



Testimony
Before the Subcommittee on Higher
Education and Workforce Investment,
Committee on Education and Labor,
House of Representatives

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COLLEGE CLOSURES

Many Impacted Borrowers Struggled Financially Despite Being Eligible for Loan Discharges

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Many Impacted Borrowers Struggled Financially Despite Being Eligible for Loan Discharges

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Highlights of GAO-21-105373, a testimony before the Subcommittee on Higher Education and Workforce Investment, Committee on Education and Labor, House of Representatives

Why This Matters

When a college closes, it can derail the education of many students, leaving them with loans but no degree. Those who cannot complete their education may be eligible to have their federal student loans forgiven through a “closed school discharge” from the Department of Education, but this process has changed in recent years.

We examined what happens to borrowers after colleges closed.

Key Takeaways

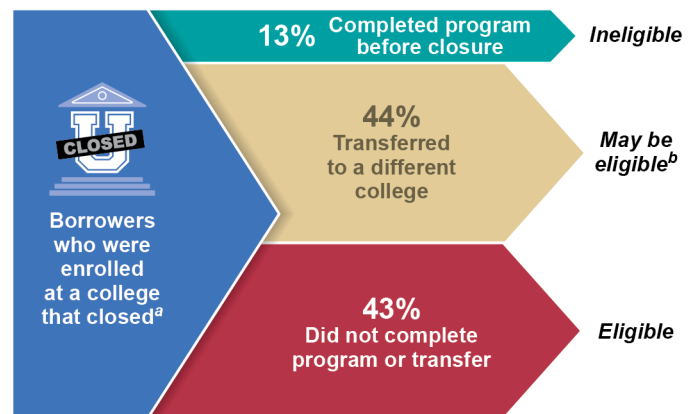
- **About 246,000** borrowers were enrolled at over 1,100 colleges that closed from 2010 through 2020.
- **43%** of impacted borrowers did not complete their program before their college closed or transfer to another college—showing that closures are often the end of the road for a student’s education.
- **Over 80,000** of these borrowers had their loans forgiven through a closed school discharge.

The majority of borrowers who had loans forgiven applied for it, but over 27,600 received relief through a new process that took effect in 2018 which automatically discharged loans for eligible borrowers 3 years after a closure.

The automatic discharge process has provided relief to many borrowers struggling to repay their loans. More than **70%** of borrowers who eventually received an automatic discharge were in default or past due on their loans. These borrowers were facing severe financial consequences (e.g., wage garnishments, reduced tax refunds, credit score drops), but may not have been aware that they were eligible for loan forgiveness.

Education eliminated the automatic process in July 2020, so borrowers impacted by future closures will have to apply for forgiveness.

Outcomes for Borrowers Who Attended Colleges That Closed and Their Eligibility for Loan Discharges



Source: GAO analysis of Department of Education data. | GAO-21-105373

^aBorrowers refers to students who borrowed federal student loans and met certain eligibility criteria.

^bBorrowers are not eligible for a discharge if they are completing or have completed a comparable program at another college. Borrowers who transferred but did not complete their program are eligible for a discharge.

How GAO Did This Study

We analyzed Education data on federal student loan borrowers who were enrolled at colleges that closed from 2010-2020. We reviewed relevant federal laws, regulations, and agency documents. We also interviewed Education officials and subject matter experts.

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Chair Wilson, Republican Leader Murphy, and Members of the Subcommittee:

I am pleased to be here today to discuss the effect of college closures on federal student loan borrowers. Recent college closures have derailed the educational pursuits of many students.¹ For example, some recent closures, such as ITT Technical Institute in 2016, as well as colleges operated by Dream Center Education Holdings in 2019 and by Concordia University in 2020, involved college chains that together enrolled thousands of students across multiple campuses.

When a college closes, some students may be able to finish their program before the school closes and others may choose to continue their education by transferring to another college. However, for other students a closure can be the end of the road for their education, leaving them with student loan debt but no degree. Those that do not complete their education may be eligible for a closed school discharge of their federal student loans from the Department of Education (Education).² College closures can therefore be costly to students—who have spent time, effort, and financial resources in pursuit of higher education—and to taxpayers who ultimately may be responsible for the costs of the discharged federal student loans.

My remarks today examine (1) what is known about borrowers who were enrolled at colleges that closed; and (2) the extent to which these borrowers received closed school discharges. For these objectives, we analyzed data from Education’s Postsecondary Education Participants System to identify college closures from January 1, 2010 through

¹The Department of Education defines a college closure as a college, or branch campus, that has ceased to provide educational programs and permanently closed its doors.

²Borrowers must meet certain eligibility criteria, such as attending the school when the college closed or withdrawn soon before its closure. See 34 C.F.R. § 685.214(c). For the purposes of this testimony, we are using the terms “loan discharge” or “discharge” to refer to closed school loan discharges. Education also administers other kinds of student loan discharges, including Borrower Defense to Loan Repayment, which gives discharges to borrowers who attended colleges that misled them or engaged in other misconduct in violation of state laws, as well as discharges related to total and permanent disability, Perkins Loans, or death.

