After the Fact | Student Loans: Who Is Struggling to Pay and Why?

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TRANSCRIPT

Shawna Upton: I haven't done the math. And I think the math scares me on how long I'll be paying this. And if I wanted to do it in 15 years, would I—how would I even do $400 a month? That's like my two-week budget for groceries and living life.

[Music builds.]

Dan LeDuc, host: That's Shawna Upton. She's one of the 43 million Americans with federal student loans. There's a lot of big numbers associated with student debt in this country. And, like we do in every episode of "After the Fact," we're going to go behind those numbers.

For The Pew Charitable Trusts, I'm Dan LeDuc. One of those big numbers is this: 1 million. That's how many Americans default each year on a federal student loan. And it's the data point for this episode. We begin with Eric Kelderman, a journalist from *The Chronicle of Higher Education.*

Eric Kelderman, senior reporter, *The Chronicle of Higher Education*: I think what's important to remember about this is that when we look at this big-picture number, it's important to know that a lot of this is because we have a lot more people going to college than used to go to college.

Dan LeDuc: Right, right.

Eric Kelderman: And so, as more students have gone to college, the pool of students that go to college now has broadened. We're talking about first-generation students are now going to college.

I think there's certainly some correlation between the rising price of tuition and rising student debt. But we have to remember that, again, the kinds of students that are going to college now are not coming from the income levels that they used to. They're coming from middle, lower-middle class, and even very low-income families—families for whom paying for college is a real challenge. And so, loans become really, in some cases, the only option for them.

Dan LeDuc: Sarah Sattelmeyer directs Pew's work on student debt repayment and has been studying what happens to students who take out loans.

Sarah Sattelmeyer, student loans manager, The Pew Charitable Trusts: More Americans are going to college, and this is a good thing. So today, 43 million people hold a collective $1.4 trillion in federal student debt. And student debt is both a good news and a bad news story. The good news is that higher education is among the most effective strategies available to bolster families' economic security, and student loans are an important access tool for many Americans. But the bad news is that today, 9 million borrowers—about 1 in 5—are in default on a federal student loan. And failing to repay a loan can have significant financial consequences for people.

When someone has defaulted on a student loan, they can face collection fees, wage garnishment, money being withheld from federal income tax refunds, Social Security, and other federal payments, damage to their credit, and even ineligibility for other aid programs, such as those that can help with home ownership.

Dan LeDuc: Sarah and her team of researchers held focus groups across the country, speaking with people who have defaulted on their student loans, and it's not like these folks wanted to do that.

Sarah Sattelmeyer: We heard loud and clear from borrowers that they're often needing to focus on debt that has immediate consequences. So, they're needing to pay their rent. They're needing to pay their child care. They're needing to pay for groceries. And sometimes, student debt gets pushed a little bit further down the line. But what also came through loud and clear is that people wanted to pay their debt. They felt an obligation. They felt it was responsible. And that they weren't necessarily prioritizing. They were triaging.

Dan LeDuc: While we hear plenty of stories of students taking out big debt, most of those in default owe less than you might imagine—oftentimes less than $10,000.
And as Eric noted, sometimes they don't finish their degrees, leaving them with debt and without the educational payoff.

Eric Kelderman: We've seen things like—and a lot of students, by the way, drop out. A lot of these lower-income students who are disadvantaged drop out when, say, a family member gets sick or needs help at home. They drop out and they go work. They sacrifice their own opportunity to help out their families.

Dan LeDuc: So, Sarah says helping borrowers requires fixing the loan system.

Sarah Sattelmeyer: It's important for researchers and policymakers to be asking the right questions about student loan repayment. Such as, when in the repayment system are borrowers struggling? Why are they struggling? How are they struggling? And perhaps most importantly, are there places that are ripe for additional investment that make the system work better for borrowers, especially those who are struggling with delinquency, default, and growing balances? And also, servicers and other actors in the system.

Dan LeDuc: So, it's complex. One way to help could be improving access to income-driven repayment plans, which allow borrowers to make payments based on what they earn each year. But that's not as simple as it sounds.

Eric Kelderman: Well, the system is, as you point out, it's very complex. It can be very confusing. There is not always a great amount of information that goes to students about the best plans for them to repay. I want to say there's about 30 percent of borrowers are now in an income-based repayment. But you have to renew it every year by showing paperwork on how much you're earning. And that's another barrier, right? So, I would say that the biggest hurdle for these students is, yes, communication and information.

Dan LeDuc: Back to Shawna, who is on an income-based repayment plan. She finished college and received her degree in sociology but paying back her debt was harder than she thought it would be.

Dan LeDuc: So, you are a recent college graduate. And you have student debt. Tell us what life is like financially for you right now.

Shawna Upton: Yeah, life is hard. I graduated with a lot of debt, $50,000 worth of debt coming out of my undergrad degree. And I was a first-generation college student as well. So, I'm kind of the first in my family to deal with that as well.

Dan LeDuc: How hard is it to figure out how to pay that back?

