CASUALTIES OF COLLEGE DEBT

What Data Show and Experts Say About Who Defaults and Why

the institute for college access & success

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The Institute for College Access & Success (TICAS) is a trusted source of research, design, and advocacy for student-centered public policies that promote affordability, accountability, and equity in higher education. To learn more about TICAS, visit ticas.org and follow us on Twitter at @TICAS_org.

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Introduction

Each year, about seven million students invest in their futures by taking out federal loans to go to college.[1] For most, these loans will prove a worthwhile investment. Borrowing enables millions of students to enroll in college and to complete more quickly. The returns to college remain high, and most students successfully repay their federal loans.

However, there are clear and urgent signs of repayment distress for student borrowers who – while not the majority of all borrowers – still number in the millions. A quarter (24%) of all Direct Loan borrowers were either delinquent or in default at the end of 2018,[2] and in the last 12 months alone, over a million Direct Loan borrowers entered default.[3]

Certain groups of students are particularly likely to struggle with student debt. Low-income students, Black students, and students earning four-year degrees at for-profit colleges are more likely to borrow and to borrow more than their peers.[4] They are also more likely to default.[5] Older borrowers, those who attend part-time and attend non-selective schools, and who leave school without a certificate or degree are more likely default, even though they often have small loans.[6] Furthermore, the possibility that as many as 70 percent of Black borrowers may eventually default is deeply troubling and underscores the urgent need to reduce default to address persistent racial inequities in higher education outcomes.[7]

Student loan defaulters are not the only borrowers feeling the effects of their debt long after college. Some borrowers are successfully repaying their loans but at the cost of delayed homeownership and less ability to save for retirement. Others remain in good standing on their loans but see the amount that they owe continue to grow because their income-based payments are smaller than their accruing interest. However, this report focuses specifically on the worst student loan outcome, shared by millions of students: default.

Borrowers default on a loan when they fall at least 270 days behind on their loan payments, and the self-defeating, sometimes overly punitive, and long-lasting consequences of default make it a source of vital concern for policymakers focused on improving both higher education attainment and the economy.

For decades, policymakers have sought to make student loans more affordable by reducing interest rates, creating new repayment plans, and allowing students to defer repayment. While the existing consumer protections for federal student loans remain vital, we must do more to ensure students who borrow do not end up worse off for pursuing their education and career goals. Meanwhile, while available data can shed light on the scope and scale of delinquency and default, we know too little about the lived experience of default, including how and why borrowers fall into default, how they get out of default, and both the immediate and long-term impact of default.

To understand better the experience of student loan default, and what policy changes are most likely to help borrowers, we sought the perspectives of student loan policy experts, researchers, servicers, and the legal aid practitioners helping borrowers resolve default. We also looked to the latest federal data on delinquency and default to shed needed light on who defaulted borrowers are, and spoke with several borrowers who have defaulted to learn more about the lived experience of default.[8]

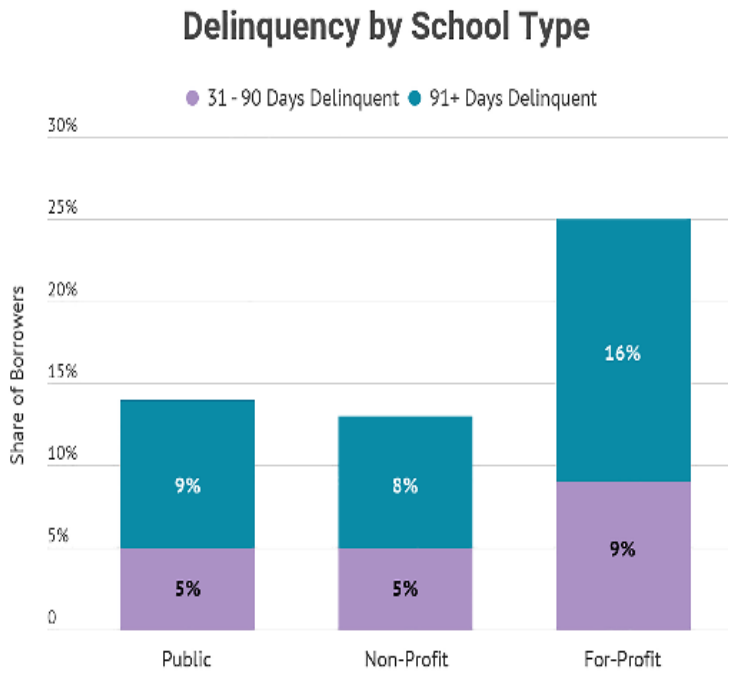
This report explores the key themes of who defaults and why that emerged across over 20 in-depth conversations and lifts up the lived experience of default though voices of borrowers themselves. Borrowers who default on their student debt often struggle with severe overall financial hardship at the same time that they are expected to navigate a complex federal loan repayment system with limited resources, imperfect information, and inadequate assistance. The data also clearly show that borrowers who default are largely the same group of students who entered school with disproportionate barriers to college success, further underscoring not only the devastating consequences of default for individuals but also its consequences for state and national goals to increase educational attainment and close equity gaps.

Following an exploration of the data and a summary of key insights from experts, we make recommendations for immediate policy improvements to reduce financial hardship by streamlining and strengthening income-based repayment, and identify priority areas for further study and action to reduce default.

