



Student Loan System Presents Repayment Challenges

Borrowers at risk of default and delinquency need flexibility and targeted, timely support

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Overview

As of March 2019, 43 million Americans held student loans provided through federal government programs, the largest segment of the education loan market. But this system is under pressure as more borrowers struggle to repay, a problem compounded by the complexity of the repayment process. The U.S. Department of Education reports that about 20 percent of borrowers are in default—typically defined as having gone at least 270 days without a payment—millions more are behind on their payments, and more than a million loans go into default each year.¹

Failing to repay a student loan can have serious financial consequences for borrowers. They can face collection fees; wage garnishment; money being withheld from income tax refunds, Social Security, and other federal payments; damage to their credit scores; and even ineligibility for other aid programs, such as help with homeownership.²

What's more, not all borrowers are at the same risk of default, according to recent studies. For example and perhaps counterintuitively, borrowers who owe the least—often less than \$10,000—and may not have completed their programs of study default at higher rates than those with larger balances. And borrowers who attend for-profit, and to a lesser extent public two-year, institutions default at higher rates than those attending other types of schools. In addition, borrowers of color, particularly African Americans, and first-generation students face default at higher rates than their peers.³ And though recent research indicates that many borrowers eventually are able to exit default, some default more than once—25 percent of those who restored their loans to good standing defaulted again within the following five years.⁴

Even those who make payments on time sometimes encounter negative financial outcomes, including growing loan balances. This can happen if their payments do not keep up with the interest that accrues on their loans and at specific points in the repayment process, such as at the start, when interest capitalizes—that is, is added to the principal and increases the amount subject to interest charges. Many borrowers—both high- and low-balance—feel this financial burden acutely, even if they can avoid default.⁵

Research on the pathways borrowers take through the repayment process, the decisions they make, and the barriers they encounter is limited, making it difficult for policymakers to develop evidence-based, cost-effective solutions to these and other challenges. For example, without more nuanced data, federal leaders cannot fully understand why and how borrowers struggle in repayment, the full impact of default and delinquency on people's financial security, and why policies currently in place might not be working as intended for the borrowers who need them most.

To help fill this information gap and better understand where public policy can have the greatest impact, The Pew Charitable Trusts commissioned the Trellis Company, a Texas-based organization that acts as a guarantor for the Federal Family Education Loan (FFEL) program, to conduct an analysis of almost 400,000 borrowers in that state (referred to as “Texas borrowers” throughout the paper) during the five-year period beginning when their loans entered repayment anytime between October 2007 and September 2011. Based on the repayment activity and outcomes over those five years, the researchers divided borrowers into three main groups: those who had defaulted, those who owed more than their original balances, and those who owed less than their original balances. (See Figure 1.)

This analysis concentrates on Texas, rather than the nation as a whole, because Trellis has a rich administrative dataset and similarly robust data were not available at the national level. However, researchers supplemented the Trellis data with structured interviews with borrowers from the dataset and benchmarked this state-focused analysis with nationally representative data to ensure that the Texas findings were generally reflective of what is known at the national level and to create a more complete picture of borrower behavior. The key findings about the Texas borrowers are:

- **Approximately a quarter of borrowers defaulted within five years of entering repayment.** Most who defaulted had previously suspended their payments, using tools such as deferment and forbearance. Those who had suspended their payments showed potential signs of distress almost immediately: At the median, they experienced a delinquency in the second month of repayment, but they typically defaulted later in the study period. By comparison, those who defaulted without ever suspending payments did so quickly: 89 percent defaulted by the end of the second year in repayment.
- **Those who owed more than their original balances after five years in repayment—21 percent of borrowers—had frequently missed and paused payments.** Heavy use of deferment, forbearance, and delinquency—and related interest accrual and capitalization—appeared to make it difficult for borrowers to keep pace with growing balances: Among borrowers who owed more after five years in repayment, a third had balances of 125 percent or more of their initial principal.
- **Almost half of borrowers had paid down some principal after five years.** However, only 22 percent of borrowers never missed or paused payments.

This analysis aims to give researchers and policymakers a better understanding of how people interact with the student loan repayment system and why they might face serious challenges. For example, the Texas data indicate that most borrowers who eventually default experience delinquency—a potential sign of distress—early in repayment. The findings also suggest that although pausing payments is not always an indicator of trouble, it presents an important opportunity for engagement with borrowers who may be struggling.

The findings of this report point to three actions that the Department of Education and Congress could take to boost repayment success among borrowers who struggle with delinquency, default, and growing balances:

- **Identify at-risk borrowers** before they are in distress—in particular by using risk indicators such as borrowers missing payments early, repeatedly suspending payments, having previously defaulted, and churning in and out of school.
- **Provide servicers with resources and comprehensive guidance** on how to prioritize interactions and engagement with high-risk borrowers.
- **Eliminate barriers to enrollment in affordable repayment plans**, such as program complexity, which make it difficult for at-risk borrowers to make payments based on their incomes.

These structural changes should be implemented in conjunction with clear and consistent rules for managing repayment and with oversight mechanisms to ensure that those rules are successfully applied. In addition, policymakers should support research and policy reform by expanding access to data from the National Student Loan Data System—the database that tracks the status of federal student loans.

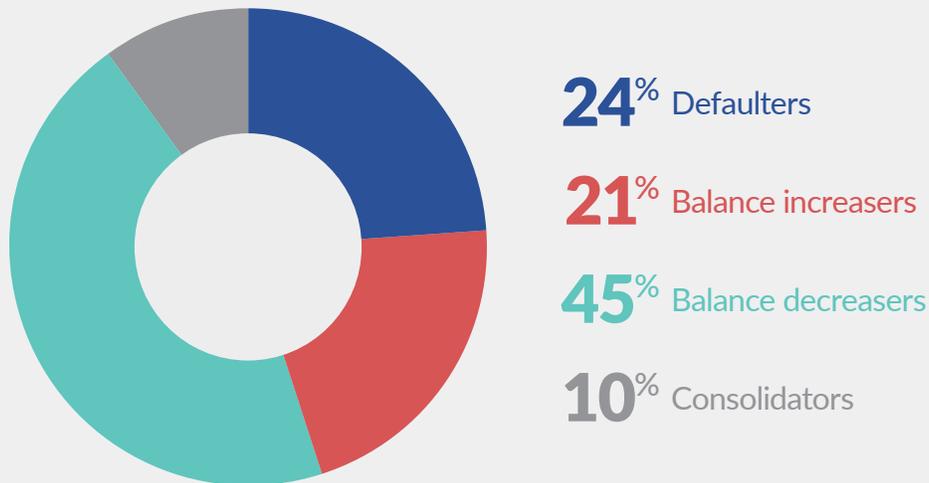
This report examines some of the significant challenges that borrowers face as they navigate the complexities of the repayment system and the recommendations for actions that policymakers can take to promote successful repayment among the nation's millions of student loan borrowers.

The Categories of Texas Borrowers

Figure 1

Texas Student Loan Borrowers Divided Into Repayment Categories

Borrowers by loan status after five years in repayment



Note: This analysis followed borrowers for five years from the end of their six-month grace periods. In addition to defaulters, balance increasers, and balance decreaseers, the Texas dataset included borrowers who consolidated their loans within five years of entering repayment.