December 31, 2020.³ We also analyzed data on the federal student loan borrowers who were enrolled at colleges that closed from 2010 through 2020 or withdrew soon before the closure, making them potentially eligible for a closed school discharge.⁴ These data on borrower outcomes and discharges are from Education's National Student Loan Data System, the agency's central database for federal student aid information, and were current as of April 2021 when Education provided the data to us.⁵ We assessed the reliability of the data by comparing data elements used in our analyses to data published by Education, identifying and removing observations outside of the scope of analysis (e.g., closures prior to 2010), reviewing documentation about the specific data systems, and interviewing Education officials responsible for these systems. As a result of this assessment, we concluded that the Education data were sufficiently reliable for reporting the number and characteristics of the population of closed colleges and the student loan borrowers who were enrolled at these colleges. We analyzed Education documents and interviewed officials about the department's policies and procedures for closed school discharges. We also reviewed relevant federal laws and regulations, and interviewed representatives from three organizations that represent borrowers and two research organizations to obtain their views on students' experiences with applying for and receiving a closed school discharge.

We provided relevant sections of this statement to Education for comment. Education provided technical comments, which we addressed as appropriate.⁶

We conducted our work for this testimony in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to

³The Postsecondary Education Participants System is Education's primary system for tracking colleges' eligibility to participate in federal student aid programs, including dates of closures. We also analyzed data from Education's Integrated Postsecondary Education Data System to identify the sector of each closed college.

⁴We selected data from 2010 through 2020 because it allowed us to assess trends over time for borrowers affected by closures.

⁵As later discussed, our analysis does not include students affected by Education's August 2021 announcement that it would make discharges available to approximately 115,000 additional borrowers who attended ITT Technical Institute.

⁶We are also conducting related work that will examine Education's outreach to borrowers about their eligibility for closed school discharges. We plan to complete this work in 2022.

provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Closed school discharge eligibility

Students who were enrolled at a college that closed may be eligible to have the full balance of their federal student loans forgiven if they are unable to complete their program of study due to the closure of the college.⁷ To be eligible for a closed school discharge, federal student loan borrowers (or a student on whose behalf a parent borrowed) generally must: 1) have been enrolled when the college closed or withdrawn soon before its closure⁸; 2) not have completed the program of study at the college before it closed; and 3) not be completing or have completed a comparable program at another college through a teach-out⁹ or by transferring credits or hours earned at the closed college.¹⁰

According to Education regulations, receiving a discharge qualifies borrowers for reimbursement of any amounts previously paid or collected on those loans. Additionally, Education is required under regulations to report discharges to relevant consumer reporting agencies so that all adverse credit history assigned to the loan can be removed from borrowers' credit reports.

⁷Parents who borrowed Parent PLUS Loans for a student enrolled at a closed college may also be eligible for a closed school discharge.

⁸To fall within the eligibility window for closed school discharges, borrowers must have withdrawn within 180 days of a college's closure if they had loans disbursed on or after July 1, 2020, within 120 days if they had loans disbursed from July 1, 2014 through June 30, 2020, or within 90 days if they had loans disbursed before July 1, 2014. Education may also extend the window of eligibility if the Secretary determines that exceptional circumstances related to a college's closing justify an extension. Borrowers on an approved leave of absence when the college closed may also be eligible for a discharge.

⁹Teach-outs refer to a written course of action that a closing school may take to help students finish their programs of study. Some plans include written agreements between the closed school and other schools that are still open for instruction that allow a student to finish their program of study at one or more schools.

¹⁰Borrowers who transfer academic credits may still be eligible if they 1) do not complete their program at the new school or 2) transfer from the closed college to a non-comparable program of study at the receiver college.

Process for obtaining a Closed School Discharge

Education manages the discharge process, including overseeing its student loan servicers, which are responsible for receiving and reviewing discharge applications and processing approved discharges. Loan servicers are also required to send an application and explanation of the qualifications and procedures for obtaining a discharge to all potentially eligible borrowers after a college closes.¹¹

Borrowers have different options for obtaining a closed school discharge depending on the date of their college's closure. Borrowers impacted by a closure can submit a closed school discharge application. In addition, some borrowers are eligible to have their loans automatically discharged by Education without filing an application through a process that took effect in October 2018¹² if they were enrolled at a college that closed on or after November 1, 2013 and did not continue their education by re-enrolling in another Title IV-eligible college within 3 years of the school closure.¹³ Education created this automatic process to address concerns that some eligible borrowers were not applying for discharges. The process is generally intended to provide automatic discharges to

