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Some Colleges Push Students to Delay Loan Repayments. They'll Pay More in Interest Later.

Dan Bauman

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Hundreds of colleges and universities pushed student-loan borrowers to delay payment on their loans, thereby allowing the institutions to avoid federal penalties, according to a report released Thursday by a government watchdog agency. As a result, the agency argues, many of those borrowers will probably pay more in interest on those loans in the long run.

The Government Accountability Office, which compiled the report, also found that consultants hired by colleges to advise students on their repayment options used controversial tactics and misleading statements to nudge students toward forbearance — the process through which borrowers can suspend loan payments. In one case, according to the report, a consultant told borrowers they would be barred from participating in safety-net programs like food stamps if they were to default on their loans. In fact, welfare benefits can't be reduced because of student-loan defaults.

The accountability office also found that some consultants presented forbearance as the only option for repaying loans. The consultants repeatedly omitted information about income-driven repayment options when communicating with overdue borrowers through letters and scripted phone conversations.

The report raised the possibility that colleges could be pushing forbearance to circumvent restrictions on their access to federal financial programs. If the share of students at a college with federal loans in default reaches 30 percent or more for three straight years, the institution can lose access to federal loan and Pell Grant programs. If the share of students with loans in default exceeds 40 percent in one year, penalties can also be imposed.

But if students delay repayment through forbearance, those loans aren't counted against the college's default limit. So if a college can push a potential default beyond the three-year window that the government monitors, it can avoid risking its access to government money.

When the government office conducted its own calculations to account for loans in forbearance, it found 265 additional institutions that might have had default rates of 30 percent or greater in 2013. Forty-seven percent of those institutions were for-profit colleges; two-year public colleges accounted for an additional 37 percent.

For borrowers, the added interest payments that come with forbearance can amount to thousands of dollars. A 10-year, $30,000 student loan would have an additional $6,700 in interest attached to it if forbearance were activated, the agency found.

"While forbearance can help borrowers avoid default in the short-term, it increases their costs over time and reduces the usefulness of the three-year default rate as a tool to hold schools accountable," the accountability office concluded.

While colleges and universities have reported using more than 48 default-management consultants to the U.S. Department of Education in recent years, the market appears to be concentrated. More than 1,300 institutions relied on the services of just nine consultants, according to the accountability office. Additionally, the office found, only one of those consultants had been contracted by its university clients to help borrowers who were delinquent outside of the federal government's three-year monitoring window.

The report echoed the Consumer Financial Protection Bureau's finding in September 2015 that student-loan servicers regularly advised borrowers to enter forbearance when less costly options were available.

While the report might sound damning, Terry W. Hartle, senior vice president of the American Council on Education, warned against using its conclusions to set policy. "They note that the schools most likely to have default-rate problems, and therefore the schools most likely to use default-management firms, are for-profit institutions and community colleges. This is not really an issue that affects four-year institutions."

Asked to provide agency comments to be published within the report, the U.S. Department of Education argued it did not have the authority to regulate the relationships between universities and their consultants. Likewise, citing separation of powers, the department said it would not recommend to Congress that it act on this issue. The department did say it could provide information to colleges and consultants about best practices.