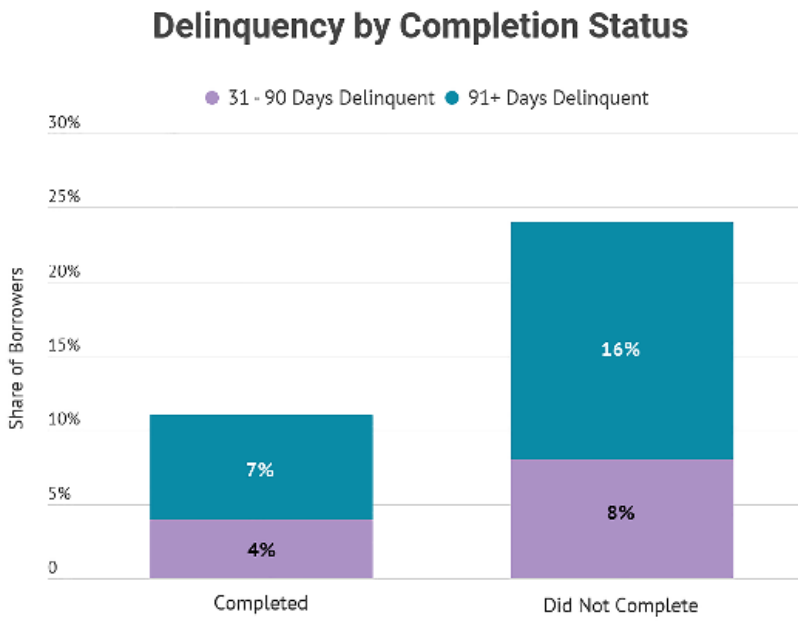
On the Brink: Who Is Delinquent But Not (Yet) In Default?

Missing a student loan payment is an early sign of borrower distress. Borrowers become delinquent immediately after missing a single payment, and remain delinquent until they either pay the past due amount or make alternative repayment arrangements (for example, by placing loans in a temporary repayment relief). Borrowers who are delinquent for more than 90 days will see their credit scores negatively impacted, and after 270 days of failing to make required payments, a borrower defaults.

U.S. Department of Education data on the state of the federal loan program portfolio provide some insight into who struggles to repay their loans and are at greatest risk of default. Among borrowers at least 31 days delinquent at the end of 2018, almost half (45%) are 35 years or older.[9] Delinquency is also associated with where a borrower went to school: those who attended for-profit schools are more likely than their peers at public or non-profit schools to be delinquent.[10]



Leaving school without a credential is also associated with higher rates of delinquency. Over half (54%) of borrowers at least 31 days delinquent never completed their program.[11] As shown in the graph to the right, borrowers who leave school without a credential are over twice as likely to be delinquent.[12]



By providing the option of monthly payments calculated as a share of income rather than a fixed amount, income-driven repayment (IDR) plans play a critical role in reducing a borrower's risk of delinquency. Borrowers repaying Direct Loans in a standard 10-year repayment plan are more than four times as likely to be 91 or more days delinquent than borrowers enrolled in the two most recently offered IDR plans (13% vs. 3%).[13] Research on the causal effects of IDR enrollment has shown that borrowers enrolled in an IDR plan are less likely to be delinquent, and they pay down more of their loan each month than those in fixed plans with similar level of engagement with their servicers. This is true even though monthly payments can be smaller in IDR than in a fixed repayment plan because they are less likely to miss payments.[14]

Over the Edge: What Happens When a Borrower Defaults, and Who Defaults?

Default is the most devastating possible student loan outcome. It adds significant costs to a loan and can create compounding financial hardship. Upon entering default, the entire unpaid balance (including accumulated interest) becomes due. To collect unpaid debt, the federal government can garnish a defaulted borrower's wages, as well as withhold tax refunds and other federal benefit payments.

> *"Having them take my tax refund last year has thrown me into the red every single month since then because that was my catch-up fund. That was my money that was actually going to pay my landlady and enable me to get ahead a tiny bit. I have nothing in retirement, and probably never will. This system perpetuates itself."*

Collections fees are also charged, and can be in excess of what a borrower would have otherwise paid had they not defaulted. Those costs can also vary depending on how a borrower resolves the defaulted loan; prior research estimates that the collection costs for a $7,000 defaulted loan balance can range from $0 to over $2,000 depending on the type of

default exit.[15] None of these amounts are clearly based on actual collection costs incurred by the federal government.

A defaulted student loan also adversely effects a borrower's credit score, making other financial investments either impossible or more costly, and can jeopardize both living arrangements and employment.

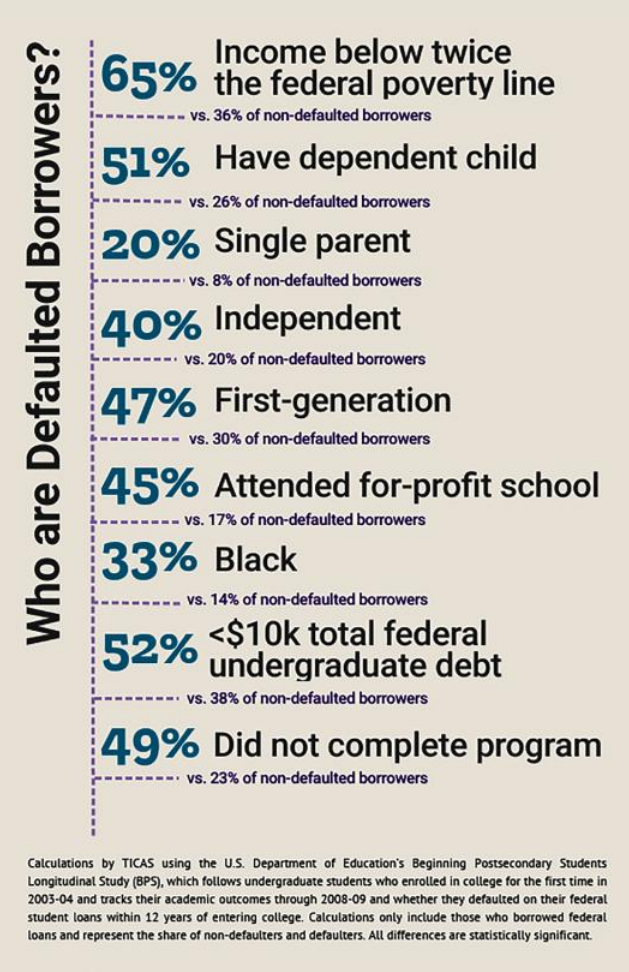
> *"I have awful credit. That's the worst. People think you're a deadbeat."*

In addition, a range of other punitive consequences make returning to school or securing employment more difficult. These include the loss of eligibility of future federal financial aid, the inability of defaulted borrowers to secure academic transcripts from their prior schools, and ineligibility for certain professional licenses in more than a dozen states.[16] And beyond the tangible consequences of default, the experience can be psychological devastating.