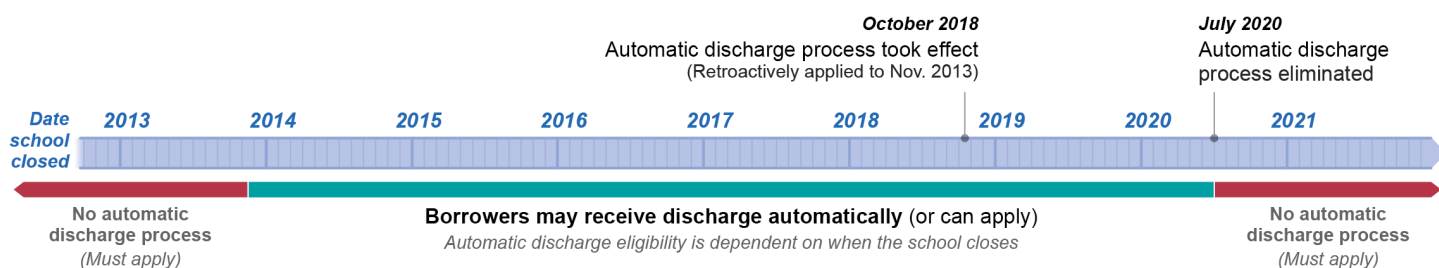
¹¹As of July 2020, Education and its student loan servicers are solely responsible for providing students with information about their potential eligibility for a closed school discharge as a result of recently issued regulations rescinding a prior requirement that closing colleges also provide this information to students. See Student Assistance General Provisions, Federal Family Education Loan Program, and William D. Ford Federal Direct Loan Program, 84 Fed. Reg. 49,788, 49,854, 49,910 (Sept. 23, 2019) (removing paragraph (b)(32) from 34 C.F.R. § 668.14).

¹²The regulations were initially scheduled to take effect on July 1, 2017, but prior to the effective date, Education issued a final rule establishing July 1, 2019, as the new effective date. Following a series of lawsuits, a court vacated the delay of the 2016 regulations. Consequently, the 2016 regulations went into effect October 16, 2018. See "Student Assistance General Provisions, Federal Perkins Loan Program, Federal Family Education Loan Program, William D. Ford Federal Direct Loan Program, and Teacher Education Assistance for College and Higher Education Grant Program," 83 Fed. Reg. 6,458, 6,458-69 (Feb. 14, 2018); *Bauer v. DeVos*, 332 F. Supp. 3d 181, 186 (D.C. Cir. 2018).

¹³See 34 C.F.R. § 685.214(c)(3)(ii). Borrowers must have otherwise met the qualifications for enrollment at the closed colleges. This process was later eliminated for borrowers who were enrolled at a school that closed after July 1, 2020. Colleges must meet requirements under Title IV of the Higher Education Act to be eligible to participate in federal student aid programs.

qualifying borrowers 3 years after their college closes.¹⁴ Education subsequently implemented new regulations that eliminated the automatic discharge process for closures occurring on or after July 1, 2020, meaning borrowers enrolled in colleges that closed after this date must apply for a discharge (see fig. 1).¹⁵

Figure 1: Timing of the Automatic Closed School Discharge Process



Source: GAO analysis of relevant federal regulations. | GAO-21-105373

Note: Because Education does not automatically discharge loans until 3 years after the closure, Education will continue to administer the automatic process through July 2023.

In August 2021, Education announced it will establish a negotiated rulemaking committee in October to consider additional regulatory revisions related to closed school discharges, among other issues.

¹⁴For example, borrowers who were enrolled at a college that closed in January 2017 and otherwise met the eligibility criteria for a discharge would have been eligible to receive an automatic discharge by January 2020. Because the regulations allow for borrowers who were enrolled at colleges that closed as early as November 2013 to be eligible for automatic discharges and the process did not take effect until October 2018, some borrowers did not become eligible for an automatic discharge until more than 3 years after their school closed.

¹⁵See 84 Fed. Reg. 49,788, 49,848, 49,930-31 (Sept. 23, 2019). Because Education does not automatically discharge loans until 3 years after the closure, Education will continue to administer this process through July 2023. When announcing the final regulations to eliminate the automatic process, Education stated that providing automatic closed school discharges to borrowers ran counter to its goals of encouraging students at closed schools to complete their educational programs. The Department’s rationale also included the belief that borrowers should be able to decide whether a discharge is in their best interest and that the existing application process was not overly burdensome or difficult to navigate. According to current regulations, the Secretary has discretion to discharge borrowers’ loans without an application if the Secretary determines that the borrower qualifies for the discharge of a loan based on information in Education’s possession. See 34 C.F.R. § 685.214(c)(3).

Most Borrowers Impacted by a Closure Were Enrolled at For-Profit Colleges and Many Did Not Complete Their Program or Transfer

About 246,000 Borrowers Were Enrolled at a College That Closed from 2010 through 2020, and Most Attended For-Profits

About 246,000 borrowers¹⁶ were enrolled at 1,106 colleges that closed from 2010 through the end of 2020.¹⁷ These college closures ranged in size from small branch campuses to large college chains serving tens of thousands of borrowers across multiple locations.¹⁸ Borrowers enrolled in colleges that closed collectively had about \$4 billion in federal student loans, with a median loan debt of about \$9,500.¹⁹ The total number of students affected by college closures is even higher because students

¹⁶For the purposes of our analysis, “borrower” refers to any student who borrowed federal student loans (or student on whose behalf a parent borrowed) and was either a) enrolled or on an approved leave of absence when their college closed, or b) withdrew within the window of eligibility for a closed school discharge. To fall within the eligibility window for closed school discharges, borrowers must have withdrawn within 180 days of a college’s closure if they had loans disbursed on or after July 1, 2020, within 120 days if they had loans disbursed from July 1, 2014 through June 30, 2020, or within 90 days if they had loans disbursed before July 1, 2014. Education may also extend the window of eligibility if the Secretary determines that exceptional circumstances related to a college’s closing justify an extension.

