

# Don't Become a Victim of Educational Fraud and Student Debt

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Education is a stepping stone to greater opportunity in life. The more education and career training you have, the more earnings you likely will have in your career. But education beyond high school is becoming increasingly expensive for students and families, and those who need it must find ways to pay.

Each year, many students take out student loans in order to continue their education and prepare for good careers. They may, however, end up with overwhelming debt, leading to great financial strain, possibly for decades to come.

As reported in *The Chronicle of Higher Education*, alumni who did not have high student loan debt felt more strongly that their college education had been worth it. Those with more student debt were more likely to delay graduate or professional education beyond the bachelor's level. They also were more likely to put off buying a home or a car. They were likely to stay in their parents' home longer. They tended to delay starting a business, getting married, and having children. Doing what is important in life gets put off when debt piles up. And the personal stress can be immense.

How can you avoid unnecessary financial strain while getting the education you need? One way is by minimizing the amount of loans you take on. A 2014 report by Sallie Mae and Ipsos showed that today's college students are borrowing less and finding other ways to pay for their education. This is a positive trend, saving many students and their families thousands of dollars in interest. Those who borrow less are better able to pay off their loans later on.

The major way students have reduced student debt is by attending state-funded, accredited higher-education institutions, rather than private schools, unless they receive substantial funding from the private institution.



Many students also save by attending community or technical college, and even more if the school is within driving distance from home, therefore avoiding the cost of room and board.

If you plan to enroll at a four-year college, you can save money by attending community college the first year or two, and then transferring to a four-year institution. Just make sure the four-year college will accept your course credits from the community college before you go that route.

## Student Debt

How bad is the crisis in student debt? It accounts for more debt than credit cards and auto loans; only U.S. mortgage debt is higher than student loan debt. More than 44 million borrowers owe upwards of \$1.3 trillion

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in outstanding student debt in the U.S. And the average 2016 graduate owed over \$37,000 in student loan debt.

Most borrowers owe \$100,000 or less; but 2015 data shows that over 2 million borrowers had student loan debts totaling more than \$100,000, with 415,000 of them owing more than \$200,000.

The current student loan delinquency or default rate is 11.2 percent. And student loan debt is notoriously hard to get out of because student loans cannot be discharged by filing bankruptcy except under unusual circumstances. You do not want to default because of the financial impact.

### **Which Students Are Most Likely to Default on Debt?**

Based on a research study, students most likely to default are the most vulnerable, those from low-income households. Much of the debt below \$10,000 is owed by students who defaulted from private, for-profit schools; and many of these drop out during their first semester or year, often feeling they were misled by the school counselor or admissions officer.

### **Government Action on Education Fraud**

#### *ITT EDUCATIONAL SERVICES CLOSED*

2016 saw one of the largest college shutdowns in history, when ITT Educational Services, Inc., filed for bankruptcy and shut down campuses in 38 states. ITT was a for-profit institution that operated for 50 years. The federal government demanded that ITT post increased security to guarantee federal student aid. There were concerns of “administrative capacity, organizational integrity, financial viability and ability to serve others.”

#### *DEVRY FTC SETTLEMENT*

Also in 2016, DeVry University reached a \$100 million settlement with the Federal Trade Commission. DeVry agreed to pay \$49.4 million to “qualifying students who were harmed by the deceptive ads, as well as \$50.6 million in debt relief.” This amount “includes the full balance owed—\$30.35 million—on all unpaid student loans that DeVry issued to undergraduates between September 2008 and September 2015, and \$20.25 million in student debts for items such as tuition, books and lab fees.”

#### *AMERICAN CAREER INSTITUTE CLOSED*

Another example of a college that encouraged naive students to take out federal student loans and then failed to deliver any meaningful education was American Career Institute, which closed its doors in 2013.

Students who attended American Career Institute at its Massachusetts campuses will receive more than \$30 million in loan forgiveness due to a lawsuit by the Massachusetts Attorney General. “Attorney General Maura Healey asked the U.S. Department of Education to cancel the loans after her office sued the for-profit school over fraud allegations and the school admitted misleading students.” Under the deal, nearly 4,500 students will receive refunds.