> *"I was in a constant driven panic for six years. You can't move, you literally cannot function."*

> *"They were making it so that I could not think beyond my pool of debt. It was interfering with my ability to function in my world."*

Available data do not shed light on how often borrowers experience each of these consequences, and their impact on borrowers in financial distress is unavailable. However, data from a nationally representative survey of students who began college in 2004 shed some light on who defaulted borrowers are.[17] The majority (65%) of borrowers who default within 12 years of starting college entered school with incomes below 200 percent of the federal poverty level for their family size.[18] Just over half (51%) have dependent children. Defaulted borrowers are two and half times more likely to be single parents (20% vs 8%), twice as likely as non-defaulters to have been independent students (40% vs 20%), and one and a half times more likely to be first-generation students (47% vs 30%). Defaulted borrowers are also over two and half times more likely to have attended a for-profit school than non-defaulters (45% vs 17%). And consistent with a growing body of

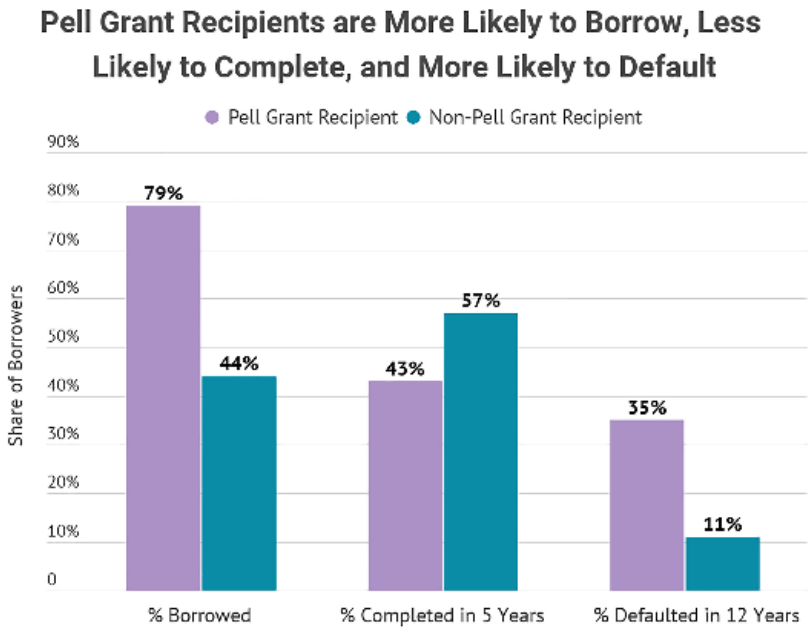


research identifying the disproportionate risk of default facing Black borrowers,[19] defaulters are also over twice as likely as non-defaulters to be Black (33% vs 14%).

Perhaps counterintuitively, borrowers with higher debts are not at a higher risk of default.[20] Over half (52%) of borrowers who default within 12 years of entering college have undergraduate federal loans totaling less than $10,000. In fact, borrowers with less than $10,000 in federal undergraduate loans are about 50 percent more likely to experience default than those with total debt of at least $10,000 (34% vs 23%).[21]

Higher debt is correlated with the length of time in school and degree completion, including and up to graduate and professional degrees. While these borrowers may have higher debt, they also receive higher financial returns to their education that enable repayment.[22] Meanwhile, the relationship between lower debt amounts and default is in large part related to the fact that borrowers who leave school before completing a program spend less time in school, and therefore borrow less. They may leave with less debt, but doing so without a completed credential increases their risk of default two-fold.[23] Half (49%) of defaulted borrowers never complete their program, and many experts we spoke to pointed to a lack of credential being a major factor in default.

The relationship between completion and default is symptomatic of a cycle of hardship facing students who, from the outset, face the most barriers to success. Specific groups of students are both less likely to complete their program and more likely to experience default. For example, just 43 percent of low-income students receiving a Pell Grant earn a certificate or degree within five years, compared to 57 percent of their higher-income peers. At the same time, Pell Grant recipients are almost twice as likely to borrow and over three times more likely to default within 12 years than non-Pell recipient peers (79% versus 44% and 35% versus 11% respectively).



Students who are single parents, Black, first generation, independent, and who have family incomes below 200 percent of the federal poverty level (FPL) are all less likely than their peers to graduate and more likely to default. Many of these students are also more likely to borrow.

Borrowing, Completion, and Default among Vulnerable Students[24]												
	Pell Grant Recipient		Single Parent		Black		First Generation		Independent		Family Income Below 200% FPL	
	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO	YES	NO
% Borrowed	79%	44%	66%*	63%	77%	61%	62%*	64%	57%	66%	68%	59%
% Completed in 5 Years	43%	57%	27%	52%	37%	52%	41%	55%	33%	56%	41%	56%
% Defaulted in 12 Years	35%	11%	50%	25%	48%	23%	38%	22%	44%	22%	41%	17%

* Difference not statistically significant

While failure to complete is clearly broadly linked with an increased risk of default, for some groups of borrowers the likelihood of default can remain relatively high even when they finish their certificate or degree. For example, Pell Grant recipients and Black students who complete their programs are both more likely to default than their non-Pell recipient and non-Black peers who do not complete. And students who earned a certificate or degree from a for-profit college are more likely to default than students who dropped out of a public of non-profit college.[25]

Some analysts have suggested that borrower regret and resentment (for example, as a result of earning a low quality credential that falls short of providing a path to securing employment) may contribute to an unwillingness to repay related loans.[26] While students who were misled into enrolling in or otherwise mistreated by their college are entitled to have their federal loans discharged, some experts with whom we spoke suggest that other students – particularly those who leave school with debt but no degree – may similarly regret borrowing or even their decision to go to school in the first place.

