



The U.S. Is Facing a Student Loan Repayment Crisis

Pew to promote strategies to boost long-term success among those most at risk of delinquency, default

Today, 1 in 5 federal student loan borrowers—more than 8 million Americans¹—are in default, and millions more are struggling to make payments. And because many borrowers are still in school or their grace period² and are therefore not required to begin repaying their loans, this rate may understate the problem. For example, forthcoming research from The Pew Charitable Trusts indicates that student loan borrowers who do not encounter repayment problems or interruptions are more the exception than the rule.

Federal and state officials from both major political parties, researchers, advocates, and student loan servicers acknowledge that the repayment and servicing systems have serious problems. The challenges are especially acute for borrowers at highest risk of delinquency and default, such as those who owe the least, often less than \$5,000, and may not have completed their program of study, among others. Despite research indicating that these borrowers are more likely to encounter distress, the system does not facilitate targeted, timely outreach to them and presents administrative barriers that can prevent them from selecting and then enrolling, remaining, and succeeding in appropriate repayment plans. Other problems include administrative errors in processing payments, inadequate compensation to servicers for assisting high-need and distressed borrowers, and challenges associated with the repayment system's complexity.

Defaulting on a student loan can lead to serious financial consequences for borrowers, including high collection fees; garnishment of wages, federal income tax refunds, and Social Security or other federal payments; damaged credit; and ineligibility for additional student aid or other federal assistance programs, such as those that support homeownership. Taxpayers are also affected: The federal government spent more than \$600 million³ in fiscal year 2016 paying debt collectors and expects those costs to exceed \$1 billion in the coming years. Thus, successful borrowers protect not only their own financial health, but also the federal funds that support the student loan system.

We can do better

The federal student loan repayment system already provides flexibility for borrowers facing short- and long-term financial hardship, but despite near-universal access to a range of options, borrowers still encounter administrative hurdles. For example, those experiencing protracted financial challenges or whose monthly payments become unaffordable can enroll in a host of income-driven repayment plans. However, these plans involve an onerous annual application process, and if the paperwork is not submitted accurately or is not processed on time, payments can skyrocket. These inefficient administrative processes can also prove costly for taxpayers.

More can be done to keep borrowers who are most at risk of default and delinquency on track. Pew is talking to⁴ loan servicers, educational institutions, lending experts, and others to identify effective strategies that can help borrowers achieve long-term repayment success and will conduct research to help policymakers and stakeholders craft solutions to deliver a more affordable, flexible, and simple student loan repayment system.

The Pew Charitable Trusts' project on student borrower success, launched in 2018, seeks to promote successful repayment of student debt among those most at risk of default and delinquency. To that end, it conducts research on, and when warranted recommends reform of, two elements of the student loan system that are pivotal to borrower success: loan repayment, especially among borrowers at the greatest risk for delinquency and default, and loan servicing.

Endnotes

- 1 U.S. Department of Education, "Federal Student Loan Portfolio," accessed Sept. 26, 2018, <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>.
- 2 U.S. Department of Education, "Understanding Repayment: What's a Grace Period?" accessed Sept. 26, 2018, <https://studentaid.ed.gov/sa/repay-loans/understand#grace-period>.
- 3 Office of Management and Budget, "The Budget for Fiscal Year 2018," accessed Sept. 26, 2018, <https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/budget/fy2018/edu.pdf>.
- 4 Phillip Oliff, Sarah Sattelmeyer, and Brian Denten, "4 Things You Should Know About Student Loan Repayment," The Pew Charitable Trusts, Sept. 4, 2018, <https://www.pewtrusts.org/en/research-and-analysis/articles/2018/09/04/4-things-you-should-know-about-student-loan-repayment>.

For further information, please visit:

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