Everything Jersey

The Times

More students floundering in red ink

Tuesday, November 03, 2009
Erin Duffy
STAFF WRITER

As a struggling economy forces more students to take out loans to finance their education, the number of students defaulting on these college loans is growing, according to college officials and a recently released U.S. Department of Education study.

Community colleges in particular are seeing high loan default rates and officials say the economy is a likely culprit, though the data represents a pre-recession economy.

Among all higher-education institutions nationwide, the student loan default rate rose from 5.2 percent in fiscal year 2006 to 6.7 percent in 2007. The 2007 number represents the number of borrowers whose first loan payments were due between Oct. 1, 2006, and Sept. 30, 2007, and who defaulted before Sept. 30, 2008, according to the Department of Education.

For fiscal year 2006, the rate represents borrowers whose loan payments were due between Oct. 1, 2005 and Sept. 30 2006, and who defaulted before Sept. 30, 2007.

At community colleges, the 2007 rate is closer to 9.9 percent, and an analysis of local loan default data shows community college students defaulting on their loans at a fairly higher rate than their four-year college counterparts.

"In all likelihood the levels are going to increase here and elsewhere as well until the economy recovers," said Reginald Page, the director of financial aid at Mercer County Community College (MCCC), where loan default rates rose from 6.3 percent in fiscal year 2006 to 8 percent in 2007.

MCCC's numbers for 2007 do represent a decline from the 8.3 percent rate recorded in fiscal year 2005. The fiscal year 2005 rates represent the number of borrowers who defaulted on loans due between Oct. 1, 2004, and Sept. 30, 2005, that were not paid as of Sept. 30, 2006.

At Burlington County College, the rate is 8.6 percent for 2007, up from 5 percent in 2005, while Middlesex County Community College has the highest of all three, with a 2007 rate of 9.4 percent.

College officials noted that loan default rates typically don't cause alarm until they hit the 10 percent threshold, which has not happened among local community colleges.

But the rates are higher than those at local public and private four-year institutions, like Princeton University, whose 2007 loan default percentage stood at a mere 0.9 percent.

In a press release that accompanied the loan default study released last month, U.S. Secretary of Education Arne Duncan said the latest rates were nowhere near as high as fiscal year 1990, when the U.S. was battling another recession and nearly 22 percent of borrowers defaulted on their loans.

He did note, however, that "the economic downturn likely had a significant impact on the borrowers captured in these rates."

The Department of Education release also noted that: "in interpreting the rates, it is important to remember that some schools, especially some community colleges, may have rates that seem high but that represent a very low number of students."

That is the situation at Thomas Edison State College, whose 5.5 percent rate up from 3.7 the previous year represented a jump from 18 default borrowers to 38, according to Jim Owens, the school's director of financial aid.

"Most of our students are adult learners," he explained. "They're very savvy about their credit scores and they're more established by and large."

Gail Scott Bey, the director of financial aid at Middlesex County Community College, said that even as tuition and fees for things like books increase, she and her colleagues still advise students to take on as little debt as possible while attending community college, which is typically more affordable than public or private four-year institutions.

But as the economy shrank and parents and students lost jobs, or found their wages cut, the tide of students looking to borrow began to swell, she said.

"There are so many special circumstances this year," she said. "There are so many parents that have lost their jobs this year. Students have no choice. They're leaning on student loans to help fill the gap."

And, of course, more loans mean more debt, and in the current economy, that means more risk that students may not have the income or parental support to pay back thousands of dollars of student loans.

"There is a concern at the other end," Scott Bey said. "Will they be able to repay it? Will they be able to get a job?"

But officials said that even students who may be overwhelmed with piles of bills and no means of paying them have no good reason to default on their student loans, which can ruin credit scores and block students from receiving additional financial aid.

"Once you default it's a whole different ball game," said MCCC's Page. "There's not a student out there that needs to go into default."

Page explained that many colleges, including MCCC, rely on a direct loan system, where loans come from the federal government, not a bank or other third-party lender.

The program includes many default prevention programs, he said, like payment deferments for students who get laid off or have difficulty finding a job. The plans usually include a high degree of flexibility, Page said, but some students still seem to think the only way out is dodging the inevitable creditors who come knocking at their doors.

"A lot of students, despite all our efforts to educate them otherwise, they just walk away and they don't communicate with the loan program," he said.

Contact Erin Duffy at eduffy@njtimes.com or (609) 989-5723