> *"I never would have gone to college, because I'm in no better place. In fact, financially and emotionally, I'm in a worse place now than when I started school."*

Other experts we spoke with believe that, while borrowers may hate feeling like they did not realize the expected returns from their investment, resentment doesn't factor into any decision to repay a loan or not. Rather, borrowers keep repaying to the extent they have resources to do so.

BORROWER DEFENSE: A LEGAL REMEDY FOR DEFRAUDED BORROWERS

The "borrower defense to repayment" rule protects borrowers who were cheated by their colleges. Created in 1994, the rule authorizes the Department of Education to forgive Direct Loans that were connected to illegal actions of their colleges, such as fraud or breach of contract.

The rule was little-noticed and rarely used for years. In 2015, a national chain of for-profit colleges, Corinthian Colleges, abruptly closed in the wake of findings that they had mislead prospective students on job placement rates. On the basis of these findings, the Department developed a process for processing and adjudicating these claims and finalized a new regulation setting out a more clear and transparent process for borrowers to assert a defense to repayment. Since 2015, nearly 200,000 borrowers from Corinthian and other colleges have applied for relief.[27]

Under a new administration, the Department of Education has moved slowly to process these claims, and there are 158,000 applications under review as of December 31, 2018.[28] It is also midstream in writing new regulations that will apply to new student loans which would, according to the Department's own estimates, provide relief to a very small share of students cheated by their colleges.[29]

Expert Perspectives on Who Defaults and Why

Life Gets in the Way: The Role of Other Financial Hardships

The reality that life and other financial hardships get in the way of being able to repay student loans was a consistent theme in our conversations with student loan policy experts, researchers, servicers, and the legal aid advocates who work with student borrowers. According to these experts, those in default are almost always facing other challenges, such as drops in income, health issues, or other forms of debt that could also be in collection and further straining resources. Experts tell us that it is common for defaulted borrowers to be receiving some form of public assistance. Some defaulted borrowers are living paycheck to paycheck, while others have no stable source of income at all. Our conversations with defaulted borrowers also underscored that other financial hardships were a key driver in why they defaulted.

The federal student loan program attempts to address some of these problems. Federal loan borrowers in financial distress may be eligible for temporary repayment relief through deferment and forbearance options. Deferments due to economic hardship or unemployment are not uncommon among all borrowers, but a higher share of defaulted borrowers use this option: One in four of borrowers who default have a prior deferment due to economic hardship or unemployment, compared to one in five non-defaulted borrowers.[30] Defaulted borrowers are also more likely to have ever used forbearance (69% of borrowers who defaulted, compared to 52% of borrowers who did not).[31]

IDR plans also provide a critical safety net for borrowers facing financial hardship by calculating monthly payments as a share of annual income. However, the formula for calculating payments cannot account for unexpected or ongoing expenses that exceed the basic living allowance provided to everyone in IDR. Additionally, monthly payments in IDR do not take into account amounts owed on private education loans.

We do not have enough information or data to understand fully why borrowers may default even when the temporary relief options offered by deferment or forbearance and longer-term options of reduced monthly payment amounts offered by IDR are available. However, some of the experts we spoke with emphasized that distressed borrowers may be struggling to pay for food, the next month's rent, or gas or car repairs needed to get them to work. The borrowers we spoke to also highlighted the hardship of facing these tradeoffs.

> *"Student loans were lower priority than other things. I needed shelter and food. And to take care of my kids."*

> *"What really pushed me is just extreme poverty. My husband owned a business and he had a heart attack, and we lost our house to foreclosure. I had medical issues, he had medical issues."*

> *"I was losing my house, I couldn't find work…I didn't have money to get in my car to go get gas…I was getting six phone calls every day on my house. And then they want me to mess with the student loans, I felt like I was in a war zone. It was insane."*

> *"What are they going to do with me? I don't have anything left. I have no assets. I don't have a job, I have no income."*

Facing resources already stretched thin, we heard from both borrowers and those that assist them that the stress of loan payment obligations on top of other sources and symptoms of financial distress can be overwhelming and demoralizing. As student debt has become the norm, researchers and others have paid increasing attention to the psychological consequences of persistent student debt.[32] It is not only borrowers facing immediate and critical needs who struggle with the psychological impact of student debt. For some, monthly student loan payments come at the expense of making other investments like home purchases or starting a business, creating long-term distress and discouragement. We also heard from experts who work with borrowers that watching a loan balance grow while making required payments (a state of 'negative amortization' that results from monthly payment requirements that fall short of covering monthly interest accrual) can leave borrowers feeling hopeless, anxious, guilty, and ashamed. These psychological impacts associated with repaying student debt are not easily quantifiable, but they are familiar to experts and also echo findings from previous borrower focus groups.[33]

While federal repayment policy attempts to address some of these concerns, even the best-designed policy can face implementation issues that undermine good intentions. Discharging federal student debt that remains after a set period of repayment (20 or 25 years in current IDR plans) is meant to help allay concerns about ballooning loan balances that persistently low-income

borrowers may face in IDR. However, conversations with experts who work with struggling borrowers suggest that two or more decades can feel out of reach for many borrowers. Furthermore, any amount forgiven for borrowers enrolled in IDR will be taxed as earned income, which can lead to a costly tax bill (described by one expert as a "tax bomb") at the moment borrowers are intended to experience relief.[34] Meanwhile, the Public Service Loan Forgiveness (PSLF) program offers a shorter path to forgiveness for qualified borrowers, and amounts forgiven through PSLF are not subject to taxation. Yet widely visible implementation problems– and fears of the program being eliminated – continue to bring stress and fear to borrowers hoping to receive relief after making the required ten years of payments.[35]

PRIVATE LOANS

More than a third (38%) of borrowers who default within 12 years have a private (non-federal) loan.[36] Private loans are one of the riskiest ways to pay for college and offer fewer consumer protections than federal student loans. Payments on private loans are also not factored into the calculation of monthly federal loan payments based on income. All of the challenges facing struggling borrowers are compounded when they have different types of loans, each with different options for relief and degrees of flexibility during periods of financial hardship, and multiple servicers. One borrower reported that it took years to figure out if their loans were federal or private.