Shawna Upton: It's pretty hard. I think the systems are kind of challenging, like figuring out the online platforms, who to talk to about it, and then also, just—I decided to go into nonprofit as a career choice. So not making a lot of money doesn't really help that either.

Dan LeDuc: So, you've been out of school for how long?

Shawna Upton: This is my fourth year out of school.

Dan LeDuc: And how much of your principal debt have you chiseled down?

Shawna Upton: Basically nothing. So, the payments I've made have gone to the interest. And then I've just gotten more interest. So, it's stayed the same.

Dan LeDuc: You're treading water.

Shawna Upton: Yeah.

Dan LeDuc: Wow. Let's take it back to when you started thinking of going to college. You mentioned you're first generation. Your parents didn't go to school. That's a lot of people in America. When you were thinking of college, talk us through your decisions. How did you evaluate where you wanted to go to school? How did you think about how to pay for it?

Shawna Upton: Yeah, well, one of the things—well, the first barrier really is applying for schools. So, it's just pretty expensive up front. So, I didn't even apply to too many schools because of the application fees. So, I was using the common app. So, any schools that use that system, you can apply for free. So, I was doing that. And then picking and choosing if I wanted to pay an application fee, which I didn't really want to do. That was kind of the first barrier.

And then the second one was the financial aid packages. So, I spent a lot of time in the counselor's office trying to figure out what would each financial package look like for me. And it was kind of hard because you don't really know, I mean, what that looks like to get the money, or the loans. And basically, my family could pay nothing upfront. So, even getting these financial aid packages back, of course, it wasn't all covered. So, my mom and my parents were pretty concerned about where would they even get the money. So, I needed additional help to figure out what loans I could apply for and get and what would—how would I pay for the money left over after financial aid.

Dan LeDuc: So, you took out loans, and your parents took out loans?

Shawna Upton: Yup. So even with all of this debt, I think I always just come back to: "It was the best experience of my life." I feel like I got so much from it, found my passions, the nonprofit, and my close friends.

Dan LeDuc: So, you are now out of college. You're on your own in the world, paying your own bills. What's your college tab?

Shawna Upton: Yeah, so came out myself, the loans that I own in my name, $50,000.

Dan LeDuc: OK, so Shawna, if you don't mind me asking, what was your first job paying you when you got out of college?

Shawna Upton: Yeah, I was making $26,500.

Dan LeDuc: OK, and what was your payment that—I know you were sort of not thinking about this—but what was your payment supposed to be in those years for your college loan?

Shawna Upton: I believe it was still around $400 to $500.

Dan LeDuc: So that was going to be a big chunk of your income.

Shawna Upton: Yeah, it was going to be an unimaginable chunk of my income. I didn't really know all of the options either, again, like coming out of being a first-generation student, I didn't really have my parents to say, "OK, now, you've graduated. Let's figure this out. Here's how much you should pay each month. Let's apply for this program."

Because there are programs to, like I'm on now, four years later, the income-based repayment plan. But coming out, it was much easier to avoid it than to actually figure it out, and mostly because I was just really scared of how much the bill was going to be and knowing that I wasn't making that much money coming out of school.

Dan LeDuc: So, you were able to get into an income-based repayment plan. Tell us a little bit about how that worked and what your payment became.

Shawna Upton: Yeah, so I got a phone call from the—a woman at Fed Loan Servicing basically saying, "OK, you owe this amount of money. What can you do?" Like, "Here are a couple of options." So, they have, for the federal loans, a bunch of different options to pay back your loans and one of them is an income-based repayment plan.

So, she kind of walked through the options. And I said, "I think that one is the right fit for me. I work for a nonprofit. I don't make that much money."

And right there on the spot, I also believe, if I'm remembering correctly, she asked me, "How much do you think you could pay?"

And I said, "Well…" And again, I'm kind of, like on the spot. You're thinking, like, "I don't make that much money. I'm already budgeting. I don't—let me just say $25." And think, "That's probably not possible."

And she said, "OK, $25. How much do you make? OK, I think that would be possible."

And then I had to upload my tax forms, I believe, to the system, the online portal, and then got a notice, I think, a couple days later, maybe a week later, saying it was all approved. And I could log in and set up direct deposit. So, it just took out the $25 every month.

Dan LeDuc: That had to make you feel good, but did you realize at the time you weren't really chiseling down your loan, you were just sort of holding even?

Shawna Upton: I did. I mean, it made me feel good in the sense that I knew I wasn't going to be in delinquency. So, it felt good to make payments, and make them on time, and know that the payment was all approved in their systems. And yeah, I kind of knew that I was holding steady but kind of thought, like, "Well, that's what I got to do right now."

Dan LeDuc: Let's be clear, it's not that you didn't want to pay it. It's just you felt overwhelmed. So, have things gone smoothly since you decided that?

Shawna Upton: Well, up until very recently, they did. So, I enrolled in the automatic bill pay. So, it's just coming out of my checking account every month and had no problems really until very recently when I had to reverify my income.

[Music plays.]