¹⁷For the purpose of our analysis, we combined college closures that 1) have the same 6-digit Office of Postsecondary Education Identification Number (OPEID) and 2) closed within the same calendar year. Because our testimony is focused on the impact of college closures on borrowers, we did not include over 7,100 OPEIDs that Education reported as closed but did not have any federal student loan borrowers enrolled or on an approved leave of absence when the college closed or that withdrew shortly before its closure, meaning there were no borrowers at these schools who potentially would have been eligible for a closed school discharge.

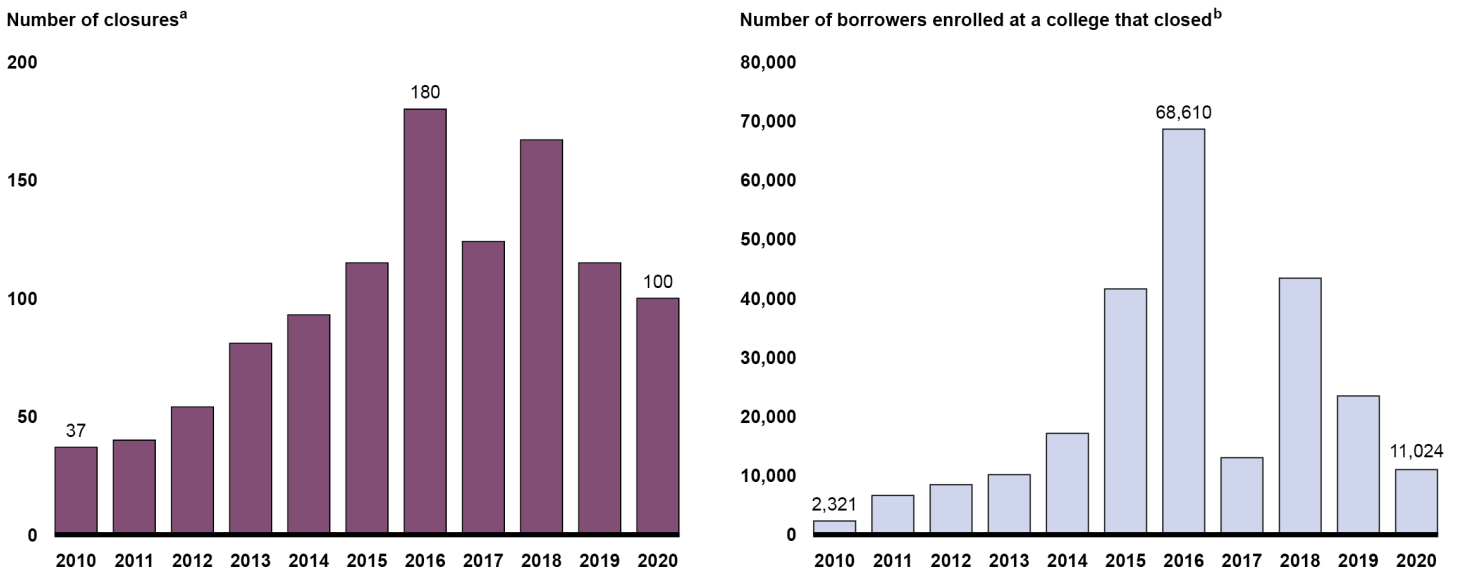
¹⁸While some closures constitute a branch campus or campuses closing, the majority of closures included the college’s main campus closing. From 2010 through 2020, about 800 main campuses closed.

¹⁹The average loan debt was about \$16,400 per borrower.

who did not receive federal student loans were not included in our analysis.²⁰

Both the number of college closures and affected borrowers have varied since 2010, peaking in 2016 when the large for-profit chain ITT Technical Institute closed (see fig. 2). Other large college closures include Corinthian Colleges in 2015 and Dream Center Education Holdings in 2019. Although many experts initially predicted an increase in college closures in 2020 due to the COVID-19 pandemic, college closures decreased to the lowest levels since 2014 during this time, which some experts have attributed, in part, to Congress providing about \$75 billion in stimulus funding to colleges throughout the course of the pandemic.

Figure 2: Annual Number of College Closures and Affected Borrowers, 2010-2020



Source: GAO analysis of Department of Education data. | GAO-21-105373

^aGAO combined college closures that 1) have the same 6-digit Office of Postsecondary Education Identification Number and 2) closed within the same calendar year. Colleges that closed without any federal student loan borrowers enrolled prior to closure were not included in this analysis.

