at 01:20 am

Simple solution. Award aid at a uniform rate to each student as a true entitlement, and eliminate "cost of attendance" from the picture. No longer will institutions be able to funnel more aid to themselves by increasingly raising tuition, since they will be forced to deal with real income.

So long as the aid coffer flows in greater volumes to those that charge the most, there will be a disproportionate benefit to high tuition institutions, which ultimately hinders affordability for all.

45. redweather - July 15, 2010 at 06:21 am

purly01 -- I sincerely hope the $175,000 in student loan debt that you accumulated as an undergraduate has paid off in the job market.

46. atana09 - July 15, 2010 at 11:33 pm

"I completely agree with #39, fiscalsense's entire comment. Many students borrow $200,000 for a worthless degree that has nothing to do with medical science for example. I am concerned about the new student loan forgiveness where after 10 years their debt is forgiven if they work at a non-profit institution"

Reformhighered-It is difficult to know where your position is on this matter. True students may borrow too much, however college costs have increased 6+% yearly since the turn of the millennium. And costs had been climbing well before then due to cutbacks in direct aid and the linked condition of the transfer of educational funding to the debt based model.

In that case academe also needs to bear some of the moral load on this matter. Most college degrees are outrageously expensive and a high proportion of them are effectively worthless for their intended purpose. Obviously the humanities are the easiest to fault in this equation, but other fields also apply. Even the vaunted medical degrees are not working out via debt vs potential income. A few years back the AMA begged the USDOE to restore and enhance loan forgiveness and forbearance for their members. Now if the MD's have to ask for help, think about how terrible it is for the students who trained at CC's or the students who trained at university for middle level management jobs which pay poorly now, or no longer exist. Quite truthfully if many of us looked dispassionately at what we advise students to do, the best advice would be not to enter college until the balance of debt and educational worth is restored. In my field I have to in good conscience suggest that students find other alternatives than graduate studies as the returns are so low as to almost be chimerical. Not what I signed up for as a prof, nor is it the end one would have hoped for the humanities related studies.

Academe has another moral stain, as too often we allow our system to prey on the middle class and working classes...and when it does not work out for them all we can offer is platitudes about "lifelong learners" and the increasingly false stats about college educated people making more. (Which generally do not account for the debts incurred). At least admission our system has failed is preferable to soft sounding rationalizations.

Unfortunately pruly01's situation is not all that uncommon. In some cases all it took was a few late payments, a lost job, or some time unemployed to allow loan amounts to escalate almost exponentially. There are thousands like her (him?) out there and if some reforms are not enacted to aid that lost generation, then the social resentment and social loss to our nation will be immense. Obama to his credit has done something with the move away from the sub system to direct lending. But until more is done to end the debt for education scheme (scam) we still are on the brink.

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* [For-Profit Colleges Oppose Proposed Change in Calculating Student-Loan Default Rates](http://chronicle.com/article/For-Profit-Colleges-Oppose/447/) - January 30, 2008
* [Default Rates for Student Loans Continue Steady Climb](http://chronicle.com/article/Default-Rates-for-Student/65387/) - May 3, 2010
* [6 Historically Black Colleges Serve as Models for Lowering Student-Loan Default Rates](http://chronicle.com/article/6-Historically-Black-Colleges/64331/) - February 23, 2010
* [For-Profit Colleges Fight Proposal on Default Rates](http://chronicle.com/article/For-Profit-Colleges-Fight/25979/) - February 8, 2008

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The Chronicle of Higher Education

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