

Student Loan Debt Sweeping Off – Part 2



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This is the second of our [two-part series](#) of emails providing an overview of the rise of student loan debt.

Alternative Financing Options



Post the Great Recession, many students were able to seek help from their families in various ways. Some popular methods of financing tuition were home equity loans, refinancing home mortgages, and using savings. However, home value regressions and increased unemployment vastly dampened those financing methods (Norris). This, in return, led to more students seeking out their own financing methods, in particular student loans, in order to attend college. Likewise, in today's society a college degree is becoming more of a need instead of an option regardless of the price.

Impact of Default Rates on Schools

As college has become more of a need for students, there have been more and more students taking on debt that are not able to keep up with the payments after school is finished. With more debt comes more default, and the increasing default rates have consequences for higher education institutions. "A school with a cohort default rate of less than 15% for each of the three most recent fiscal years for which data are available" does not need to delay the first disbursement of a loan for 30 days (for first-time borrowers who are first-year undergraduates). If a school's three most recent official cohort default rates are 30% or greater using the three year calculation, then the school will lose Pell Grant and Direct Loan funding for the remainder of the fiscal year (in which the school is notified) and the following two fiscal years (except in the event of a successful appeal). When a school's current official cohort default rate is 40% or more when using the three year calculation, the school will become ineligible for the Direct Loan program for the remainder of the fiscal year (in which the school is notified) and the following two fiscal years (except in the event of a successful appeal). As such, schools have incentive to monitor their loan portfolios and work to help students stay on track with their payments. (Federal Student Aid)

Conclusion

College has become a necessity in today's society. Through the increase in student loan debt and tuition cost, students will continue to attend college. In summary, after the Recession, financing of college educations has somewhat evolved from the families' responsibility to the students'. This along with vague standards helped fuel the drastic sweep in student loan debt in such a short amount of time. As there are negative consequences for high default rates for institutions, schools should work to maintain student success in paying off these loans.

Please contact Crissy Fiscus at cfiscus@deandorton.com or Bryan Bulkley at bbulkley@deandorton.com if you would like to discuss further.

[View Crissy Fiscus' Bio](#)

Citations:

Norris, Floyd. "The Hefty Yoke of Student Loan Debt." 20 February 2014.
https://www.nytimes.com/2014/02/20/business/economy/the-hefty-yoke-of-student-loan-debt.html?_r=0. 02 July 2014.

Federal Student Aid, An Office of the U.S. Department of Education. "2.4 Cohort Default Rate Effects."
<https://ifap.ed.gov/DefaultManagement/guide/attachments/CDRGuideCh2Pt4CDREffects.pdf>. 02 July 2014.