Caught in the Web: The Role Overly Complex Systems and Processes Play in Default

The sheer complexity of the system borrowers must navigate to repay their debt is hard to manage, especially for those also dealing more generally with unpredictable expenses or insufficient income. Borrowers have an array of repayment plan options, each of which have variable eligibility requirements and varying benefits.[37] In addition to three options providing fixed monthly payments, there are five IDR plans. These plans provide flexible monthly payments based on income and family size, and provide forgiveness of any debt remaining after 20 or 25 years of repayment. IDR provides a critical safety net for struggling borrowers, and the Department of Education provides repayment selection tools to help borrowers identify a qualifying plan that will provide the lowest monthly payment. However, the array of similar but somewhat different plans adds unnecessary complexity for borrowers and servicers.

Many of our conversations also highlighted the requirement that borrowers annually recertify their income in order to remain enrolled in IDR as especially problematic. Missing this deadline can result in a sudden and unaffordable spike in payments, and previous Department data shows over half of borrowers miss their annual recertification deadline.[38]

Deferment and forbearance options are also complex. Experts agree that these options are a short-term term benefit that borrowers should only use for discrete, temporary hardships because of their

temporary nature and associated interest costs. Depending on the type of loan, deferment may or may not pause interest accrual; most students will see interest continue to accrue for some loans but not others. There are also a number of types of forbearance, some of which servicers have discretion in granting. All loans in forbearance accrue interest and, depending on the type of loan, that interest may or may not capitalize at the end of the forbearance period.[39]

The complexity of student loan repayment continues at default. After defaulting, borrowers seeking a way out face a maze of options for getting their loans back to good standing, each of which come with different requirements, costs, and benefits.[40] Defaulted borrowers can resolve their loans by rehabilitating the loan through making nine consecutive payment amounts established by their collector, by consolidating them into a new Direct Consolidated Loan, or by paying their debt in full. Borrowers whose wages are being garnished as a result of default are not eligible for consolidation, and a record of default will remain on their credit history. Prior research suggests as many as 70 percent of defaulted borrowers exit default within five years.[41] However, the variable options and corresponding costs and consequences of different paths to exiting default can make the process difficult to navigate without assistance.

"It shouldn't be so difficult that a person needs legal assistance like I got. I am lucky that it was pro bono...I'm not sure that I could have afforded that. I am sure the legal billing would have been more than what I got back."

Missing Tools in the Toolbox: Gaps in Information and Support

Another common theme we heard in our conversations with borrowers, servicers, and practitioners, was that borrowers are navigating the complex repayment system with both imperfect information and inadequate support.

All federal student loan borrowers are currently required to complete loan counseling at only two points in time: when they first take out a loan ("entrance counseling") and when they graduate or leave school ("exit counseling"). While better information is not a solution to inadequate financial resources, the current federal student loan counseling requirements fall short of providing borrowers with adequately timely information that is needed to prepare students for successful repayment. As designed, exit counseling may be particularly poorly timed, as well as inconsistently delivered. Students who leave school without completing their program– and who are therefore at higher risk of default – may be the least likely to have recently received the information about repayment they need.

While timelier loan counseling can help ensure borrowers have the information they need, these interventions are no substitute for responsive, just-in-time support that may be needed well into repayment when financial hardship arises. Student loan servicers are best positioned to provide this support, but even well intentioned efforts may fall flat if borrowers are otherwise overwhelmed, fear servicers rather than see them as a source of potential support, or cannot rely on the information servicers provide. Distrust of servicers may be legitimately rooted in prior bad experiences, such as incorrectly processed paperwork or communication of insufficient or inaccurate information.[42]

RETURNING TO DEFAULT

After exiting default, many "re-defaulters" soon return to it. A 2016 report from the Consumer Financial Protection Bureau estimated that one in three rehabilitated student loan borrowers will return to default within just two years, in large part due to inadequate servicing and punitive collections practices.[43] As of September 30, 2017, nearly one in 10 Direct Loan borrowers who entered default during the preceding 12 months had defaulted on a loan that was previously rehabilitated.[44] Better information about why and how this subset of borrowers re-enter default after having successfully navigated out of it might shed important light on the most stubborn barriers to reducing and eliminating default.

Struggling borrowers often find themselves granted consecutive forbearances by their servicer, even if enrollment in IDR would be a better option for them. Servicers responding to request for repayment relief may or may not adequately or consistently inform borrowers of their options as well as the relative pros and cons of deferment, forbearance, and enrollment in IDR. Even in cases where servicers do provide this information, facing multiple options, each with different consequences, may impede borrowers' ability to fully understand the tradeoffs of each and make an informed decision. A confusing system is challenging for borrowers, and the complexity also creates challenges for the servicers who are tasked with helping borrowers navigate the process.

Servicers can also place borrowers' loans into different statuses without their knowledge. Because deferment, forbearance, and IDR may all mean no payments are due in the short term, borrowers may not learn until much later that their loans were put into forbearance or deferment and that they would have been better served by IDR.

> *"They put me repeatedly into forbearance or into...deferment... without me asking."*

> *"They actually said I didn't have to make any payments. But then I find out … they were just postponing those payments"*

Prior conversations that are perceived as disrespectful can also make borrowers less likely seek help from servicers.

> *"They would speak to me and their demeanor was just horrible... It was like, 'You should be able to pay this. You were in a master's program'... But he wasn't the only one who made comments like that. There were other people that said…'How come you can't pay? …You people know you can't afford these loans before you take them out.'... Even the manager said, 'Why you people always think something is free?'*

Some experts we spoke with also pointed out that a student loan servicer may also be just one of many people reaching out to borrowers about outstanding debt – a distressed borrower may also have a house in foreclosure or be receiving regular calls from other debt collectors. Such negative interactions can create a compounding stress and fear unrelated to their student loan but which make it more difficult to trust or engage with a student loan servicer. Borrowers may also be so overwhelmed that they choose to avoid responding to any outreach they received.

