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Default Rate on Student Loans Drops Once Again, Education Department Reports

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Washington

The rate at which borrowers default on their federal student loans has dropped to an all-time low of 4.5 percent, U.S Education Department officials announced on Wednesday.

The default rate measures the percentage of borrowers who have defaulted within 12 to 24 months of leaving college. The latest data available are for borrowers who left college in the 2003 fiscal year. The 2003 rate dropped by 0.7 percentage point from the 2002 rate, representing a fall of about 18 percentage points since 1990, when the default rate peaked at 22.4 percent.

Education Secretary Margaret Spellings credited colleges, lenders, student-loan-guarantee agencies, and the Education Department's Federal Student Aid office for their efforts to prevent borrowers from defaulting.

"There's a coordinated campaign among all partners in the federal loan programs to focus attention on student-loan repayment -- and it's working," Ms. Spellings said in a written statement. "Financial-awareness outreach to students and families, and targeted intervention when needed, have paid off, resulting in significant savings to taxpayers."

In addition to the record-low rate, the department reported that for the second time since the rates were initially calculated, in 1989, not a single college had a default rate high enough to endanger its participation in federal student-aid programs. Colleges with default rates of more than 40 percent in one year or 25 percent or more for three consecutive years may be dropped from one or more of the programs. Over the past decade, nearly 1,200 educational institutions have been barred from the programs.

Default rates dropped among all major sectors of higher education. The average default rates were:

7.6 percent for public two-year colleges, down from 8.5 percent in 2002.

7.3 percent for for-profit colleges, down from 8.7 percent.

3.3 percent for public four-year colleges, down from 4.0 percent.

2.6 percent for private four-year colleges, down from 3.1 percent.

Many college leaders, lenders, and government officials say that the continued drop in the rates shows that the default problems of the early 1990s have been eradicated. But the Education Department's Office of the Inspector General has raised questions about that assumption ([The Chronicle](#), January 16, 2004).

The inspector general has said that the sharp drop in defaults may have as much to do with changes in the government's definition of default and shifts in repayment practices as with borrower behavior.

For example, colleges are increasingly pushing their former students who are in danger of defaulting to seek deferments or forbearance from lenders. Borrowers whose loans are in deferral or forbearance are not required to make payments. Yet the Education Department counts such borrowers among those who are successfully repaying their loans when it determines default rates.

The inspector general has asked Congress to require the Education Department to exclude borrowers who are in deferment or forbearance when calculating colleges' annual default rates. But the proposal appears to have fallen on deaf ears, as neither the House of Representatives nor the Senate education committee has included such a proposal in the legislation each has approved to renew the Higher Education Act, the law governing most federal student-aid programs.

More information about the default rates of individual colleges is available on the department's [Web site](#).

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