Source: The Trellis Company's administrative data

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After analyzing the Trellis data, the researchers organized borrowers into three main groups and five subgroups to support a deeper examination of borrower behavior:

- **Defaulters:** These borrowers defaulted on a loan during the study window and did not consolidate their loans—that is, combine multiple federal education loans into one—before defaulting.⁶ This group was further divided into two subgroups:
 - **Paused-payment defaulters:** These borrowers paused payments using deferments or forbearances before defaulting. (See “Key Elements of Loan Repayment” for more information about deferments and forbearances.)
 - **Missed-payment defaulters:** These borrowers missed but did not pause payments before defaulting.
- **Balance increasers:** These borrowers did not default or consolidate their loans during the study period, but they owed more at the end of the study than when they started repaying. Ninety-eight percent of these borrowers paused payments at least once.

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- **Balance decrease**s: These borrowers did not default or consolidate their loans and had paid down their original loan balances by at least \$1 after five years. This group was further divided into three subgroups:
 - **Uninterrupted decrease**s: These borrowers never missed or paused payments during the study period.
 - **Paused-payment decrease**s: These borrowers paused and might have also missed payments.
 - **Missed-payment decrease**s: These borrowers missed but did not pause payments.

In addition, the Texas dataset included borrowers who consolidated their loans within five years of starting repayment and did not default before consolidating. After consolidation, Trellis was no longer the guarantor of these loans and so could not track these borrowers' repayment behavior further. For this reason, **consolidators** were separated from the rest of its portfolio in this analysis. (See "Loan Consolidation" and Appendix B for additional information about these borrowers.)

About the data

This paper focuses on federal borrowers, who constitute a majority of the student loan market.⁷ Specifically, the analysis followed 391,362 borrowers, who held at least one FFEL program loan that entered repayment anytime between Oct. 1, 2007, and Sept. 30, 2011, and borrowed to attend postsecondary institutions in Texas, for five years from the end of their six-month grace periods.⁸ (See Appendix B for a detailed description of Texas data.)

The data for this study were collected from the Trellis Company, which acts as a guarantor for FFEL loans on behalf of the federal government, monitoring compliance, helping borrowers stay current, reimbursing lenders when payment is not received, and collecting from borrowers in default. The dataset did not include information about the type of repayment plan each borrower was in but was sufficiently robust to track changes to borrowers' loan balances, whether they suspended or missed payments, and their rates of default.

Using these data, the analysis divided the borrower set into the three main groups and five subgroups. The administrative data from Trellis were combined with structured interviews conducted with 51 borrowers from the Texas dataset, representing each of the borrower groups and subgroups described above, during spring and summer 2017.⁹ Although not representative of all borrowers in the dataset, the interviewees were demographically diverse. Trained professionals conducted one interview per participant and asked questions relating to financial status, student loan knowledge, and repayment behavior and decision-making. (See Appendix B for additional information about the structured interviews.)

Data limitations

More than 13 million borrowers hold FFEL program loans, which were issued by banks and lenders on behalf of the federal government, but the FFEL program is no longer the main source of federal student loans. Since 2010, the Department of Education has been the lender for all new federal loans through a program called the William D. Ford Direct Loan program, commonly referred to as direct loans.¹⁰ This analysis largely concentrates on FFEL program data because of a lack of available, robust data on direct loans. In addition, the analysis of the Texas administrative data and structured interviews provide a level of detail on borrower experiences not available in public datasets. Although the organizational structures of the FFEL and direct loan programs differ, many of the loan terms are similar, suggesting commonality between the experiences of FFEL and direct loan borrowers.

Other limitations of this study include:

- During the years examined, Texas residents tended to be more economically disadvantaged and leaned more heavily on loans to pay for college than students nationwide.¹¹
- Borrowers who attended four-year public universities were overrepresented in the dataset, and those who attended for-profit colleges were underrepresented.
- Histories were generally incomplete for borrowers who took out additional loans after those included in the study, had borrowed previously, had some loans guaranteed by other entities, or had both FFEL program and direct loans.
- Borrowers entered repayment during and after the Great Recession, which limited opportunities for students entering the workforce and reduced some starting salaries, potentially making repayment more challenging and making this portfolio appear riskier.¹²
- Trellis' portfolio includes some loans that were transferred to the Department of Education (known as "Put loans"), resulting in the loss of further information about the repayment behavior of these borrowers. As a result, these borrowers were not included in the study, and the removal of their loans from the Texas dataset probably made this portfolio look less risky.

Nationally representative data

To address some of these limitations, the Texas data were benchmarked with restricted-use, nationally representative data from the 2015 Federal Student Aid Supplement for the 2004 Beginning Postsecondary Students Longitudinal Study Cohort. These are referred to as “national borrowers” throughout this paper. National borrowers examined in this analysis borrowed under the direct loan or FFEL program, entered repayment sometime between 2004 and 2011, and were followed for five years from their entry into repayment. Although these data are national and span a longer period than the Texas data, they have limitations of their own. For example, they include only first-time undergraduate students.

(See Appendix B for a detailed description of both Texas and national data, including comparisons and limitations of each.)

Key Elements of Loan Repayment

Direct loans are managed by third-party companies, known as federal student loan servicers.¹³ These firms perform functions such as collecting payments and helping borrowers select a repayment plan and access tools for pausing payments. FFEL program loans can be serviced by the holder of the loan or by third parties.

Repayment plans

Most borrowers who graduate, drop below half-time enrollment, or leave school automatically get a six-month grace period before their first payments are due.¹⁴ Unless they select another plan, borrowers start repayment in the **Standard Repayment Plan**, which has fixed payments over a 10-year period such that borrowers will completely pay off the principal and interest on their loans over that span provided payments are made in full and on time.¹⁵ If eligible, borrowers also have the option to enroll in other plans that lower monthly payments or extend the repayment period, but these plans may increase the interest accrued and therefore the amount repaid over the life of the loan.

Graduated Plan: This program allows borrowers to initially make lower monthly payments than those in the Standard Repayment Plan, but the payment amount increases every two years for 10 years such that borrowers will pay off the full principal and interest over that span, provided payments are made in full and on time.

Extended Plan: Borrowers with balances over \$30,000 can enroll in Extended or Extended Graduated plans, modified versions of the Standard and Graduated plans that generally support repayment over 25 years.¹⁶

Income-driven plans: These plans have monthly payments that are calculated based on a borrower’s income and family size, which must be recertified annually. Congress has authorized the Department of Education to forgive any remaining balance after 20 or 25 years of qualifying payments. However, if borrowers are unable to complete the recertification process—for example, because paperwork is not submitted or processed accurately or on time—their payments may increase. More income-driven plans are available for direct loan than FFEL program borrowers.¹⁷

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Pausing payments

A set of tools, known as deferment and forbearance, is available to support borrowers who need to postpone or suspend their payments. Eligible borrowers include those who are enrolled at least half-time in school, unemployed, disabled, serving in the military, or experiencing economic hardship, among other reasons.¹⁸

Deferment: Borrowers with certain types of loans may be able to pause their payments and avoid accruing interest during the deferment period.¹⁹ Most borrowers who use deferments do so while enrolled in school or for financial hardship, such as unemployment.²⁰

Forbearance: In general, loans paused using forbearance accrue interest. Borrowers can opt into discretionary forbearances—typically offered during periods of economic hardship—or be placed in mandatory forbearances by their servicers. Servicers can apply forbearances while they process income-driven repayment and other loan-related applications or while borrowers work to submit required documentation. In addition to pausing future payments, forbearance can be applied retroactively to make delinquent accounts current so that borrowers can, for example, enroll in income-driven plans.