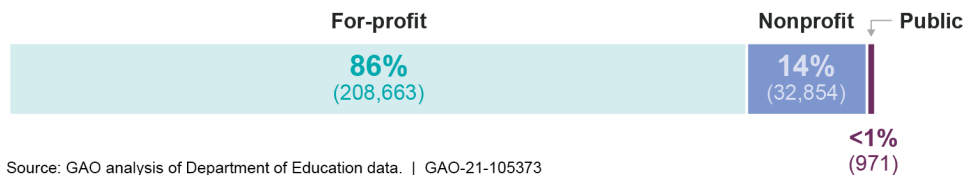
^b“Borrower” refers to any student who borrowed federal student loans (or student on whose behalf a parent borrowed) and was either a) enrolled or on an approved leave of absence when their college closed, or b) withdrew within the window of eligibility for a closed school discharge. Data reflect

²⁰About 67 percent of undergraduate students did not participate in the federal student loan program during the 2018-2019 school year, according to the most recent data from the Integrated Postsecondary Education Data System. Education’s National Student Loan Data System does not include enrollment information on these students.

borrowers as of April 2021 and include those borrowers who were enrolled at a college that closed from calendar year 2010 through 2020.

Among borrowers affected by a closure between 2010 and 2020, 86 percent were enrolled at a for-profit college (see fig. 3). A relatively small number of for-profit colleges accounted for a majority of borrowers affected by college closures. About 51 percent of all borrowers affected by college closures were enrolled at one of the 34 for-profit colleges that enrolled 1,000 or more borrowers at the time they closed. Three of these for-profit colleges that closed each had 10,000 or more borrowers enrolled. During this time, seven nonprofit colleges also closed with 1,000 or more borrowers enrolled.

Figure 3: Federal Student Loan Borrowers Enrolled at a College that Closed from 2010 through 2020, by College Type



Source: GAO analysis of Department of Education data. | GAO-21-105373

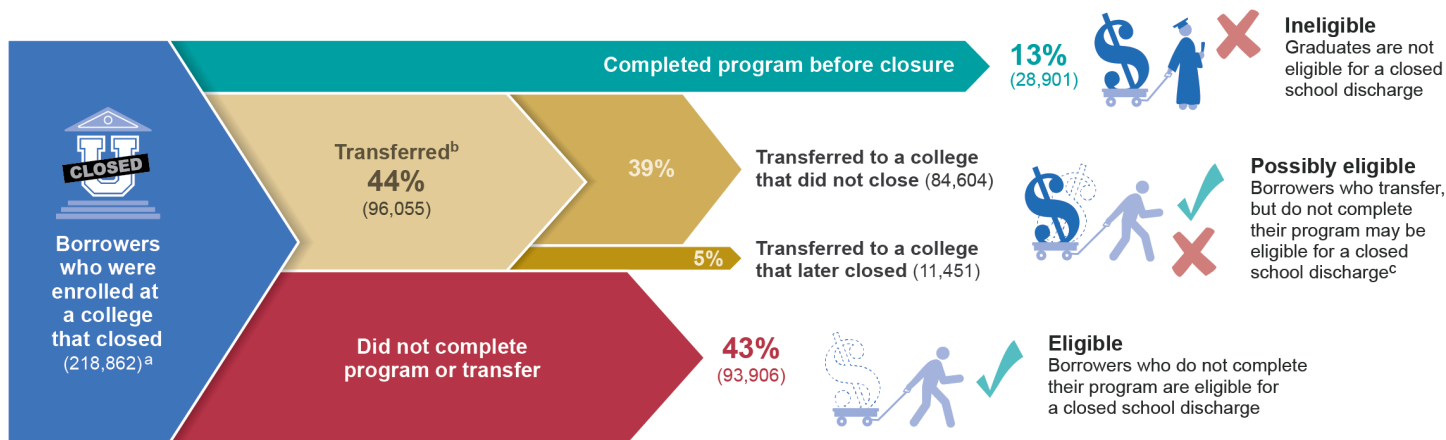
Note: Percentages may not add up to 100 due to rounding. GAO combined college closures that 1) have the same 6-digit Office of Postsecondary Education Identification Number and 2) closed within the same calendar year. Colleges that closed without any federal student loan borrowers enrolled were not included in this analysis. Additionally, GAO measured the size of closures by how many students who took out federal student loans (or whose parents who took out loans on students' behalf) were either a) enrolled or on an approved leave of absence when their college closed, or b) withdrew within the window of eligibility for a closed school discharge. Data reflect borrowers as of April 2021 and include those borrowers who were enrolled at a college that closed from calendar year 2010 through 2020.

Over 40 Percent of Borrowers Enrolled at a College That Closed Did Not Complete or Continue Their Education

A college closure represented the end of many borrowers' educational pursuits. Forty-three percent of borrowers enrolled at a college that closed did not complete their program or continue their education by transferring to another college, according to available data from

Education.²¹ In addition, 44 percent of borrowers transferred to another college after a closure, and 13 percent were able to complete their program prior to their college closing (see fig. 4). A greater proportion of borrowers at for-profit colleges that closed did not complete their program or transfer compared to borrowers at other types of colleges that closed. At for-profit colleges that closed, 44 percent of borrowers did not complete or transfer, compared to 34 percent of borrowers at nonprofit college closures and 22 percent of borrowers at public colleges.

