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Education Dept. Has Undercounted Student-Loan Defaults in Its Monthly Reports

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Washington

Some colleges may have higher student-loan default rates than they think, because of an Education Department programming error.

For the past seven months, the department has excluded loans that it purchased from lenders during the recent credit crunch from its monthly measure of colleges' default rates. That omission has made it appear that fewer borrowers are in default than really are, and may have given some colleges a false sense of security.

Under federal law, 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.

To help institutions monitor their default rates, the department publishes online each month a running measure of the share of borrowers who entered repayment one to two years ago and have subsequently defaulted. Colleges that see their rates going up can use the information to ramp up their default-prevention efforts.

It's unclear how many colleges were affected by the error and how much default rates will rise, once the purchased loans are included. The Education Department said that 550 colleges uploaded reports containing the erroneous information between April and mid-November, and an unknown number viewed the incorrect percentages online. A spokesman for the department said the colleges will be notified of the error and the problem will be fixed in the December report.

The error will not affect colleges' eligibility for aid, since only the "official" [cohort default rate](#), published each September, counts.

Still, Justin Draeger, president of the National Association of Student Financial Aid Administrators, said that colleges that rely on the department's information to manage their default rates "are going to be very concerned about this misstep."

"It may have given them a false sense of cohort-default-rate

security," he said.

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