Dan LeDuc: Reverifying your income means sending your lender paperwork each year that shows how much your salary is, along with your family size, to determine if your monthly payment needs to be adjusted. It seems like an easy thing to do, but for Shawna and millions of others, it can present challenges.

Like Shawna, 30 percent of federal student loan borrowers are enrolled in those plans. And according to the U.S. Department of Education, in 2014 more than half of them didn't recertify on time.

That means their monthly payments jumped up, sometimes unexpectedly. Not long ago, Shawna got an email notifying her she had a message in her lender's online portal. It said she had to recertify her income. Her pay had barely changed from the previous year and so she thought it would be a quick update.

But it turned into a process that took more than six weeks and, in the meantime, her $25 payment jumped to $400.

She put her loan into forbearance—basically putting it on hold but still racking up interest—to sort things out. But the bank machinery was in motion and took its automatic payment out of her account.

Shawna Upton: I checked my bank account. And it was negative hundreds of dollars. And I was like, "Whoa, OK, like what happened here? This is crazy."

So, I got charged the $400. It's 9 p.m. I can't call the loan provider. Can't call them the next day, have to wait until Monday. They don't open till 9 a.m. There was no immediate fix that I could do to right this and had basically no money for the week, was kind of at zero.

And to make matters even worse, I was obviously pretty upset because I thought I had gone through all of the right process. And I immediately, the next day, called, again, to say, "You charged me. This is so crazy. Like, can I get a refund? I can pay the $25. But I cannot pay $400."

Dan LeDuc: Sarah Sattelmeyer says that Shawna's experience is an example of the types of issues that can happen in the repayment system. Administrative hurdles can make figuring out payments just a little harder for those borrowers at greater risk of default.

Sarah Sattelmeyer: Income-driven repayment plans can be a really important tool for helping people afford their payments. But borrowers report that they're incredibly difficult to get into. That they are complex, and duplicative, and often require borrowers to submit information that they've already submitted to the federal government. And importantly, if borrowers miss their annual window to recertify, either because their paperwork was submitted or processed late or improperly, their payments can skyrocket. And that can be incredibly difficult if you have already budgeted around the amount of your student loan payment.

Dan LeDuc: She says there's a potential fix.

Sarah Sattelmeyer: We just talked about a host of administrative barriers that exist for income-driven plans. We can remove these administrative barriers with a simple fix. Congress right now, today, can direct the IRS to share all of the borrower data—of course, with appropriate privacy protections—with the Department of Education.

So, this coordination would streamline the repayment system by eliminating the need for many borrowers to supply this additional documentation every year that would already exist.

This would reduce submission and processing errors, and also inaccurate payment amounts. So, it's benefiting borrowers, and it's also benefiting taxpayers. Requiring agencies in the same government to coordinate with one another really means that everyone wins.

Dan LeDuc: And there are many issues borrowers face that need to be examined.

Sarah Sattelmeyer: Borrowers have different experiences in repayment. Some default, some face struggles early on missing payments, but the loan repayment system—pieces of it—are just one-size-fits-all. So, we need to be thinking critically about identifying borrowers who are at risk early in their repayment process and directing and providing resources to them when and where they need it.

There are certainly many ways that we know today that we can fix the system, including ensuring that we have a system that's accessible, flexible, and affordable.

Dan LeDuc: Meanwhile, for borrowers like Shawna, who can't afford to pay much, planning for the future can be scary.

Shawna Upton: It's really overwhelming to think about. And I try not to because I think I get emotional and then think about how much this great experience, college, something that no one in my family had done, and all of the experiences I've got out of it, the passion for changing the world that I found, and the friends … So, the list goes on and on of how great college was for my life and who I am as a person today.

And then to think about how much that has—or is—holding me back, will hold me back, from purchasing a home, or a car, or having children.

Dan LeDuc: I asked Shawna what advice she has for others.

Shawna Upton: I think the biggest thing, my biggest advice, would be to ask for help. I felt scared, maybe a little ashamed, a little too prideful to really reach out and say, "I'm in this massive debt. I'm avoiding it. I don't know what to do."

And I don't think there's enough people helping students. But there certainly are programs like the one I had in high school.

So, I would say go to college for sure if that's something you want to do. Think about your—all of your options. Weigh the pros and cons. Pick what's right for you. And then don't be ashamed because so many other people are in this situation.

[Transition music plays.]

Dan LeDuc: To learn more about this topic, visit pewtrusts.org/afterthefact.

And looking ahead to our next episode, we have a special guest host joining us and his voice may be familiar to many of you. Ray Suarez is a veteran journalist who was a fixture on PBS news programs and National Public Radio's "Talk of the Nation."

He'll be your host as we begin a four-part series on the big questions and new discoveries surrounding a topic at the heart of the human experience: how we learn.

I'll be back in your earbuds in November when the series wraps up. If you miss me, you can keep in touch on Twitter by dropping me a line @TheDanLeDuc or sending an email to podcasts@pewtrusts.org.

Female voice: "After the Fact" is produced by The Pew Charitable Trusts.