Figure 4: Educational Outcomes as of April 2021 for Federal Student Loan Borrowers Who Enrolled at a College that Closed from 2014 through 2020



Source: GAO analysis of Department of Education data. | GAO-21-105373

^a“Borrower” refers to any student who borrowed federal student loans (or student on whose behalf a parent borrowed) and was either a) enrolled or on an approved leave of absence when their college closed, or b) withdrew within the window of eligibility for a closed school discharge. GAO did not include borrowers who were enrolled at colleges that closed prior to calendar year 2014 because Education officials stated that the data on program completion for those borrowers had limitations.

^bFor the purposes of GAO’s analysis, “transfers” refers to borrowers at closed colleges who re-enroll at another college after a closure and take out federal student loans at the receiver college.

^cBorrowers who transfer academic credits or hours may also be eligible for a closed school discharge if they transfer from the closed college to a non-comparable program of study at the receiver college. Borrowers are not eligible if they are in the process of completing the program of study or a

²¹Our reported statistics on borrower outcomes are based on data from 2014 through 2020, unless otherwise noted. We did not include borrowers who attended colleges that closed prior to 2014 because Education officials stated that the data on program completion for those borrowers had limitations. Additionally, for the purposes of our analysis, “transfers” refers to borrowers at closed colleges who re-enroll at another college after a closure and take out federal student loans at the receiver college. Education officials said the department is prohibited from collecting individualized data on students who enroll without taking out federal student loans, but the limited data Education has on these students and our own analysis of separate data from Education’s Beginning Postsecondary Students Longitudinal Study suggest the number is small.

comparable program through a teach-out, or by transferring academic credits or hours earned at the closed college to another college.

An additional factor that can affect whether borrowers are able to continue or complete their education is the circumstances surrounding a college's closure. For example, colleges that cease operations in an orderly process over several months can give students time to complete the current school term and make arrangements to transfer and continue their education at another school. We previously reported that the effect from college closures is often worse if the closures occur abruptly with little or no advance warning, because these colleges generally do not have time to establish transfer arrangements that allow students to easily continue their education at another college.²²

A college closure can have negative consequences for borrowers regardless of whether they transfer or complete their program. Transferring to another college after a closure enables borrowers to continue their education, but it is not always in borrowers' best interest, according to Education officials and our analysis of Education data. For instance, many borrowers who transfer lose credits in the transfer process, transfer to colleges that are at-risk of closing, and struggle to complete their education after transferring.

- Students often lose some college credits when they transfer. We have previously reported that students who attend a for-profit college, which account for most college closures, generally lose most of their credits when transferring to a new college. For example, we reported that students transferring among for-profit colleges, lost an average of 83 percent of their credits.²³ For-profit to for-profit transfers were the most common transfer path among borrowers who were enrolled at a closed college, accounting for about 37 percent of transfers from 2014

²²See GAO, *Higher Education: Education Should Address Oversight and Communication Gaps in Its Monitoring of the Financial Condition of Schools*, [GAO-17-555](#) (Washington, D.C.: August 2017).

²³See GAO, *Higher Education: Students Need More Information to Help Reduce Challenges in Transferring College Credits*, [GAO-17-574](#) (Washington, D.C.: August 2017). We also reported that, on average, for-profit borrowers who re-enroll at public colleges are unable to transfer 94 percent of their credits. From 2014 through 2020, about 30 percent of borrowers transferred from a for-profit to a public college.

through 2020. Borrowers who are unable to transfer credits could incur additional costs to repeat courses.²⁴

- Some borrowers who already had their education disrupted from one college closure transferred to another college that later shut its doors as well. From 2014 through 2020, nearly 11,500 borrowers transferred to a college that subsequently closed, accounting for about 5 percent of borrowers affected by closures in that time period. If these borrowers did not complete their program at the second college, they are potentially eligible to discharge loans associated with both colleges.
- Many borrowers who transferred did not end up completing their programs at the new colleges. Of about 11,300 borrowers in our data set that transferred prior to 2015, nearly 49 percent (about 5,500 borrowers) did not graduate within 6 years of transferring.²⁵ Borrowers who transferred but are not currently completing their education may be eligible for a loan discharge, whereas borrowers who transferred to a comparable program and graduated are ineligible.

Borrowers who complete their program prior to the closure of their college can benefit from having a degree, but the degree may be devalued by the closure, according to Education officials. Representatives from a borrower advocate group explained that when colleges close, the college may suffer reputational damage and the quality of education may deteriorate leading up to the closure. As a result, borrowers who get a degree at a closing college may incur unmanageable amounts of debt in exchange for a relatively low-value degree. These borrowers are ineligible for a loan discharge.

²⁴Some closing colleges may have established a teach-out process that may limit credit loss. For example, some teach-outs include contracts with a receiver college that allow students to transfer credits and finish their program of study after their college closes. However, some schools, particularly those that closed abruptly, may not have an approved teach-out process in place.

²⁵We limited our analysis of 6-year graduation rates to borrowers who transferred between 2010 and 2014. This allowed us to include only borrowers who have potentially been at the receiver school for 6 or more years.