The decision means nearly 4,500 students will have the balance of their loan debt wiped out and will be entitled to refunds for debt payments they’ve already made.

U.S. Sen. Elizabeth Warren said ACI took advantage of students to get federal student loan money and then provided little real education or career help.

ACI operated schools in Massachusetts and Maryland.

### **Signs of Degree Scammers**

- There is minimal interaction with professors.
- They promise you will receive a degree in a short period of time.
- The school does not have an “.edu” Internet address.
- Being accepted only requires your signature on a credit card or FAFSA form.
- To verify that the school you are interested in is accredited, visit the U.S. Department of Education or the Council of Higher Education Accreditation Web sites.

### **Avoid Defaulting on Federal Student Loans**

Student loan debt is a burden that can last a lifetime; and, unfortunately, federal student loan debt cannot be voided by bankruptcy. Loan servicers, meanwhile, are often unwilling to help guide borrowers toward their best options for repayment. Many borrowers find themselves unable to keep up. According to the New York Times, “more than 1.1 million people in the federal direct student loan program defaulted in 2016 alone – a rate of about 3,000 per day.”

Many borrowers know little about what options they have for repayment, and it is crucial that you know what you can do. You may qualify for a loan forgiveness program after making a certain number of on-time payments. For instance, the federal Pay as You Earn plan now allows non-public-service graduates loan forgiveness after 240 consecutive payments on their loans (20 years). And public-service employees may be able to do even better. (For more information on loan forgiveness programs, see the third publication in our education series, FCS 5-467: *Selecting a Major and Career for a Sound Financial Future*.)

After positive moves in recent years to help borrowers pay off student debt, the federal government may now be moving in the other direction. The Education Secretary recently decided to allow guaranty agencies to charge a 16 percent fee on student debt in default, which only makes it harder for borrowers to pay off their student loans. Clearly, you will want to do everything you can to avoid excessive student debt and to pay off your student loans as quickly as you can.

## Repairing Your Credit after Default

You might be good at keeping up with your other bills, but find student loans more complicated. If you have paid all your other bills on time, but lost track of a student loan and defaulted on it, you would not be alone. Many students take on several loans each semester and then lose track of some of them. It is therefore crucial to stay organized and keep up with all of your student loans.

Defaulting on student loans can seriously damage your finances. Your repayment options will be limited. Until your loans are paid or you make adequate arrangements for repayment, your college or university could withhold your transcripts. You might not be able to receive any more federal aid. And your debts might be sent to a collection agency. You will then have to pay much more in interest and penalties.

Your credit score will fall and you will likely not be able to receive credit cards or any type of loan. If you want to buy a car, you might have to pay cash. You will have trouble finding an apartment, as potential landlords will check your credit. Employers also typically check job applicants' credit, so finding a job could be a problem, as well. These and other consequences await if you do not take care to make all your payments on time.

If you think you might be close to default, you need to get moving to minimize the damage. First, be aware that it takes more than missing a monthly payment to default on a student loan; only after 270 days of non-payment do you go into default. You might be seriously delinquent, but not yet in default. If you are late with

even one payment, speak with your loan servicer immediately. They can help you establish a plan to begin making payments again.

After you default, the lender will transfer your loan to a collection agency. However, you still have another 60 days to avoid collection fees if you pay your balance in full. If you have more than a handful of loans, then one loan in default might be small enough for you to pay it right away. If the loan is not small, you will likely have to set up a plan and pay fees and penalties.

Even if you are completely in default, you still have ways to remedy the situation. Ask the collection agency for a reasonable payment plan based on your circumstances. You will need to explain those circumstances completely and clearly to the customer service agent. If the plan the agent sets up is not reasonable for you, then talk with a second agent. Ask to speak with a supervisor if necessary. This is important because, within certain guidelines, collection agencies get to decide what they believe you can afford.

Also, once you have cleared your default, be sure to verify with the collection agency that the default has been removed from your credit report. If necessary, request your credit report from one of the three major credit reporting bureaus—Equifax, Experian and TransUnion. You only need to make nine consecutive payments that are on time before you can do this. Although your credit report will not recover completely, having it show that you are no longer in default is one sure step toward recovery.

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