FOR IMMEDIATE RELEASE: January 31, 2011

Contact: Deanne Loonin, 617-542-8010
dloonin@nclc.org

NCLC's "Piling It On: The Growth of Proprietary School Loans and the Consequences for Students" Released Today: Link to Report Below

Proprietary school loans viewed as loss leaders to keep federal aid flowing, attractive to investors, harm students

Many for-profit (or proprietary) schools have begun making costly private student loans knowing in many cases that more than half of these loans will never be repaid. Most schools started these institutional loan programs when third party private student lenders began terminating their partnerships with for-profit schools following the credit crash.

"Piling It On: The Growth of Proprietary School Loans and the Consequences for Students", a report issued today by the National Consumer Law Center's Student Loan Borrower Assistance Project, shows the urgent need to regulate lending by for-profit schools and provide relief for vulnerable borrowers, many of whom attend for-profit schools that fail to deliver quality educations as promised.

The schools seem to view these "institutional loans" as loss leaders to keep the federal dollars flowing. Among other reasons, proprietary schools must show that at least 10% of revenues come from sources other than Department of Education federal student assistance. Schools make unaffordable loans as a way of filling up the 10% category with vapor revenues derived from loans that will never be repaid.

"Institutional loan programs are aimed at attracting investors and keeping the federal aid pipeline flowing." said Deanne Loonin, Director of NCLC's Student Loan Borrower Assistance Project and author of the report. But students are often harmed by such lending. "Each failed loan represents an individual who cannot repay a debt and who may be facing aggressive collection tactics and damaged credit ratings," Loonin said. "Piling more debt on students already buried in federal and third party private loans is hardly in the best interests of students even if it serves a company's bottom line."

This timely report is released as for-profit school executives and their lobbyists are fighting the Obama Administration and Congressional efforts to ensure that for-profit schools deliver quality outcomes in return for the growing amounts of federal aid going to the industry.

The report reviews institutional lending at the largest for-profit higher education companies and a number of smaller companies as well. It highlights the main problems with institutional loans, including high default rates, high costs, predatory terms, and accounting tricks and traps. The final sections discuss the various rationales for the schools' actions and recommendations for reform, including strengthening the "90-10" rule and stepped up attention by federal and state regulators to lending by for-profit schools.

The report is posted on-line at:
http://www.studentloanborrowerassistance.org/uploads/File/proprietary-schools-loans.pdf

###

National Consumer Law Center® is a non-profit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as organizations, who represent low-income and elderly individuals on consumer issues.

NCLC's Student Loan Borrower Assistance Project provides information about student loan rights and responsibilities for borrowers and advocates. The Project also seeks to increase public understanding of student lending issues and to identify policy solutions to promote access to education, lessen student debt burdens and make loan repayment more manageable. See the Project's web site at http://www.studentloanborrowerassistance.org.