Borrowers who qualify for a deferment or a forbearance can typically postpone their payments for up to a year at a time (although some borrowers use these tools for shorter periods) and for a maximum of three years using each type of tool.²¹ With some types of deferment and many types of forbearance, when the period of suspended payments ends, unpaid interest on the loan capitalizes.²²

Delinquency and default

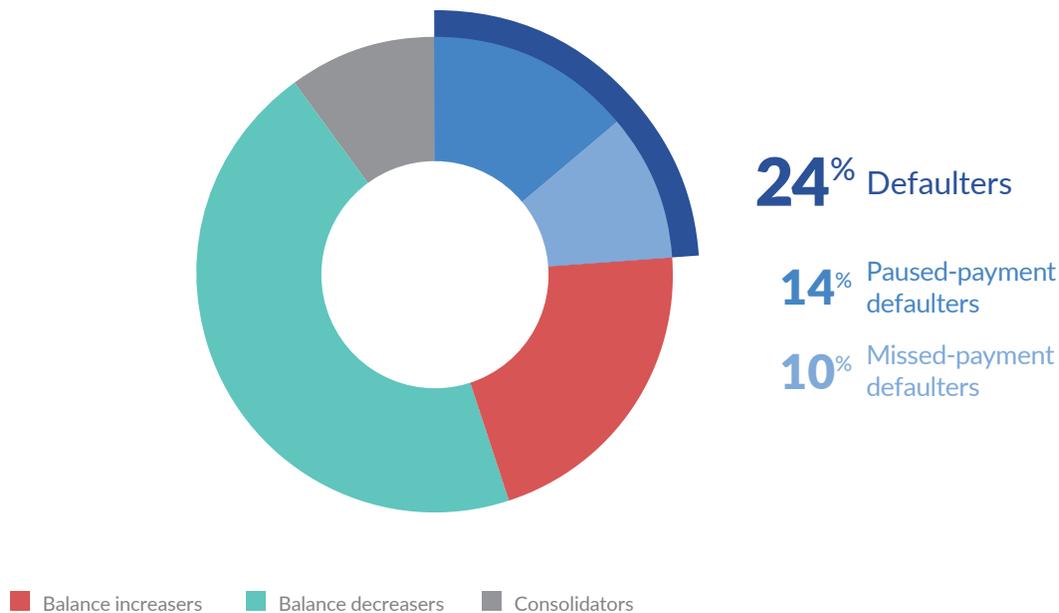
When borrowers do not make payments, they become delinquent on their loans, and when they reach 270 days without a payment, they default.²³ For the purposes of this analysis, and because the dataset is drawn from the FFEL program, borrowers are considered to be in default when the servicer has filed a claim against them, which can occur at any point between 270 and 360 days of nonpayment.²⁴ (For more information about default, see “A Closer Look at Default.”)

Approximately a quarter of Texas borrowers defaulted within five years of entering repayment

In Texas, 24 percent of borrowers defaulted within five years of entering repayment. This is roughly in line with national data showing a default rate of 26 percent.²⁵ (See Figure 2.) Texas borrowers who defaulted were less likely to have graduated than their peers who did not default: 71 percent of all Texas borrowers attended college beyond the first year, compared with only half of those who defaulted.²⁶ Probably because of their short time in school, most of these borrowers had relatively low balances—65 percent owed less than \$10,000 and 36 percent less than \$5,000. These findings are consistent with other research showing that default is disproportionately high among borrowers who do not complete a degree.²⁷ (See Appendix A for additional demographic data.)

Figure 2

About 60% of Texas Defaulters Paused Payments Before Defaulting



Source: The Trellis Company's administrative data

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Paused-payment defaulters typically defaulted later in the study but experienced early delinquency

Fourteen percent of Texas borrowers—60 percent of those who defaulted—used at least one in-school or hardship deferment (for this analysis, “hardship deferment” includes economic hardship and unemployment deferments) or forbearance, which are not broken out by type due to data limitations, before defaulting.²⁸ This figure is probably lower at the national level, because of differences in when borrowers were measured and the compositions of the datasets.²⁹ (For more information, see Appendix B.)

Among paused-payment defaulters, about three-quarters (76 percent) used forbearances, almost half (45 percent) used in-school deferments, and 25 percent used hardship deferments. (See Table 1.) However, returning to school for additional coursework, to complete a degree, or to get an advanced credential did not ultimately protect these borrowers against default. Further, although many paused-payment defaulters were probably experiencing economic distress, the relatively low rate of hardship deferment use may be because they did not qualify, were not given the opportunity, were offered forbearances to bring their accounts current or while having loan-related applications processed, or used forbearances because they were available over the phone and did not require additional paperwork, among other reasons.³⁰ This analysis did not break forbearances out by type as it did for deferments, so researchers and policymakers should use caution when comparing borrowers' use of forbearances with their use of the different types of deferment.

Despite their significant use of deferment and forbearances, paused-payment defaulters did not necessarily suspend their payments for extended periods. For example, at the median, defaulters who used forbearance did so for 121 days—close to four months—during the study period, and 71 percent were in forbearance for six months or less.³¹

Table 1

Paused-Payment Defaulters Typically Experienced Delinquency in the Second Month of Repayment

Percent using and median days to entry into various repayment statuses

Status		Percent ever in status	Median days between repayment entry and first experience of status
Deferment	Hardship deferment	25	302
	In-school deferment	45	185
Forbearance		76	232
Delinquency		100	56

Note: Median days between repayment entry and first experience of status were calculated among borrowers who had been in that status at any time after their six-month grace periods.

Source: The Trellis Company's administrative data

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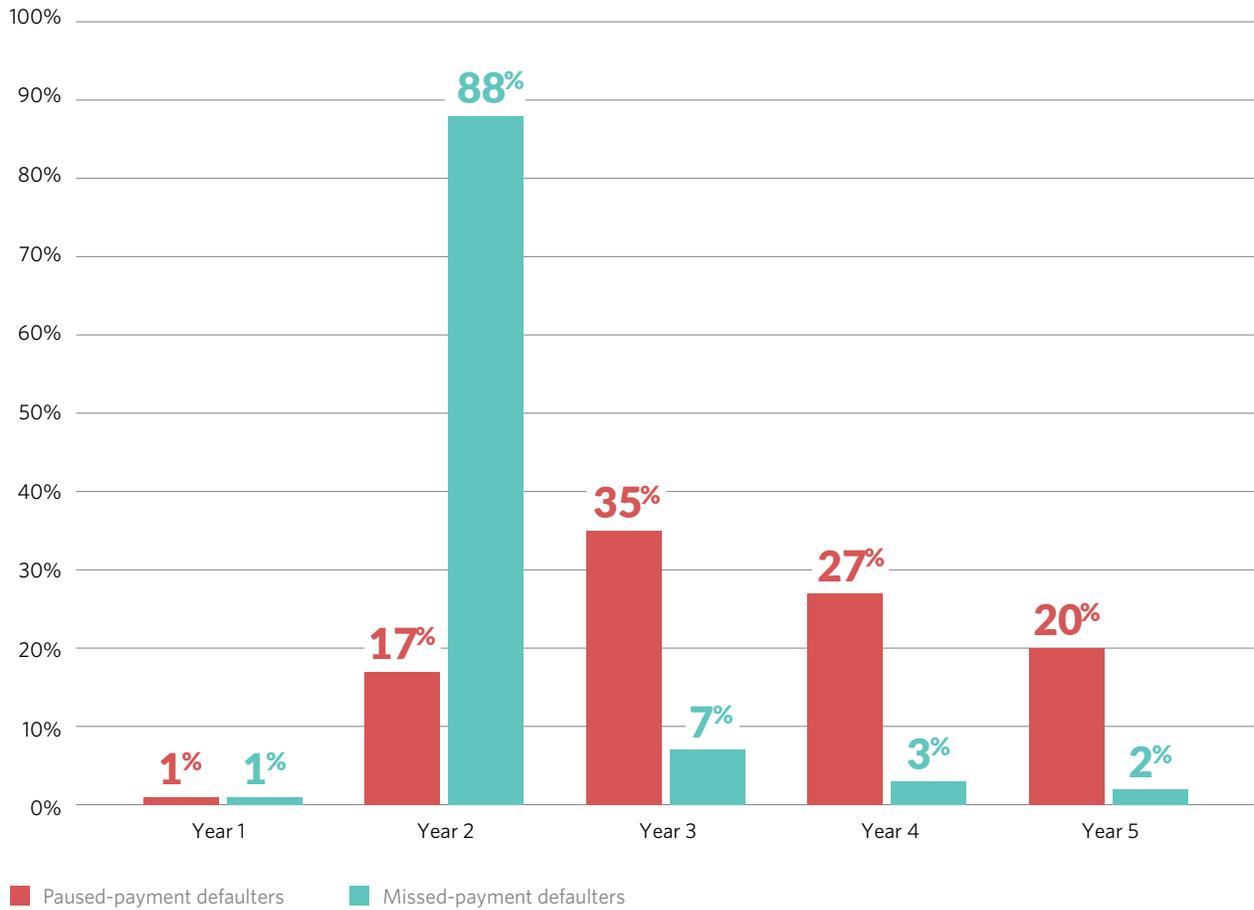
Of these paused-payment defaulters, almost half defaulted in year four or five of the study, indicating that they probably made a least a few payments. (See Figure 3.) However, many cycled in and out of delinquency—42 percent had three or more—and showed potential signs of distress almost immediately. At the median, these borrowers experienced a delinquency in the second month of repayment.