The Discharge Process Provided Relief to Many Borrowers Who Struggled To Repay Their Loans

Education Discharged Loans for over 80,000 Borrowers Enrolled at Colleges That Closed from 2010 through 2020, Many through the Automatic Process

Education has granted discharges to over 80,000 borrowers who were enrolled at colleges that closed from 2010 through 2020.²⁶ These discharges provided an important protection to borrowers whose educational pursuits were cut short through no fault of their own. In total, Education discharged about \$1.1 billion of loans for borrowers at 682 college closures, and the median loan debt discharged for affected borrowers was about \$9,900.²⁷ Of all discharges Education granted to borrowers, about 96 percent went to students at for-profit colleges, with nearly two-thirds of discharges going to borrowers concentrated at just 21 for-profit colleges. This analysis reflects data as of April 2021. In August 2021, Education announced that the agency would make \$1.1 billion in discharges available to an additional 115,000 borrowers who attended ITT Technical Institute prior to its closure in September 2016.²⁸ Education expanded the closed school discharge eligibility window beyond the standard 120 days to include borrowers who attended ITT Technical

²⁶Education has also provided borrower defense loan discharges to about 5,300 borrowers who attended a college that closed and were potentially eligible for a closed school discharge as well. According to Education documents, if a borrower at a college that has closed may qualify for either a closed school discharge or a borrower defense discharge, the agency encourages the borrower to apply for a closed school discharge. The closed school discharge application process is generally less burdensome than the borrower defense application process, according to Education documents and officials we interviewed.

²⁷Borrowers who received a discharge had slightly higher loan balances compared to the median loan debt for all borrowers at a closed college, which was about \$9,500. The average amount discharged was about \$13,700 per borrower, while the average loan amount for all borrowers was about \$16,400 per borrower.

²⁸According to the announcement, the discharges are available to borrowers who left ITT Technical Institute on March 31, 2008 or later and otherwise met the eligibility criteria for a discharge. Most of these borrowers did not enroll at another institution within three years of ITT Technical Institute closing and will receive a discharge automatically. Borrowers who enrolled elsewhere but did not complete their program of study may still be eligible for a discharge, but will need to submit an application, according to the announcement.

Institute on or after March 31, 2008. Borrowers who attended ITT Technical Institute within 120 days of its closure who applied for a discharge or received one automatically in 2019—3 years after the college’s closure—are included in our analysis.

Automatic discharges have accounted for at least 42 percent of discharges since borrowers became eligible for them in November 2013.²⁹ During this period, Education automatically discharged about \$360 million of loans for over 27,600 eligible borrowers who did not proactively apply for and receive a discharge. In comparison, Education discharged about \$526 million to over 38,700 borrowers through the traditional, application-based process (see fig. 5). A large proportion of borrowers have received discharges through the automatic process, and according to Education officials, some may not have been aware that they were eligible for discharges. Education officials and representatives from a borrower advocate group also told us that another reason some eligible borrowers do not take advantage of application-based discharges is because the onus is on those borrowers to apply for a discharge. Education’s automatic process has therefore provided eventual relief to borrowers who did not proactively apply.

Figure 5: Proportion of Federal Student Loan Borrowers Receiving a Closed School Discharge by Type of Discharge, as of April 2021 for Colleges That Closed 2013-2018^a



Source: GAO analysis of Department of Education data. | GAO-21-105373

²⁹We are reporting the total number of discharges as of April 2021, the date at which Education provided us data. Because borrowers are not eligible for an automatic discharge until 3 years after their college closes, our analysis includes automatic discharges for borrowers who were enrolled at colleges that closed up through April 2018. Additionally, according to Education officials, loan servicers misclassified some initial automatic discharges as application-based discharges in Education’s data system. As a result, the actual proportion of automatic discharges may be higher than was indicated in our analysis of the data. These officials said that when Education was first processing automatic discharges, the department had not yet established a code to distinguish automatic discharges from application-based discharges so all discharges, including automatic discharges were coded as application-based. Officials said that loan servicers may have also misclassified some automatic discharges when borrowers who were in the process of applying for a discharge received one through the automatic process. Education officials stated that they have provided servicers guidance on how to report discharges, and this is no longer an issue.

^aGAO is comparing application-based discharges and automatic discharges for borrowers enrolled at colleges that closed from November 2013—when borrowers first became eligible for automatic discharges—and April 2018, the most recent closure date for which borrowers could have received an automatic discharge at the time of analysis. Eligible borrowers who were enrolled at a college that closed on or after November 1, 2013, and before July 1, 2020 become eligible for automatic discharges 3 years after the college closes.

Although the automatic process may catch many eligible borrowers that do not receive application-based discharges, it is not an option for some borrowers. Under Education regulations, borrowers who transfer after a college closure but do not complete their program at the receiver college are generally eligible for a closed school discharge if they submit an application, but they are not eligible to receive a closed school discharge through the automatic process.³⁰ Of about 5,500 borrowers who transferred prior to 2015 and did not complete their programs within 6 years, only about 700 applied for and received discharges as of April 2021. The remaining borrowers (about 4,800) may be eligible for a loan discharge if they apply, but will not receive an automatic discharge under Education’s current rules.

