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GOVERNMENT

New Book Accuses Education Dept. of Fudging Numbers on Student-Loan Defaults

Champion for Success

Mary Lyn Hammer, a default-management expert, says the department has overstated the number of defaults among borrowers at proprietary colleges and in the defunct bank-based student-loan program, while undercounting defaults at public colleges and in the direct-loan program.

By Kelly Field | JANUARY 22, 2016

Has the Education Department deliberately deceived the public and policy makers about student-loan default rates in the for-profit sector and its own student-lending program?

Mary Lyn Hammer, a default-management expert who has served on three federal rule-making panels, thinks so, and she has the ear of Republicans in the U.S. House of Representatives.

In a book released on Friday, Ms. Hammer says she has evidence that the department has overstated the number of defaults among borrowers at proprietary colleges and in the defunct bank-based student-loan program, while undercounting defaults at public colleges and in the direct-loan program. The agency's alleged motive: to kill the for-profit sector and cover up its own mismanagement of student lending.

The book, *Injustice for All,* bases its claims on a comparison of the department's "official" cohort default rates, a measure of the share of borrowers who default on their loans within a certain time frame, to data showing individual institutions' default numbers and loan-holder information. It points to a pattern of discrepancies in data for the 2009, 2010, and 2011 cohorts: In each of those years, thousands more borrowers at for-profit colleges and in the bank-based program show up as in default in the "official" numbers. Meanwhile, thousands fewer defaulters at public colleges and in the direct-loan program are counted.

The chart-filled book is wonky, and sometimes alarmist in tone (it accuses the department of a "diabolical agenda to brand a scarlet letter on for-profit institutions," for example), but it's being taken seriously in policy circles. A prominent professional association has hired a consultant to analyze the book, and House Republicans, who were briefed on its findings before the release, wrote to the secretary of education at the time, Arne Duncan, seeking answers about the department's process for collecting and reporting default rates. (Ted Mitchell, the department's under secretary, replied late last year.) The lawmakers are now weighing a congressional hearing on the matter.

Education Department officials declined to comment on the book's findings or conclusions.

If Ms. Hammer's calculations are correct, her book could bolster assertions that for-profit institutions are not as bad as the public has been led to believe, and that the government is not capable of managing billions of dollars in student loans. Both of those arguments have been made by congressional Republicans, who fought efforts to end bank-based lending and who have accused the Obama administration of conducting a smear campaign against the for-profit sector.

A Personal Stake

Ms. Hammer, who has worked in default management for almost 30 years through her company, Champion College Services, has built up some credibility in Washington. She has helped craft federal rules on student-loan defaults and alerted the department to past problems in student-loan servicing. Former Education Department officials praised her hands-on approach to counseling borrowers and her detailed knowledge of the student-loan system.

"I've always liked Mary Lyn," said David A. Bergeron, a longtime department official who is now at the Center for American Progress. "She is somebody we thought was a trustworthy and reliable source of information about what was going on in the system."

Still, Mr. Bergeron and other former officials who were provided with portions of the book are skeptical of her conclusions. They insist the administration never set out to kill the for-profit-college sector, and say it's likely the discrepancies in the default data are the result of updates made after the official rates were calculated. They point out that colleges file hundreds of default-rate appeals each year, and that some of those appeals result in changes in the numbers.

Others say the discrepancies are more likely the result of bureaucratic incompetence than government malfeasance. If the department has bungled its default data, this would not be the first time. In 2010 a programming error led the department to undercount defaults for seven months; a year later the department admitted to errors that inflated default rates across all sectors.

And some former officials and lobbyists doubt the department would risk its reputation over a fraction of a percentage point. For each of the groups Ms. Hammer analyzed, the default rates rose or fell by only a tenth or two of a percentage point when the official rate was compared to the institutional data.

"If the changes are viewed in context, they are far from scandalous," said Robert M. Shireman, a former top official at the Education Department who is now a senior fellow at the Century Foundation, a progressive research foundation.

Some skeptics question Ms. Hammer's motives. They point out that most of her clients are for-profit colleges, and suggest her default-management business might grow if colleges mistrust the department's data.

Ms. Hammer dismissed those explanations. Anyone who suggests that she's motivated by financial concerns doesn't know her, she said. A low-income student raised in an abusive home, she attributed her success to a for-profit college that believed in her and turned her life around. She has focused her work on colleges that serve high-risk students, runs a mentoring business, and just bought 151 acres in Montana, which she intends to turn into a camp for disadvantaged children.

"Only those who don't know me would think that I am doing this for selfish reasons," she said. "And even if I was, it doesn't change the facts that I have presented."

Ms. Hammer said her chief goal is to get Congress to reverse the defaults for close to 400,000 students whose loans lapsed during the transition to direct lending — defaults that occurred, she said, because of servicing errors by the department's contractors.

"These students deserve to get their loans placed back into current status and to get the opportunity to correct their bad credit," she said.

On that point, at least, she and at least some of skeptics agree. "If people were harmed in the transition, make them whole," said Mr. Bergeron. "Go for it — I agree."

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