By contrast, missed-payment defaulters—those who never suspended payments—defaulted quickly: 89 percent defaulted by the end of the second year having made few if any payments.³²

Figure 3

Almost Half of Borrowers Who Paused Payments Before Defaulting Did Not Default Until Year 4 or 5

Percentage of Texas paused- and missed-payment defaulters by study year



Notes: This analysis calculated years to default from the end of borrowers' six-month grace periods. Percentages might not add to 100 because of rounding.

Source: The Trellis Company's administrative data

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What defaulters' experiences reveal about repayment

Overall, the Trellis data indicate that most borrowers who eventually default experience delinquency—a potential sign of distress—early in repayment. A significant share of defaulters also interact with the repayment system at some point before defaulting, such as by requesting, being placed in, or retroactively using deferments or forbearances. This suggests that paused payments, while not always signs of distress, present an important opportunity for engaging with borrowers who may be struggling.

Although the Texas data include the borrowers' first five years of repayment, the national data follow borrowers for up to seven additional years and indicate that the risk of default persisted throughout repayment. Nationwide, 32 percent of borrowers defaulted within the 12 years shown in the data, which demonstrates the need for a longer-term examination of borrower experiences, strategies for reaching and engaging borrowers who never contact the system, and metrics for measuring repayment success.

Defaulters Reported Being Unclear About Their Options for Avoiding Default

In interviews, Texas defaulters often credited third parties—such as servicers and guarantors—with providing options that helped them get back on track after a time of financial difficulty. However, none mentioned receiving information or guidance from these entities about their repayment options before struggling to make payments.³³

Federal rules require servicers to contact borrowers at certain times in the repayment process.³⁴ Though servicer communication records were not available for this analysis, Trellis' data indicate that it sent borrowers letters and electronic communications and called them. In that context, the interviewees' feedback may be an indication of various conditions, including that they did not receive the communications (for example, because of changes in address), outreach was attempted but contact was not made, servicers were noncompliant, the communication was confusing or unclear, or information reached but was not acted upon by borrowers.³⁵

Paused-payment defaulters frequently acknowledged using deferments and forbearances to avoid or shorten periods of delinquency, which may have delayed, but ultimately did not prevent, default. But some noted that, when they first had difficulty making payments, they were unaware of the longer-term repayment plan options, such as graduated, extended, or income-driven repayment.

"I initially tried to start making the regular payments and, at that time, I definitely wasn't making enough money to do that. So, I wound up having to use the deferments and everything. And I had to use that so much that I finally talked with someone, through one of the lenders ... and they explained to me about the income-based repayment plan, and to apply for that and everything."

"At first when I started struggling ... I was able to get [a forbearance] ... I think it was 12 months. And then after that you had to pay it back. And then I started and then life gets in the way again and you get another forbearance."

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"At first I thought I would do a bunch of forbearances 'cause I graduated when the economy crashed, so trying to get a job was extremely tough. ... I did set up payment plans, I don't know which one it was. We tried to lower it down based off my income."

"If I could qualify for the forbearance or the deferment, then I did, and if not, [the loan] just didn't get paid."

Missed-payment defaulters also tended to report not knowing about or how to use tools to suspend payments.

"I just thought I just couldn't do anything about it besides just pay monthly payments in the full amount. ... And then I had talked to someone and they told me about the new payment plans they had."

"Well, that's just what I had, and I was paying it and then I wasn't able to pay it for a while. And then when I started the last job I had they were doing [wage garnishment]."

A Closer Look at Default

Although some structural differences exist between how the Department of Education and commercial lenders administer the default process for federal student loans, the consequences for borrowers are similar. FFEL program and direct loan borrowers are in default when their payments are 270 days past due.³⁶ After a borrower defaults, the servicer transfers the loan to a different entity, which is responsible for collecting the debt. This role is served by guarantors for FFEL program loans that are owned by commercial lenders; the Department of Education transfers defaulted direct loans to contracted private collection agencies.³⁷ Borrowers who default are generally charged collection fees, and unlike most other types of debt, federal student loans can rarely be discharged in bankruptcy.³⁸ Unless otherwise noted, this section focuses on the default process for direct loans.

Borrowers can exit default in four different ways

Rehabilitation: Borrowers can return their loans to good standing by making a series of nine on-time payments based on their incomes within 10 consecutive months.³⁹ Those who cannot afford these payments can potentially make alternative monthly "reasonable and affordable" payments that take monthly expenses into account. Successfully rehabilitated loans transfer back from the debt collector to a student loan servicer and regain eligibility for income-driven repayment programs. At that point the default is resolved on the borrower's credit history, although the delinquencies remain.⁴⁰ Rehabilitation can typically only be used once.