> *"After a while, you just start throwing the letters in a drawer because it's something else you can't really deal with... I'm smart enough to know that student loans don't go away, but there is no money to pay, so I guess I buried my head in the sand"*

While greater clarity alone would not pay the bills, it certainly would make it easier to navigate repayment. We heard from borrowers and those working with them that interest accumulation can be confusing and discouraging, especially for borrowers who unexpectedly see a balance due that exceeds what they initially borrowed. Some borrowers do not understand which repayment plan they are enrolled in, their temporary repayment relief options, their type and amount of loans, or even who can help them answer these questions.

Servicers shared with us frustration that borrowers are difficult and sometimes impossible to locate, a symptom of other feedback we received from experts that distressed borrowers are living turbulent lives, may not have a stable residence, or may otherwise ignore servicer outreach in the face of persistent calls from other debt collectors. Servicers we talked to also acknowledged that that their compensation structure and incentives, designed and implemented by the Department of Education, are not well aligned with the work they feel is required to adequately support distressed borrowers, including more personalized and persistent outreach. On top of failing to provide adequate incentives for positive support, the Department's Office of Inspector General furthermore identified that FSA's existing incentives encourage noncompliance with Federal loan servicing requirements.[45]

Recommendations

The clearest path to reducing the burden of student debt is reducing the need to borrow in the first place, which requires significantly increasing the federal government's cornerstone investment in targeted need-based aid, the Pell Grant. The current maximum grant covers the lowest share of college costs in the program's history, and grant recipients are both more likely to borrow and to default than their higher income peers. Students attending for-profit schools also bear disproportionate debt burdens and higher risks of default, and stronger college accountability is needed to prevent low quality programs from routinely leaving students with unaffordable debts.

While Congress works toward these goals, policymakers can enact straightforward changes to simplify repayment to reduce financial hardship and keep more borrowers out of default. Streamlining the existing array of IDR plans into a single plan would significantly reduce the complexity of the student loan repayment system. There is broad bipartisan agreement on the need to do so, and legislators have introduced a number of specific proposals to simplify IDR.[46] As Congress looks to create a single IDR plan it must strengthen and better leverage IDR to reduce default, and prioritize protecting the key features of IDR that help prevent default. To ensure all students have access to more timely and relevant information about borrowing and repayment, Congress can also pass existing bipartisan legislation that requires annual federal student loan counseling and robust consumer testing of the Department's online counseling tools.

MAKE IT EASIER TO ENROLL AND STAY ENROLLED IN IDR

Borrowers must currently submit verification of their family size and income to enroll in IDR and continue doing so each year in order to keep making affordable payments based on income. Not only do these requirements add complexity, they also increase the risk of default for borrowers who miss their annual deadline to re-certify their income on time and see unaffordable spikes in their monthly payment amounts as a result.

Existing bipartisan legislation in both the House (the SIMPLE Act) and Senate (the FAFSA Act) would eliminate the requirement to annual recertify income by allowing borrowers to give consent to the IRS to automatically share their income data with the Department of Education.[47] Passing this commonsense legislation would reduce both borrowers' risk of default and the burdensome paperwork requirements for servicers who track and process income certifications.

BETTER LEVERAGE IDR TO PREVENT DEFAULT BY AUTOMATICALLY ENROLLING DELINQUENT BORROWERS

While IDR is not the optimal repayment option for every borrower, it is always better than default. And while IDR is not a guarantee against default, it reduces a financially distressed borrower's risk of delinquency by providing payments as a share of income rather than a fixed amount regardless of available income. The bipartisan SIMPLE Act would automatically enroll borrowers who have not made any payments in four months into IDR and would ensure that those at highest risk of default have access to these protections.

LIMIT IDR PAYMENTS AND REPAYMENT LENGTH TO NO MORE THAN 10 PERCENT OF INCOME OVER 20 YEARS

Given the intense financial pressures facing struggling borrowers who default, it is key that Congress not introduce additional strain by extending the repayment periods currently available to borrowers in IDR. Relief after 20 or 25 years of payments on one's student debt is a light at the end of a tunnel long enough that borrowers do not consider it a potential source of relief. Postponing or eliminating this benefit would mean that borrowers who struggle the most with student debt that has not paid off would face an even longer period of distress. Similarly, given the extent to which distressed and defaulted borrowers persistently struggle to make ends meet at the same time as fulfilling their income-based loan payment obligations, Congress should not increase the share of income required for monthly payments in IDR above 10 percent.

To realize fully the economic and psychological benefits of debt forgiveness under IDR, it is also imperative that Congress eliminate its taxation. Debt discharged after decades of responsible payments does not create resources available to borrowers, and forcing borrowers to pay a potentially large lump sum of taxes on forgiven debt can create an unaffordable tax that punishes low-income Americans and which runs counter to the goal of providing forgiveness.

INTEREST ACCUMULATION IN IDR SHOULD BE RESTRAINED

IDR helps borrowers stay in good standing on their loans during periods of low or no income. At the same time, this benefit can come with a painful tradeoff for many borrowers who have persistently low earnings relative to their debt because their balances grow even as they make their required monthly payments. Interest accumulation not only adds costs during repayment, but it can be a disincentive to enroll in IDR even if the borrower would otherwise benefit.

The most recent IDR plan, the REPAYE plan created in 2015, caps the accrual of unpaid interest for borrowers whose monthly payments are too low to cover interest growth. This interest cap both reduces the amount of unpaid interest for borrowers in repayment whose balances continue to climb – potentially helping them pay off their loans over the long-term – and reduces the amount that may be forgiven if debt remains after 20 years of responsible payments.

