

Student Loans or Foreign Aid - You Decide

August 27, 2013 - This story was supposed to be about student loan interest rates and some of the significant issues that the Congress conveniently overlooked in its last restructuring of the program. But in doing the research for that piece - to be run at a later date - it turned into something quite different. It turns out that the Department of Education is providing student loans to non-US schools. What's more, some of those schools have staggering loan default rates. This begs the question, what benefit do American taxpayers receive for the money they are loaning to support foreign educational institutions?

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Earlier this year, there was a fairly long argument between the Democrats and Republicans over student loan interest rates. One of the major sticking points in that argument had to do with the affordability of student loans for taxpayers. According to Department of Education numbers, the current loan default rate is 13.4 %. While that may seem high - because it is - it becomes very apparent when looking at individual school data that many institutions greatly exceed this number. In fact, this data is closely tracked by the DOE but it doesn't appear to be widely disseminated to the public. It is available but they really don't advertise it.

What's very interesting is that the DOE now requires schools with a "cohort default rate" of 30% or more to establish a "fault detection task force" and come up with a plan to reduce the number of defaults. 30% is a staggering default rate, but the DOE won't actually kick a school out of the student lending business until they hit 40%.

There are currently 218 schools in the database with default rates of 30% or more. You can download that table here (NOTE: you will need Microsoft ACCESS to look at the database). But not one of these is a foreign institution. That's disturbing when you note that there are at least 22 schools overseas that exceed the 30% figure. While many of these schools only have a few students with loans, it doesn't alter the fact that money spent on them may not be a wise investment.

Among those foreign institutions, there are some glaring examples of schools that should be reexamined for eligibility. In Baja California, there is a medical school that according to the DOE's database (NOTE: this is a separate Microsoft ACCESS database), out of the 88 students who were included in the 3 year average and supposed to be repaying loans, 27 of them were in default. That amounts of a 30.6% default rate. And since the database only tracks 3 years of data, the information that the DOE is providing doesn't actually tell us anything about the actual number of defaults for all student loans made to the school.

While the school in Baja doesn't appear to publish tuition numbers online, I was able to find an online forum that had some very interesting information on it. According to one of the posts, tuition runs \$11,000 (not sure if that is by semester or for an entire year). Additionally, one of the poster's mentioned that no undergraduate degree was required and you only needed to score 1,000 on your SAT test for entry. Even better yet, the person making the post claimed that there was no MCAT requirement (Note: that would violate the rule as published). If accurate, those standards are significantly lower than those required by medical schools in the US and should create some significant doubts about the ability of graduates to become gainfully employed and repay their loans.

With such a high default rate, one can only presume that graduates may be having an issue finding employment in their chosen field when returning to the USA. Perhaps that's because you have people claiming to be doctors who never actually went to undergraduate school. Or perhaps it is because they accept students who have relatively low test scores by US standards. But you really can't blame the university. It was the DOE that came up with the rules to allow this kind of nonsense.

In 2009, the DOE published a rule in the Federal Register that pretty well relinquished any common-sense education standards for foreign educational institutions receiving federally backed student loans. It's a long read but if you are looking for evidence of governmental incompetence, it is well worth your time. The fact that it comes from a department that is supposed to be a champion of education is simply icing on the cake. The end result is that students can now get federal student loans to attend overseas schools but that the DOE has little or no visibility into the educational standards of schools themselves.

Here are some of the highlights of the rule:

Â· In the case of medical schools, the DOE originally proposed that American students be required to have a bachelor's degree and pass the MCAT before entering a medical program. In the final rule, there was no undergraduate requirement and even though foreign schools are supposed to require the MCAT, they are not required to consider it for admissions purposes.

Â· Medical schools are required in the rule to have a 60% pass rate for graduates taking the USMLE (US Medical Licensing Exam). But if any school has less than 8 US students taking the exam in any one year, they are exempt from that standard.

Â· For all institutions of higher learning, "non-federal negotiators" (presumably meaning those negotiating on behalf of the foreign schools seeking loans) originally suggested that loans only go to schools that were accredited by accrediting authorities recognized by the DOE. But the DOE didn't like the plan. In fact, according to the federal register publication, "The Federal negotiator explained that the Department does not recognize U.S. accreditors for accreditation of institutions outside the United States." Given the fact that they are handing out taxpayer money, and the entire purpose of their meetings and publications was to make some rule changes, this might have been a more intelligent rule change than the nearly complete abandonment of educational standards that they selected.

Reading through the Federal Register publication is eye-opening. At almost every turn, the DOE appears to have caved in to foreign institutions rather than protect taxpayers. And as noted in the third bullet point above, they managed to seize defeat from the jaws of victory in the one instance that a logical suggestion was made.

About the only good news that came out of the final rule was a requirement for foreign nursing schools to reimburse the DOE for defaulted loans. This is not a requirement that was placed on any other type of educational institution.

How large an issue this presents to American taxpayers is hard to say. The two databases referenced in this article are not complete. Based on information from Federal Student Aid, there are 442 schools that qualify for student loans and are listed as "foreign country".

And it certainly isn't as if all of the schools on the list were critical to American interests. The New Zealand College of Chiropractic is on the list. It may be a very good school but is there any logical reason for American taxpayers to be supporting it? Or how about the numerous foreign schools for drama and music? While many of these have very few Americans enrolled, the ones that do often have high default rates.

Since federal student loans actually benefit these schools more than they do students, it would seem logical to either require a significantly lower default rate than the current average or to require participating schools to do what overseas nursing schools do; bear the responsibility of covering any loan defaults. Either one of these requirements would mean that graduates of these programs would appear to be able to secure gainful employment upon graduation.

Additionally, there is absolutely no reason for American taxpayers to be supporting any overseas educational institution unless there is a real need for their graduates in the United States. The current program simply risks taxpayer dollars without appearing to provide the United States with any tangible benefits.

by Jim Malmberg

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