Consolidation: This process allows borrowers to "pay off" their existing federal student loans by rolling them into a new loan, which they are then responsible for repaying. To consolidate a defaulted loan, eligible borrowers must either enroll in an income-driven repayment plan or make three on-time monthly payments on the defaulted loan before consolidation. Borrowers generally can consolidate loans only once, and the default remains on the borrower's credit history.⁴¹

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Repayment: Borrowers may repay all or a portion of their defaulted loans. They may do this voluntarily or they may be compelled to do so. When a loan is in default, the Department of Education can initiate one or more offsets by directing the Department of the Treasury to withhold money from the borrower's federal income tax refunds, including the refundable portion of tax credits such as the Earned Income Tax Credit; Social Security payments; and other federal programs as payment toward a defaulted student loan.⁴² Similarly, and at the same time, the entity collecting the loan can garnish up to 15 percent of the borrower's disposable income by requiring an employer to withhold money directly from the individual's paycheck. Like borrowers who consolidate or rehabilitate their loans to exit default, those who are subject to wage garnishment or federal offsets also may incur collection fees. Researchers have noted that differences in fees across collection methods can create confusion for borrowers and that collections can damage family financial security.⁴³

Discharge: In some circumstances, including death; disability; school closure; or certain misconduct, misrepresentation, or deception on the part of a school, the government may also release the borrower from the obligation to repay a defaulted loan.⁴⁴

Borrowers who default face a range of consequences

Loss of access to repayment protections and tools as well as other federal programs: While borrowers are in default, interest continues to accrue on their loans. Further, those who, before defaulting, were enrolled in an income-driven repayment plan or intending to apply for Public Service Loan Forgiveness—a federal program that discharges loans for borrowers working in the public sector after 10 years of qualifying payments—forefeit the right to make payments toward forgiveness while in default.⁴⁵ In addition, borrowers who are in default are ineligible for additional federal student aid as well as other federal programs such as help with homeownership.⁴⁶

Damaged credit scores for up to seven years: Federal student loan servicers are required to report loans that are in default or more than 90 days delinquent to the major national credit bureaus. These notations remain on borrowers' credit reports for up to seven years.⁴⁷ Many defaulters already have low credit scores before they default: Research suggests that, on average, they experience a 50- to 90-point decrease in their credit scores before defaulting. This decline is potentially a result of delinquent payments and may indicate that those who default on their student loans are likely to be falling behind on other bills as well.⁴⁸ Although these credit scores can recover somewhat shortly after default, borrowers with poor credit may pay more for or have difficulty obtaining credit cards, home or car loans, and other consumer credit and insurance products.⁴⁹

Jeopardized employment: Several states can suspend FFEL borrowers' drivers or professional licenses if they default on a federal student loan, making it difficult or impossible for those individuals to continue working.⁵⁰ (Some state laws limit professional license suspensions to specific industries, and enforcement of these statutes is minimal in a number of states.⁵¹) In addition, service members, contractors, and federal employees with delinquent or defaulted debt can be denied security clearances, duty stations, and promotions.⁵²

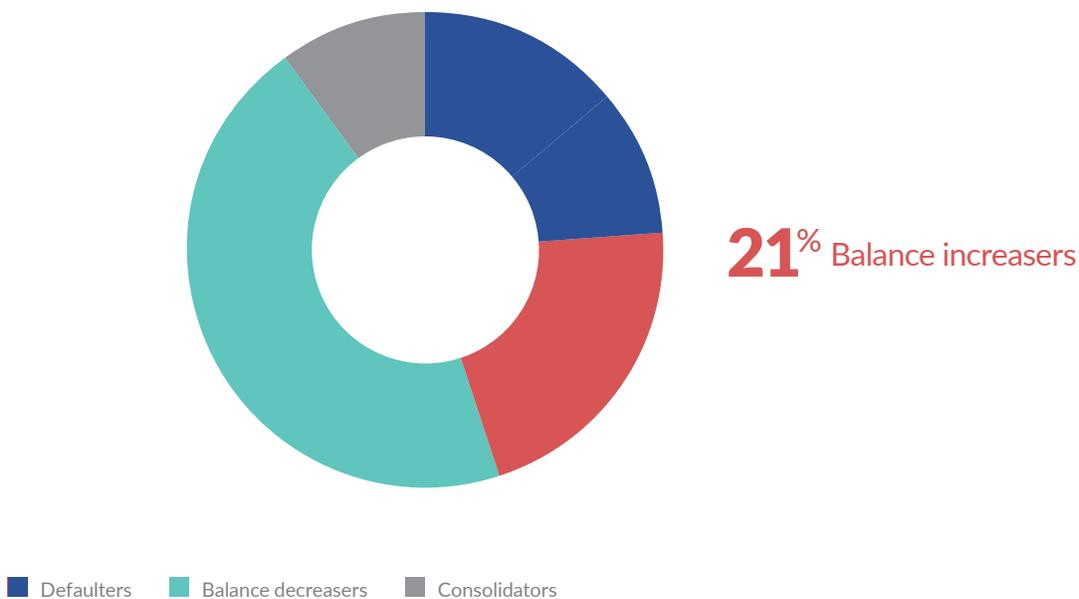
Balance increasers frequently missed and paused payments

Among Texas borrowers, 21 percent owed more after five years than their original loan principal. This was true of 14 percent of national borrowers.⁵³ (See Figure 4.) Texas balance increasers tended to have higher initial principal balances than other groups: 29 percent owed more than \$20,000 when they began repayment, compared with 15 percent of defaulters.⁵⁴

Sixty percent of defaulters had paused payments at least once, but among balance increasers, that number was 98 percent. Many had done so repeatedly, and most continued to have interest accrue while their payments were paused: 88 percent had at least one and 53 percent had three or more forbearances. (See Figure 5.)

Figure 4

Roughly 1 in 5 Texas Borrowers Had Higher Balances After 5 Years in Repayment



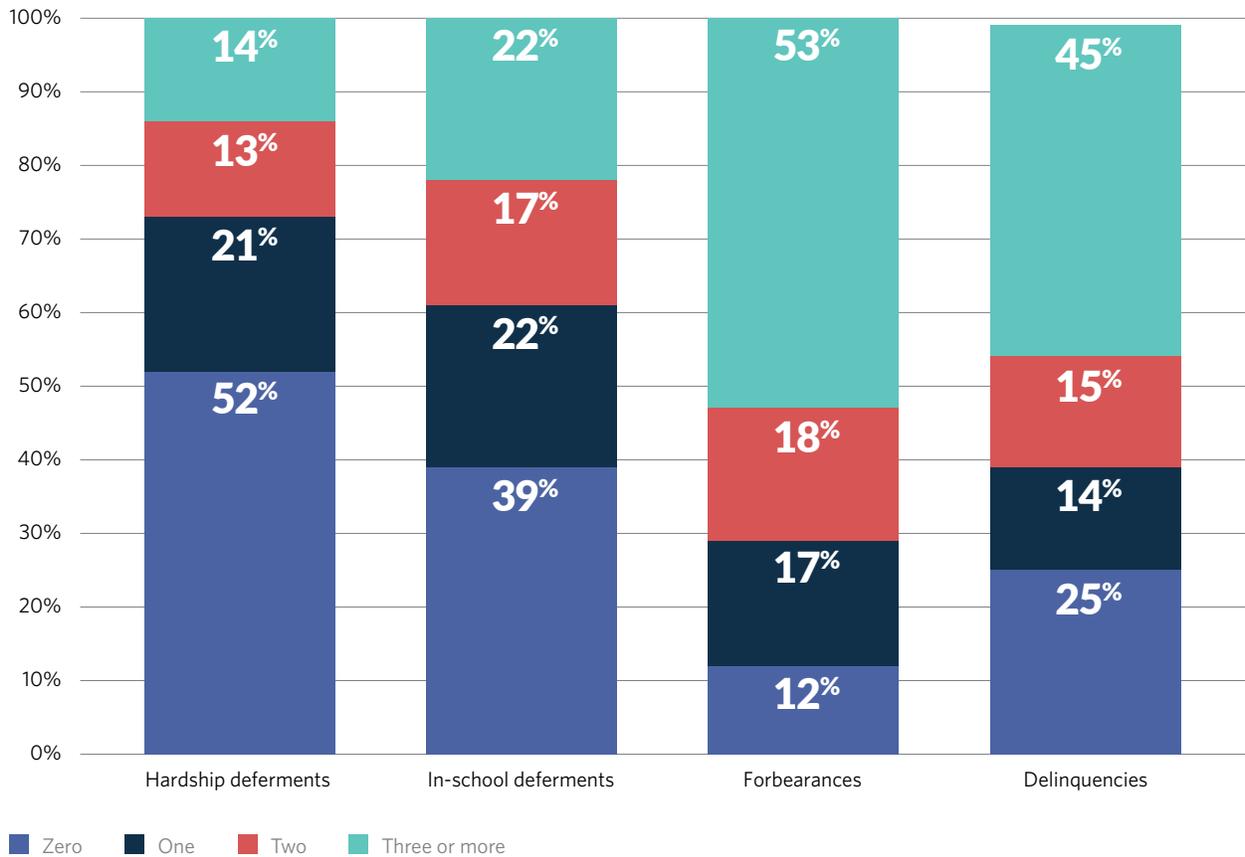
Source: The Trellis Company's administrative data

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Figure 5

88% of Balance Increasers Used Forbearance at Least Once

Share by suspension type and frequency



Note: Percentages might not add to 100 because of rounding.