GIVE STUDENTS TIMELY AND RELEVANT INFORMATION

Student loan counseling plays an important role in ensuring students have the information they need to make borrowing decisions that both enable them to achieve their educational goals and avoid delinquency and default. Enhanced and more frequent counseling may reduce students' uncertainty about both their debt burden and options for relief should financial hardship arise during repayment. Existing bipartisan legislation would provide students with key information, in a more personalized and timely manner.[48]

An Agenda for Future Policy

While efforts to streamline and improve student loan repayment options remain vital, the fact that over a million student loan borrowers enter default each year, even as consumer protections like IDR are available, calls for a more ambitious set of solutions. Our conversations with experts and borrowers, and analyses of the latest data on default and delinquency helped identify key priorities for future work aimed at more deeply understanding how and why borrowers default and supporting the development of holistic policy solutions to the systemic drivers of extreme repayment hardship:

- **Affordability of Payments in IDR**: More work is needed to understand whether the current IDR monthly payment calculation provides adequately affordable payments, particularly for borrowers whose incomes are just over the amount protected to account for basic living expenses (currently 150 percent of the poverty line, or about $19,000 for a single person). Further work is also needed to identify the extent to which IDR is well suited to adequately relieve the financial hardships of student loans for persistently vulnerable borrowers.
- **Preventing Harm of Involuntary Payments**: Given the significant non-student loan related financial hardships defaulted borrowers also face, current involuntary payment mechanisms for recovering defaulted loan balances may be counterproductive for the most vulnerable borrowers. Policymakers should work to ensure that default consequences like tax refund and social security offsets and other garnishments do not interfere with very low-income individuals' ability to cover basic subsistence costs.
- **Ensuring High Quality Servicing**: Improving servicing is a critical aspect of improving student loan repayment outcomes. Policymakers must ensure that the Department of Education's Federal Student Aid (FSA) office, which oversees student loan servicers, is adequately held accountable for student loan repayment success. In turn, FSA must adequately hold servicers accountable for failures to provide necessary information and accurately processes required paperwork. Servicer oversight and compensation structures should be revisited to align with incentives for borrower-centered service. The Center for American Progress has offered a servicing reform agenda worthy of deeper consideration.[49]
- **Simplification of Deferment and Forbearance**: Because the current array of options for temporary student loan payment relief can add complexity for servicers and confusion for borrowers, policymakers should consider whether there are ways to consolidate available options for temporarily suspending monthly payment requirements.
- **The Ripple Effect of Default**: More work is needed to understand and convey to policymakers the long-term impacts that default has beyond the borrower's own life. These impacts includes consequences for a family and community, broader patterns of educational attainment and inequality of economic opportunity, and economic growth.

"My son is afraid to go to school now, because he's seen what's it's done to me"

Conclusion

Federal student loans provide millions of students with the opportunity to obtain a certificate or degree they would otherwise not be able to pursue. While the debt incurred to cover the cost of college enables borrowers to realize the economic benefits of higher education, student loan borrowing is at the same time a heavy reality negatively impacting millions of current, former, and future students. And while this burden can impact borrowers in different ways, default is the categorically worst student loan outcome.

The latest federal data add more insight into the key themes that emerged from our conversations with over 20 experts who shared their perspectives on who defaults and why. Many of the very same students who are most vulnerable when they enter school, including Pell Grant recipients and Black students, are also most vulnerable to default when they leave school. Compared to borrowers who do not default, defaulted borrowers are also more likely to have left school prior to completing their program, and to have attended a for-profit school. Our conversations with a diverse group of experts highlight that borrowers who default face financially turbulent lives at the same time as they confront a complex repayment system with too few financial resources, inadequate information, and insufficient assistance.

As policymakers show increasing concern about student loan debt, more work is needed to understand how default occurs and the impact it has, and to develop more effective, holistic solutions to prevent this devastating outcome that undermines other crucial policy efforts to close gaps in postsecondary attainment and increase economic mobility. As this work continues, Congress can quickly take clear steps to simplify and improve repayment by streamlining the current array of IDR plans in ways that preserve its key student-centered design features, and by automatically enrolling distressed borrowers in that plan.

Endnotes

1 Data from the U.S. Department of Education, Federal Student Aid Data Center, "Aid Recipients Summary," https://bit.ly/2MGL5wc. The number of students with federal loans refers to the number of unique undergraduates with subsidized or unsubsidized loans in the 2016-17 award year. The most recent "Aid Recipients Summary" file from the Department of Education notes these data are current as of October 2018 but not final. The file also includes information for subsequent award years, but student loan volume data tend to get substantially revised after subsequent releases.

2 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Data Center, "Portfolio by Delinquency Status (DL, FFEL, ED-Held FFEL, ED-Owned)," https://bit.ly/2IDdpKW, "Direct Loan and Federal Family Education Loan Portfolio by Loan Status," https://bit.ly/1O6zgrW, and "Federal Student Aid Portfolio Summary" https://bit.ly/2hvfiOd. Accessed May 13, 2019. Figures represent Direct Loan borrowers whose loans are more than 30 days delinquent, including those whose loans have gone into default. Recipient counts are based at the loan level. As a result, recipients may be counted multiple times across varying loan statuses.

3 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Data Center, "Direct Loans Entering Default," https://bit.ly/2Rs7lbK. Accessed May 5, 2019. Figures represent the number of Direct Loan borrowers whose loans entered default from January 1, 2018 through December 31, 2018. Borrowers who entered default during multiple quarters in the same 12-month period are counted more than once.

4 TICAS. April 2019. *Quick Facts about Student Debt*. https://bit.ly/2WqxMQ5.

5 TICAS. April 2018. *Students at Greatest Risk of Loan Default*. https://bit.ly/2rb8doK.

6 Looney, Adam and Constantine Yannelis. Fall, 2015. "A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and the Institutions They Attended Contributed to Rising Loan Defaults." *Brookings Institution*. https://brook.gs/2w7QuAA.

7 Scott-Clayton, Judith. January 10, 2018. "The Looming Student Loan Default Crisis Is Worse than We Thought." *Brookings Institution*. https://brook.gs/2EanLBr.

8 We worked with Housing and Economic Rights Advocates (HERA), a California statewide, not-for-profit legal service and advocacy organization that provides free services to low-income Californians with economic and financial concerns to identify student loan borrowers among their clientele who were in or had defaulted on their federal student debt. We offered participating borrowers a $20 Amazon gift card in exchange for participating in a one hour, recorded phone interview with TICAS about their experiences with student debt and default.

