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U.S. Department of Education Releases Cohort Default Rates

Institutional 2-year cohort default rates (CDR) for the Stafford loan program have just been released by the U.S. Department of Education (ED). The newly released rates reflect continued financial and employment hardships faced by recent college graduates.

For community colleges, the Fiscal Year (FY) 2010 CDR was 13.4% for the most recent cohort, up from 11.9% the previous year. The average default rate for all institutions was 9.1%.

Fortunately, relatively few community college students take out loans, and when they do, the amounts borrowed are relatively small. For example, the 81,120 community college students who defaulted on their loans in the FY 2009 cohort represent just 0.7% of the 10.9 million credit students enrolled in community colleges during the 2009-2010 academic year. Approximately 25% of community college students graduate with debt, with an average loan amount of $2,719. Alternatively, more than 74% of all for-profit students graduate with debt, and although these institutions enroll only 13% of all the higher education students, they account for 47% of defaults.

Under Congressional mandate, ED has begun releasing 3-year cohort default rates. The rates are intended to provide a more accurate picture of actual borrower repayments, and beginning in FY 2014 these 3-year rates will provide the basis for institutional sanctions. The most recent 3-year CRD (FY 2009 cohort) for community colleges was 18.3%, while the for-profit sector’s rate was 22.7%.

The American Association of Community Colleges has worked with Congress to ensure that default rates do not jeopardize participation by most community colleges in any student financial aid programs, resulting in the inclusion of a “participation rate index” (PRI) in the Higher Education Act. The PRI limits the potential application of sanctions for institutions that have relatively small percentages of students who borrow in the federal loan programs.

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