Source: The Trellis Company's administrative data

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Balance increasers not only used forbearances multiple times, but also paused their payments for a median of 350 days—almost a full year—twice as long as the other groups that suspended payments. And those long pauses—whether borrowers request, are placed in, or retroactively use forbearances—add up: A 2018 study by the U.S. Government Accountability Office estimated that using forbearances to suspend payments for all of the first three years of repayment would cost a typical borrower with \$30,000 in student loans more than \$6,000 in additional interest.⁵⁵

Among borrowers who owed more after five years, 61 percent used in-school deferments, which is probably partly a result of the general increase in college enrollment during the recession, and the median total time they spent in those deferments was almost a year and a half.⁵⁶ (See Table 2.) Further, 22 percent of borrowers with growing balances used three or more in-school deferments, indicating that they were in and out of school repeatedly, dropping below half-time before re-enrolling or starting new programs. Borrowers with certain types of loans continue to accrue interest during periods of deferment, and that interest is capitalized when they resume paying.⁵⁷ And many of these borrowers probably took out additional loans to return to school.

In addition, 48 percent of balance increasers—a larger percentage than paused-payment defaulters—used hardship deferments, and about a quarter used both hardship and in-school deferments. However, heavy usage of forbearance and deferments should not be understood as indicative of any particular financial circumstance. It may be so, but it could also show that this group was especially successful at accessing and utilizing the available tools for avoiding default.

Most borrowers with growing balances also missed payments

In addition to those using deferments and forbearances, 75 percent of balance increasers had been delinquent on their loans at least once. Among these borrowers, the median total number of days spent in delinquency was 444—more than 20 percent of the time the studied borrowers spent in repayment—and the median number of days between entering repayment and the first delinquency was 148, close to five months.

Table 2

Balance Increasers Who Used Forbearance Typically Did So After 8 Months in Repayment

Percent using and median days to entry into various repayment statuses

Status		Percent ever in status	Median days between repayment entry and first experience of status
Deferment	Hardship deferment	48	418
	In-school deferment	61	291
Forbearance		88	237
Delinquency		75	148

Note: This analysis calculated median days between repayment entry and first experience of status among borrowers who had been in that status at any time after their six-month grace periods.

Source: The Trellis Company's administrative data

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A third of balance increasers had 125 percent of their original balances outstanding

Delinquencies, heavy use of deferment and forbearance, and related capitalization probably exacerbated balance increasers' difficulty making payments, especially because these borrowers tended to have higher loan balances than other groups to begin with.⁵⁸ After five years, a third of this group owed more than 125 percent of their original balances.

What balance increasers' experiences reveal about repayment

Although some FFEL borrowers might have relied heavily on deferments and forbearances because of limited access to income-driven plans, these findings still suggest that borrowers who repeatedly or protractedly use tools designed for shorter-term payment relief may need a more sustainable, long-term solution with lower monthly payments, such as an extended, graduated, or income-driven repayment plan.

At the national level, most borrowers who owed more after five years ultimately were able to reduce their principal within the 12 years covered by the data. However, the balance growth during their first few years of repayment probably delayed that progress.⁵⁹

Balance Increasers Felt Conflicted About Their Growing Balances

Although paused-payment defaulters were able to temporarily delay default, balance increasers used deferments and forbearances to keep their loans in good standing for longer. In interviews, some borrowers who owed more discussed the longer-term consequences of using deferments and forbearances, such as rising balances from the accrual of interest, but most acknowledged that pausing payments was better than missing them. Further, for certain borrowers, delinquency or communication with a servicer or others during the delinquent period may have prompted the use of deferment or forbearance to avoid defaulting.

"You know you need that help. You do what you have to do. But in the long run, like I said, it just feels like I'm always paying something that doesn't seem to be going down. ... The consequences were that my debt was not going down, it just increased. But the benefit was that, at least at the time, it wouldn't affect my credit and at least I could go back to repaying when I was a little bit more up on my feet."

"They gave me options, and I was like, 'That sounds like the option I'm gonna have to go with.' It's the lesser of two evils, 'cause your interest still accrues, things still accrue, so your original student loan debt becomes bigger once you choose those routes. ... I was trying to figure out how to not default but still be OK somewhat."

"I would just apply for a forbearance or something just to put it off until I could figure out what to do 'cause if it comes down to being able to pay that versus living expenses, well I had to choose living expenses because I have to be able to live. They approve the forbearance, moving on, obviously that's something you'll have to figure out later but at least it puts it down the road."

"It was [helpful] 'cause it gave you a bit of relief for that time period that you didn't have people calling you and expecting you to make a payment that you know you didn't have. ... If I understand right, the consequence would be that the interest continues to accrue and so that's a huge thing because the interest is astronomical."

"When I couldn't make payments, they extended the forbearances for me. ... Once the income-based repayment plans came about, I switched over to those. ... That's the only way I could afford to make any payments and not go into default."

"I'd gone out of school for a little while, and I was trying to continue to make my payments. And I just couldn't anymore. So I called and told them that I couldn't do it anymore, and then they offered the forbearance. So then I definitely took advantage of that over the course of the years when I had to take small breaks in between my studies and work."

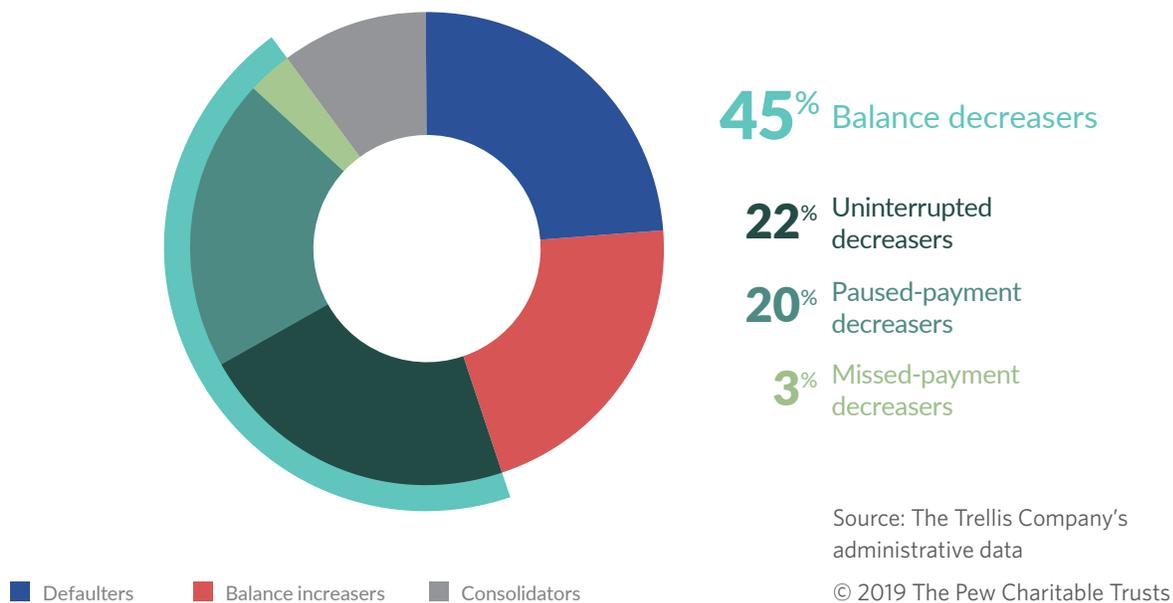
Almost half of Texas borrowers had paid down principal after five years

After five years, 45 percent of Texas borrowers had not defaulted or consolidated and were either paying down principal or had paid off their loans. Sixty percent of national borrowers also owed less after five years in repayment.⁶⁰ (See Figure 6.)

