FAQ

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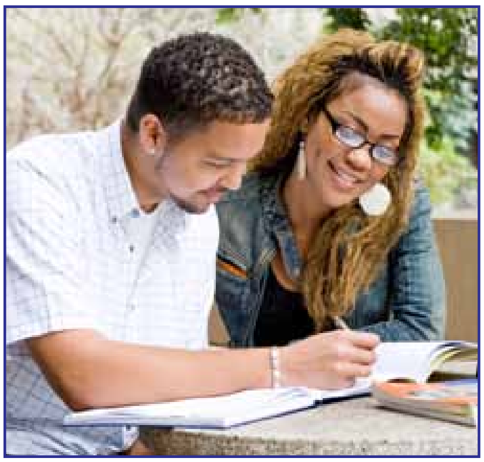
Student Loans, For-Profit Colleges, and Traditional Colleges: Some Things You Should Know Before Borrowing

Now more than ever, students are having trouble paying back loans for college. This is especially true for students who attend for-profit colleges. For-profit colleges are privately owned institutions that tend to have significantly higher tuition costs than public colleges and universities.



Many students complete programs at for-profit colleges and launch new careers. However, many other students do not have such successful experiences, ending up without the career they envisioned and/or with large debts they cannot repay. This FAQ is designed to help prospective college students become better informed about student loans, particularly those used to finance education at for-profit institutions.

Q What are "for-profit colleges"?

Many for-profit colleges are vocational or trade schools that offer specialized training programs in fields such as culinary arts, welding, automotive repair, medical assistance, and hairstyling, to name a few. These programs are particularly attractive to young adults who don't want a general college education, but instead want to focus on job-related training. Some vocational schools advertise on television, emphasizing their programs as flexible and effective in helping students reach their employment goals. In recent years, there has been a rapid increase in for-profit colleges offering courses leading to an undergraduate degree (an AA, BA, or BS). About a third of for-profit programs are online only.

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www.pathwaysrtc.pdx.edu

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How are for-profit colleges different from other colleges?

The main difference between for-profit colleges and traditional colleges is that for-profit institutions are privately owned businesses designed to make money for their owners. Other important differences have to do with what happens to students after they exit the program. A recent study found that, six years after graduation, students from for-profit colleges earned less and were more likely to be unemployed than similar students who had attended traditional colleges. What is more, for-profit colleges generally charge higher tuition rates than public community colleges and universities. To cover these costs, more than nine out of ten students at for-profit institutions take out loans. Putting these facts together makes it unsurprising that *students at for-profit colleges tend to end up with more debt, and they are much more likely than their peers at traditional colleges and universities to have difficulty repaying their loans.*

How can I tell if a college is for-profit or not-for-profit?

It's not always easy to tell from a college's own website or printed materials whether it's a for-profit or not. The College Navigator on the website of the federal government's National Center for Education Statistics lets you search by "institution type" within a state or in or near any zip code. Just enter "college navigator" into a search engine.

What can happen to students if they can't repay their loans?

Student loans to cover the cost of any college or university carry risks that may not be immediately obvious to prospective borrowers. For example, if students are unable to complete their programs, or unable to find work, they are still responsible for paying back their loans. If students default on their loans – which means they stop repaying their loans as scheduled – they may experience negative consequences in a number of areas in their lives, such as establishing a good credit rating, getting housing, attending other schools, and even getting a job. Additionally if students don't make their loan payments, the government can take money directly from their tax refunds, pay checks, or federal benefits like Social Security disability or retirement benefits.

So student loans are bad?

Not necessarily. It's just important for students to understand what they are getting into when they take out loans. They should know exactly what their monthly payments will be and how long they will have to continue making payments. Students who are considering loans should also be aware that they will have to start making payments within six months of exiting college, regardless of whether they finish the program or drop out OR just drop below half time as a student. Another key thing to understand is the difference between federal student loans and private loans.

Q What is a federal loan?

There are two types of federal loans: subsidized loans and unsubsidized loans. For subsidized loans—which are available to students who demonstrate financial need—the federal government pays the interest on the loan while the student is in college. For unsubsidized loans, interest builds up while the student is in college. When that student leaves college, she owes the original loan amount plus the interest that built up. In other words, the student owes more money than she originally borrowed.

Federal loans have several features that make it easier for students to repay the loans after college. For example, these loans have fixed interest rates that are relatively low. Some students can also take advantage of income-based repayment (reduced monthly payment amounts for students whose income is low), deferment plans (which allow students not to make payments while re-enrolled in school, unemployed, or experiencing economic hardship), or forgiveness plans (which allow all or part of a loan to be canceled if the student does community work or serves in the military).

Q What about private loans?

Private student loans are typically offered through banks or finance companies. Compared to federal loans, private loans tend to have extra fees as well as much higher interest rates, and no forgiveness or repayment options. Due to the fees and higher interest charges, taking out a private loan will almost certainly end up costing a student a lot more than taking out a federal loan for the same amount. As a result, students who drop out or have financial challenges after finishing school are at much greater risk of defaulting on their private loans.

Q So which is a better loan – federal or private?

Federal loan programs clearly offer more options for the student to remain successful in paying back the loan. Available federal loan money should always be used first. Unfortunately, federal loans do not necessarily cover enough of the costs of college, and students may find themselves turning to the private loan option.

Q If I ended up in financial trouble and had to default on my student loans, couldn't I just declare bankruptcy and start fresh?

No, in this important way, student loans are different from other common types of loans. If you declare bankruptcy, you will almost certainly still owe the full amount of your student loan. After bankruptcy, if a student still does not make payments, the federal government can step in to take money directly from tax refunds, paychecks or federal benefit payments.

Q Are young adults with mental health difficulties at special risk?

Statistics do not specifically show rates of student loan default among young adults with serious mental health conditions (SMHC). However, there are some statistics that strongly suggest that young people with SMHC are more likely than other young adults to encounter financial problems related to loans to finance education at for- profit colleges.

For example, students with disabilities are more likely than other students to be enrolled in for-profit colleges. Students with disabilities are also more likely to be "non-traditional" students. Non-traditional students are more likely than traditional students to be enrolled in for-profit colleges AND more likely not to complete the program and to default on a student loan.

Questions to Think About Before Taking Out a Loan for School

- Will the training I receive actually qualify me for the type of job I want?
- If I'm considering a for-profit college, have I checked to make sure that I can't get the same schooling I want at a public institution with lower tuition, such as a community college?
- Do I know what percent of students graduate from the school I am interested in, and how many of those graduates find jobs in my field of interest? Do I know the average wage they earn after graduation?
- Will the amount of money I earn in my future job cover my living expenses, the needs of my family, AND the student loan payments I will have to make?
- If I am thinking about taking out a private loan, have I made sure that I have maximized the amount I can take out on a federal loan first?
- If I am not certain about the answers to these questions, do I have a friend, relative, or trusted professional who manages money well, and who can help me think about my options?

Help Available for Those Who Already Have Student Loans

- For federal student aid loans, there are a number of repayment options for people who are having trouble making payments. Information is available at: www.finaid.org/loans/forgiveness.phtml
- For information about repayment plans and how to negotiate an affordable monthly payment amount, contact: www.studentaid.ed.gov
- For information and questions about how to resolve a federal student loan dispute, contact: www.ombudsman.ed.gov
- For assistance with private student loan concerns or complaints, the Consumer Protection Bureau has recently opened a student loan complaint system for issues regarding private student loans. Their website is: www.consumerfinance.gov/complaint/
- For more information on the differences between federal loans and private loans: www.federalstudentaid.ed.gov/federalaidfirst