Number of student loan defaults continues to climb

By Phillip Reese and Melody Gutierrez, Sacramento Bee

Going to college has always been a gamble for students taking loans. They bet on a college degree conferring higher earnings that will let them settle up after graduation.

For most, the gamble pays off: The unemployment rate for college graduates is half the rate for those with only a high school diploma.

But a growing number of local college graduates are falling short and quickly defaulting on their loans. And the trend is not just happening at private, for-profit schools.

Public college students in the Sacramento region borrow almost twice as much as their peers did six years ago – and default on their loans twice as often after graduation, new federal data show.

Current students borrow more because student fees continue to rise at UC Davis, Sacramento State and the region's two largest community college districts. Recent graduates default more because the job market, while improving, is not back to full strength, leaving thousands underemployed in jobs that don't require a degree.

"It's like the housing market – all the debt," said Sacramento State senior Daniel Eastman, referring to the housing bubble. He's borrowed about $7,000 a year since transferring from community college. "People aren't going to be able to pay it all off."

Eastman wants to avoid the fate of roughly 1,000 local public college graduates who defaulted within just two years of

starting loan payments in 2010. Four years prior, 400 local students defaulted in that short time, U.S. Department of Education figures show.

Local public college students and parents borrowed $315 million from the U.S. government last school year, up from $170 million during the 2006 school year.

Much of the new debt comes from a surprising quarter: community colleges.

While most community college students don't take loans, a growing number now borrow to cover living expenses. Almost 3,000 left local community colleges with debt in 2010; after graduation, these students defaulted at more than triple the rate of students at four-year public colleges.

"I think it's psychotic," Sierra College financial aid program manager Linda Williams said, adding that the federal government, not the college, decides whether to issue a loan. "I can't deny them, unless it is something glaring."

Statewide, public college students at all levels borrowed $3 billion last school year, almost double the amount from six years prior. Quick loan defaults also have almost doubled.

California nonprofit private school students drew down another $3 billion in debt last year, and students at for-profit, private schools borrowed $2 billion.

The consequences of defaulting on a loan are severe – and tough to escape. Unlike other types of debt, student loans usually can't be discharged through bankruptcy.

"You've got to be dead to get out of these loans," said Ed Emerson, chief of federal policy and programs at the California Student Aid Commission. "The feds don't give up. They can garnish your wages. They can seize your property."

Higher fees, fewer classes

Eastman, a biology major, is optimistic that he won’t ever face that crisis, but he’s not certain.

As Sacramento State continues to cut class offerings, Eastman said he struggles to get the courses he needs to graduate. Spending more time in school leads to more debt.

He also worries about rising tuition. CSU officials announced last week that they want more fees from students taking too long to graduate and repeating classes.

Already, about 315 Sacramento State students who began paying off loans in 2010 defaulted within two years, triple the number from five years prior. Only one public college in the state, California State University, Northridge, saw more recent graduates default almost immediately.

Desiree McSherry, 22, a senior in nutrition science at Sacramento State, doesn’t owe the government any money, but has had trouble getting experience in her field because most internships don’t pay, and she needs to keep her part-time job – or start taking out loans.

“You can’t really build bridges when you have to work” a job unrelated to your field, she said.

Anita Kermes, the financial aid director at Sacramento State, said the college “does a lot of proactive things” including loan counseling and career fairs to deter defaults. But, she said, “double-digit unemployment has had a big impact.”

At UC Davis, about 125 students who started paying off their loans in 2010 defaulted less than two years later, more than double the number from five years prior.

Still, that represents less than 3 percent of UC Davis 2010 graduates, giving UC Davis the lowest default rate, by far, in the region.

“Our default rate is not that high, but it’s going up every

year," said Katy Maloney, financial aid director at UC Davis.

Defaults can hurt schools

At the region's two largest community college districts, Los Rios and Sierra, students and their parents borrowed $51 million last school year, quadruple the $13 million their peers borrowed six years earlier.

Juan Vasquez, a part-time student at both Sierra College and Sacramento State, owes about $20,000 and has 18 months before he graduates. Vasquez said his loans pay for food and transportation.

"The way the economy is right now, you will try to do something," said Vasquez, a communications major who lives in Orangevale. "So people go to school."

If Vasquez graduates, he'll have a good shot at finding a job and starting payments on his loans.

But no one is guaranteed work, and hundreds of students drop out of local colleges each year, hauling big, unpaid loans behind them. Roughly 15 percent of former local community college students who started paying loans in 2010 defaulted less than two years later.

"If it's hard to get a job, people can't pay it back," Vasquez said.

The total annual cost of attending Sierra College while living with parents last year was $7,500, up 25 percent from 2006, after adjusting for inflation, federal data show. That figure includes books, food and transportation.

Far less than 10 percent of students at Sierra and Los Rios colleges take loans, but, as the number grows, college officials often discourage students from seeking loans.

"We do strong counseling," Los Rios spokeswoman Susie Williams

said.

The stakes are high. Some community colleges worry that they will face federal sanctions if they don’t keep loan defaults in check.

Schools with high default rates can lose their eligibility for federal financial aid, such as Pell Grants, beginning in 2014. That prospect has led some California community colleges to stop participating in federal loan programs, though many wouldn’t face sanctions anyway because of the relatively small number of students taking loans.

Students counter that they often have no choice but to take loans.

Samantha Ledbetter, 19, is studying to become a nurse. She’s taking close to a full class load at Sierra College, working to pay bills, living with her parents, and receiving a tuition fee waiver, but still needs loans, she said, “for gas, food and stuff like that.”

After two years at Sierra College, Ledbetter said she will have about $13,000 in student loans by next semester’s end.

Feds work with students

Student loan defaults will continue to rise, several experts said, so long as student fees keep increasing and the economy remains weak.

While none expected college costs to fall anytime soon, several pointed to positive signs that the economy is improving, making loan payments easier for graduates.

“We had a record number of employers participating in our most recent career fair,” said Kermes, the financial aid director at Sacramento State.

Federal government officials have taken steps to reduce loan

defaults. Some students unable to repay can put off payments, a process called forbearance. Officials have made consolidating several student loans into one loan easier, a process that can often reduce interest rates.

Graduates who default can also work out a payment plan with the federal government, though that may result in extra fees.

Emerson, the California Student Aid Commission official, said the federal government may soon tighten restrictions on who can receive aid – and which schools can take it. The new guiding principle may be, “Don’t give money to people with no hope of paying it back, and don’t give money to students at diploma mills,” he said.

The change might take a while, though. Williams, the Sierra College official, still sees many students borrowing against a low-paying vocational career while attending college part time.

“The loan system needs reworking, and I think the Department of Education understands that,” she said. “I think they are seeing what we are seeing in the field.”