Eighty percent of Texas borrowers who owed less after five years attended four-year public and private nonprofit institutions, slightly more than half graduated, and approximately half began repayment between ages 22 and 25, indicating that they likely went from high school to and through college without significant delays.⁶¹

Figure 6

About Half of Texas Borrowers Whose Balances Decreased Paused or Missed Payments At Least Once



Uninterrupted decreaseers were the exception

Only 22 percent of the Texas borrowers were able to pay down principal without ever missing or suspending payments, and the numbers are probably similar at the national level.⁶²

Another 20 percent of Texas borrowers were paused-payment decreaseers, and some key parallels exist between them and paused-payment defaulters.⁶³ For example, when using forbearances, at the median both groups spent a total of four months in forbearance. In addition, 40 percent of paused-payment decreaseers had been delinquent at least once, spending a median total of 240 days—eight months—in delinquency over the course of the study. (See Table 3.)

This similarity—and presence of delinquency among those who paid down their balances—suggests that it may be difficult to distinguish between, and provide real-time support for, borrowers who are able to get back on track after pausing and missing payments and those who eventually default.⁶⁴

However, these two groups of borrowers also evince important differences. Unlike paused-payment decreaseers, the median paused-payment defaulter became delinquent in just the second month of repayment.

Table 3

40% of Paused-Payment Decreasers Had Been Delinquent During the Study Period

Percent using and median days to entry into various repayment statuses

Status		Percent ever in status	Median days between repayment entry and first experience of status
Deferment	Hardship deferment	22	304
	In-school deferment	59	389
Forbearance		58	383
Delinquency		40	265

Note: This analysis calculated median days between repayment entry and first experience of status among borrowers who had been in that status at any time after their six-month grace periods.

Source: The Trellis Company's administrative data

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Balance Decreasers Used Deferments and Forbearances to Stay on Track

In interviews, no uninterrupted decreaseers reported switching plans, regardless of the type of plan they initially enrolled in. This may indicate that they were able to select, or remain in, a plan that was appropriate for their financial circumstances and expedited repayment. For example, one borrower reported opting into automatic payment so he could set his payment and forget about it. Another recognized the financial costs of delaying payments and reported being able to afford and choosing to stay in a Standard Repayment Plan to keep interest costs lower.

Paused-payment decreaseers reported that suspending payments helped them stay or get back on track after financial challenges. Others mentioned that they used deferment or forbearance when going back for another degree or were placed into one while waiting to enroll in an income-driven repayment plan.

"When I first got out of college, I wasn't working. So I had to defer until I was able to secure a position, a job."

"When I first got out [of school] ... my focus was getting a job. Was trying to find a job. So I think I missed maybe the first four payments. And so I had to end up calling to get back on track, and then that's when they let me know that my loans could have been deferred. And so when I finally was able, 'cause I was working part time still, they allowed me to defer them for a little while because my income was so low, and then I was able to get back on track."

"I've done both, mainly because of the calculation of [income-driven repayment plans]. They've had to do forbearance and then deferment while they were trying to recalculate the information from money coming in that was showing as an additional amount for loans that I was taking out."

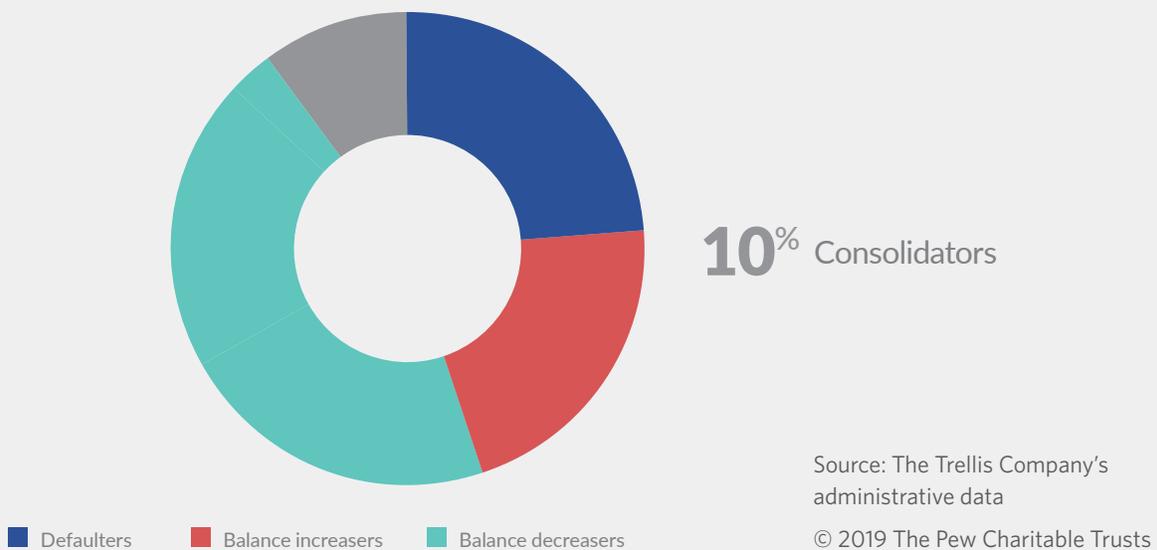
Loan Consolidation

Ten percent of Texas borrowers consolidated their loans—combining multiple loans into one new loan—after at least one year of repayment and did not default.⁶⁵ (See Figure 7 and see the appendix for a detailed description of those who consolidated.) Like balance increasers, consolidators tended to have relatively high balances: 32 percent initially owed more than \$20,000, compared with 15 percent of balance decreasees and defaulters. Some of these higher balances were the result of longer periods spent in school: Almost a quarter (23 percent) of consolidators went to graduate school.

Although FFEL program borrowers are eligible for various repayment plans, including options to extend repayment periods or tie payment to income, borrowers might have consolidated to access newer income-driven plans with more generous terms, longer repayment timelines, or the Public Service Loan Forgiveness program, among other reasons.⁶⁶

Figure 7

10% of Texas Borrowers Consolidated Their Loans



More can be done to get struggling borrowers on track

Higher education is among the most effective strategies available to bolster families' economic security. However, many researchers and experts have pointed out that maximizing that potential requires significant front-end solutions to prevent problems, including efforts to increase college completion, address earnings and wealth disparities between white households and those of color, and reduce the amount of debt that students take on.⁶⁷ The findings above demonstrate that a focus on the significant challenges facing current borrowers and improvements to the student loan repayment system are also critical. The Department of Education and Congress can help improve borrower outcomes by making structural changes to the repayment system that facilitate borrowers' long-term success and by expanding access to data to support research and policy reform.