Most Borrowers Who Received Automatic Discharges Struggled to Repay Their Loans Although They Were Eligible for Relief

About 73 percent of borrowers who eventually received automatic discharges—that is, eligible borrowers who did not apply for and receive a discharge—faced difficulty repaying their loans. Specifically, 52 percent of these borrowers defaulted on their loans, and an additional 21 percent were past due on their loans by 90 days or more at some point during

³⁰See 34 C.F.R. § 685.214(c)(3)(ii). Similarly, borrowers who transfer to non-comparable programs are generally eligible for loan discharges if they apply, but they will not receive discharges automatically. When Education and loan servicer officials assess borrower applications for closed school discharges, they use a variety of factors to determine whether two programs are comparable. These factors include the academic or professional nature of the programs, the similarity in course requirements, and the treatment of transfer credits. However, Education officials told us that while colleges report data on programs borrowers attend, these data are not sufficient to make determinations about whether programs are comparable for the purpose of administering automatic discharges.

repayment.³¹ More than half of the borrowers who fell into default before receiving an automatic discharge did so within a year and a half of their college closing. Since Education processes automatic discharges 3 years after a closure, many borrowers were facing the consequences of default for a substantial amount of time before receiving an automatic discharge.

Borrowers who eventually received automatic discharges faced higher rates of default than other borrowers. For instance, borrowers receiving automatic discharges defaulted at about five times the national average and about twice as frequently as borrowers who completed their program at colleges that closed. This is consistent with Education reporting that shows that borrowers who do not complete their degree, such as borrowers who are eligible for automatic discharges, are at elevated risk for default.³² Further, we found that borrowers receiving automatic discharges defaulted at about nine times the rate of those who applied for and received discharges. About 11 percent of the borrowers who applied for and received a discharge were at least 3 months past due on their loans at some point, and only 6 percent defaulted on their loans.³³

Although many borrowers were at risk of facing severe financial burdens from their federal student loans that were past due or in default, they did not apply for a discharge. Borrowers in default may be subject to wage garnishment or reductions in federal or state income tax refunds and

³¹About 20,100 of the 27,600 borrowers who received automatic discharges faced difficulty repaying their loans. This includes about 14,300 borrowers who defaulted and an additional 5,800 who were past due on their loans by 90 days or more. Student loan servicers report borrowers who are past due on their federal student loan for 90 days or more to the three major national credit bureaus. If a borrower is past due on their loans for 270 days or more their loan may go into default. However, borrowers past due on their loans for fewer than 360 days can avoid default if they begin making payments or postpone loan payments through forbearance or deferment. Borrowers' reported past due or default status corresponds to any loans associated with the closed college they attended. In limited circumstances, the loans reported as past due or defaulted may be different from the loans that were automatically discharged, for instance if the borrower had previously completed one degree at the school and was pursuing another degree at the same college at the time of closure.

³²Students who take out college loans but do not graduate are nearly three times more likely to default than borrowers who complete their program, according to data from Education's Beginning Postsecondary Students Longitudinal Study.

³³Borrowers receiving application-based discharges are less likely to go into default in part because most (75 percent) receive their discharges within one year of the school closing. Because loans past due for 360 days or more are considered in default, these borrowers likely did not have loans in repayment long enough to default.

some Social Security benefits to collect on the defaulted loan.³⁴ Defaulted loans and loans past due for 90 days or more will also appear on the borrower's credit record, which may make it more difficult for them to obtain other loans and could also harm their ability to obtain a job or rent or buy a home.³⁵

Many borrowers who were struggling to repay their loans eventually received relief through the automatic discharge process. Since Education eliminated the automatic process for closures beginning in July 2020, borrowers impacted by future closures will have to apply to receive a discharge. Those who do not apply for a discharge, potentially because they are not aware of their eligibility, may face long term financial burdens from student loans that are past due or in default, even though those loans are eligible to be discharged.

Chair Wilson, Republican Leader Murphy, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Melissa Emrey-Arras, Director, Education, Workforce, and Income Security Issues at (617) 788-0534 or EmreyArrasM@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony include Will Colvin (Assistant Director), Brian Schwartz (Analyst-in-Charge), Kristy Kennedy, Jon Muchin, and Michael Naretta. In addition, key support was provided by Andrew Bellis, James Bennett, Deborah Bland, Gina Hoover, John Mingus, Jessica Orr, Rachel Stoiko, and Adam Wendel.

³⁴Upon default, the entire unpaid balance of the loan and any accrued interest is immediately due. Defaulted borrowers may also be ineligible for assistance under federal loan programs and may not receive any additional federal student aid until the loan is repaid in full or the borrower resolves the default through other means, such as loan consolidation or loan rehabilitation.

³⁵Borrowers with poor credit ratings may also be charged a higher interest rate than someone with a good credit rating. They also may have trouble obtaining car loans or other forms of consumer credit, signing up for utilities, or obtaining a cell phone plan, according to information from Education.

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