9 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Center, "Direct Loan Portfolio by Delinquency Status and Age," https://bit.ly/2WAITe9. Accessed May 14, 2019. Figures represent share of Direct Loan borrowers who are 31 or more days delinquent by age category as of December 31, 2018.

10 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Center, "Direct Loan Portfolio by Delinquency Status and School Type," https://bit.ly/31mRDDs. Accessed May 16, 2019. Figures represent the share of Direct Loan borrowers by school type whose loans are 31 or 91 or more days delinquent. Borrowers who received loans from more than one school type are counted more than once.

11 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Data Center, "Direct Loan Portfolio by Delinquency Status and Enrollment," https://bit.ly/2KGvdHs. Accessed May 14, 2019. Figures represent the share of Direct Loan borrowers who are 31 or more days delinquent and never completed their program.

12 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Data Center, "Direct Loan Portfolio by Delinquency Status and Enrollment," https://bit.ly/2KGvdHs. Accessed May 14, 2019. Figures represent the share of Direct Loan borrowers by completion status who are 31 or 91 or more days delinquent.

13 Calculations by TICAS using data from the U.S. Department of Education, Federal Student Aid Data Center, "Direct Loan Portfolio by Delinquency Status and Repayment Plan," https://bit.ly/2R2k1Gg. Accessed May 15, 2019. Figures represent the share of borrowers with Direct Loans by repayment plan whose loans are 91 or more days delinquent, not including defaulted loans that have been transferred to DMCS, as of December 31, 2018. The two most recent IDR plans are REPAYE and PAYE. Borrowers repaying loans in multiple plans are counted more than once.

14 Herbst, Daniel. April 27, 2018. "Liquidity and Insurance in Student Loan Contracts: The Effects of Income-Driven Repayment on Default and Consumption." *Princeton University*. https://bit.ly/2WB78sT.

15 Delisle, Jason, Preston Cooper, and Cody Christensen. 2018. "Federal Student Loan Defaults: What Happens After Borrowers Default and Why." *American Enterprise Institute*, https://bit.ly/2WCqcqG.

16 TICAS. October 2018. *The Self-Defeating Consequences of Student Loan Default.* https://bit.ly/2PThD2A.

17 These data come from calculations by TICAS using the U.S. Department of Education's Beginning Postsecondary Students Longitudinal Study (BPS), which follows undergraduate students who enrolled in college for the first time in 2003-04 and tracks their academic outcomes through 2008-09 and whether they defaulted on their federal student loans within 12 years of entering college. Calculations only include those who borrowed federal loans and represent the share of non-defaulters and defaulters. Students with dependent children refers to whether a respondent had any children under the age of 25 that he/she supported financially in 2009. Single parents include those who identified as such in 2003-04. Students are independent if they are considered financially independent for the purposes of federal financial aid eligibility in 2003-04; for example, a student is independent if they are 24 years or older. Students are first-generation if their parents did not complete high school or if they had a high school diploma or equivalent as their highest level of education. All differences cited are statistically significant.

18 The federal poverty line is determined by a student's dependency status, family size, and total income in 2002. In 2019, 200% of the federal poverty line for a single individual is just under $25,000.

19 TICAS. April 2018. *Students at Greatest Risk of Loan Default.* https://bit.ly/2rb8doK; Judith Scott-Clayton. January 10, 2018. "The Looming Student Loan Default Crisis Is Worse than We Thought." *Brookings Institution*. https://brook.gs/2EanLBr; Ben Miller. October 16, 2017. "New Federal Data Show a Student Loan Crisis for African American Borrowers." *Center for American Progress.* https://ampr.gs/2ip5ZxD.

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24 Calculations by TICAS using the U.S. Department of Education's Beginning Postsecondary Students Longitudinal Study (BPS). The share of those who borrowed includes those who borrowed a federal loan in the 12 years following initial enrollment in college. The share of those who completed in 5 years includes students who started college in 2003-04 and completed a degree/certificate at their first institution by 2009. The share of those who defaulted in 12 years includes borrowers only. The Pell Grant recipient variable includes those who ever received the grant within 12 years of initially enrolling in college. Single parents include those who identified as such in 2003-04. Students are first-generation if their parents did not complete high school or if they had a high school diploma or equivalent as their highest level of education. Students are independent if they are financially independent for the purposes of federal financial aid eligibility in 2003-04; for example, a student is independent if they are 24 years or older. Family income below 200% of the federal poverty line is determined by a student's dependency status, family size and total income in 2002. Unless otherwise noted, all differences are statistically significant.

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28 Ibid.

29 TICAS. August 30, 2018. "TICAS Detailed Comments on Borrower Defense to Repayment Rule." https://bit.ly/2WvrZce. Under the Department's primary proposal, less than 2.0 percent of loan volume held by borrowers whose colleges committed misrepresentation would be discharged. Under the Department's alternative proposal, less than 6.0 percent of loan volume held by borrowers whose colleges committed misrepresentation would be discharged.

30 Calculations by TICAS using the U.S. Department of Education's Beginning Postsecondary Students Longitudinal Study (BPS). Figures include share of defaulters and non-defaulters who ever had a forbearance on a federal loan in 12 years.

31 Calculations by TICAS using the U.S. Department of Education's Beginning Postsecondary Students Longitudinal Study (BPS). Figures include share

of defaulters and non-defaulters who report economic hardship as a reason for ever having federal loan deferment in 12 years.

32 See, for example Gillian B. White. February 2, 2015. "The Mental and Physical Toll of Student Loans." The Atlantic. https://bit.ly/2R2aaQV.

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41 Delisle, Jason, Preston Cooper, and Cody Christensen. 2018. "Federal Student Loan Defaults: What Happens After Borrowers Default and Why." *American Enterprise Institute.* https://bit.ly/2WCqcqG.

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college
access&success

info@ticas.org
www.ticas.org

1212 Broadway, Suite 1100
Oakland, CA 94612
510.318.7900

110 Maryland Ave, NE Suite 201
Washington, D.C. 20002
202.223.6060