Borrowers need targeted, timely supports to assist them through repayment

The findings of this report point to three actions that the Department of Education and Congress could take to boost repayment success: Identify at-risk borrowers early in repayment, provide resources to those borrowers when and where they need them, and ensure that all repayment plans are easy to access and use. These structural changes should be implemented in conjunction with clear and consistent rules for managing repayment and oversight mechanisms to ensure their successful application, which are not a focus of this paper.

Structure the repayment and servicing systems to support at-risk borrowers

Although some at-risk borrowers reach out to or otherwise interact with their servicer before or while struggling to make payments, determining which borrowers need support and when can be difficult, especially because borrowers can have different outcomes while using the same tools. This analysis has shown that most borrowers pause or miss payments or default on their loans within five years of entering repayment, and the findings provide some clues for identifying which borrowers are likely to struggle in repayment and when:

- **Missing a payment within a few months of entering repayment** was common among borrowers who eventually defaulted. The typical paused-payment defaulter missed a payment in the second month, and many missed-payment defaulters made only a few payments.
- **Using multiple tools—or one tool multiple times—to pause payments** was common among balance increasers.
- **Having previously defaulted** is a potential risk factor for future defaults. Borrowers who defaulted and then returned their loans to good standing should be monitored for signs of returning distress.
- **Churning in and out of school, or rapidly dropping out**, are also probably indicators of distress.

The Department of Education primarily pays direct loan servicers a fixed monthly amount per borrower, based on each borrower's loan status.⁶⁸ Servicers receive the most money for borrowers who are current on their loans—and less for loans in delinquency, deferment, and forbearance—but the contracts between the department and servicers do not otherwise provide clear, comprehensive guidance to servicers on how to prioritize interactions with borrowers, especially those at risk of delinquency, default, and growing balances.⁶⁹

The Department of Education can consider these risk indicators, especially in cases where they might match or overlap with others it or its servicers have identified using nonpublic data, when providing guidance and compensation to servicers and deploying resources to manage the federal student loan portfolio. The department could also take them into account as part of efforts to improve the student loan servicing system, such as the Next Generation Financial Services Environment, an initiative from the department to modernize and streamline the technology and operational components of the repayment system.⁷⁰ One strategy could be for the

department to better align contractor payments with desired outcomes. This might be achieved, for example, by providing servicers with incentives for successfully contacting at-risk borrowers and facilitating the enrollment of delinquent borrowers in income-driven or other plans that lower payments before loans reach 90 days past due.

Further, as highlighted in this report, some at-risk borrowers do not engage with the system before getting into trouble or during periods of financial stress. Reaching these high-risk borrowers before they spend extended time in delinquency can require a significant investment of staff time and generate other costs for the servicer, which may require the department to provide servicers with additional resources.⁷¹

However, the department currently pays more for private collection agencies to successfully return defaulted loans to good standing than to have servicers prevent defaults in the first place. For example, when a borrower defaults on a loan, the department pays debt collectors up to \$1,741 to contact that borrower and help rehabilitate the loan, which could take as little as nine months, and collection fees of \$150, in general, for helping borrowers consolidate their loans into an income-driven repayment plan.⁷² However, servicers generally receive no more than \$2.85 a month for each borrower, slightly less than \$26 over a similar nine-month period. Providing additional resources to servicers to intervene earlier with struggling borrowers could be beneficial for borrowers and cost-effective for taxpayers.

Make long-term repayment plans as accessible and flexible as tools designed for shorter-term payment relief

Although deferments and forbearances are relatively easy to get or have applied to a loan and can provide relief during periods of financial hardship or make it easier to return to school, neither borrowers nor taxpayers are well served when these tools are used extensively.⁷³ Recent research demonstrates that payments based on income are another way to mitigate the impact of financial difficulties for some borrowers at risk of delinquency and default. For example, studies of community college students found that, in Iowa, 35 percent of those enrolled in the Standard Repayment Plan defaulted compared with just 3 percent of those in income-driven programs.⁷⁴ However, congressional action is needed to address key problems that can prevent borrowers from realizing the benefits of these plans and undermine their efforts to repay.

Borrowers report that income-driven plans are difficult to both get into initially and stay enrolled in because the application process is redundant and overly complex. For example, borrowers must submit their income and family size information annually, which in many cases duplicates data already supplied to the federal government in annual income tax filings. Submission or processing delays are common and can cause borrowers to miss the deadline, and inaccurate information can result in miscalculated monthly payment amounts.

According to federal data, between 2013 and 2014 more than half of borrowers in income-driven plans did not recertify by the deadline. These delays cause monthly payments to increase and unpaid interest to capitalize. Nearly a third of borrowers who did not recertify on time had their loans go into hardship-related forbearance or deferment.⁷⁵

Although this combination of unnecessary duplication and complexity means that the system does a poor job of delivering prompt and extended relief for financially stressed borrowers and protecting taxpayers' investment in higher education, this situation can be dramatically improved with a simple fix. Congress can direct the Internal Revenue Service (IRS) to share relevant borrower data—with appropriate privacy protections—with the Department of Education. This coordination would eliminate the need for many borrowers to supply additional documentation during the income-driven repayment plan enrollment and recertification processes and ensure that the information is accurate, reducing submission and processing delays, errors, and inaccurate payment amounts. The Senate passed such a bill with support from both parties in 2018, and similar legislation was introduced in the House of Representatives in 2019.

Additional considerations for income-driven repayment plans

Income-driven plans also help borrowers repay more and more consistently over time. For example, one recent study found that borrowers in these plans had a lower incidence of delinquency and thus paid more on average each month than their peers in standard plans, even though their payment amounts were lower.⁷⁶ Further, recent government budget documents project that many future borrowers who enroll and remain in income-driven plans throughout the life of their loans will repay their principal balances plus interest before any remaining balance would become eligible for forgiveness.⁷⁷

But income-driven plans are not a silver bullet: Payments may still be unaffordable for some borrowers. For example, several Texas borrowers who reported being enrolled in income-driven repayment plans also reported using forbearances and deferments to pause payments, some for long periods. And previous quantitative and qualitative research indicates that many borrowers who struggle to repay are already experiencing other types of financial distress.⁷⁸ Pew's work on family financial security indicates that the state of a family's balance sheet can play a role in its ability to repay a student loan: Many families, even those who appear secure, can have income that varies from month to month or experience financial shocks that make it difficult to plan and budget, even for regular expenses such as student loans.⁷⁹

Although the ability to make lower payments over time is an important design feature for many struggling borrowers, it can make income-driven repayment more expensive over the long term: Borrowers can experience balance growth when their payments are lower than the monthly accruing interest as well as interest capitalization when they are not able to maintain that enrollment.⁸⁰

More data are needed to develop evidence-based policy solutions

Publicly available data are scarce on the pathways borrowers take through, decisions they make about, and barriers they experience during the loan repayment process. This information shortage makes it difficult for policy leaders and other stakeholders to develop evidence-based, cost-effective solutions. For example, the lack of robust, detailed data about direct loan borrowers meant this analysis had to rely on nationally benchmarked data from the FFEL program, which has not issued new loans since 2010.

The Department of Education has access to microdata through the National Student Loan Data System, but analysts and researchers typically are not permitted to use these data, primarily because of privacy concerns. However, the department could make more data securely available without significant changes to its existing procedures. Department staff routinely extract random, de-identified samples of several million borrowers for use by its Budget Service and could share those extracts, or other anonymized data, with researchers to enable them to assess the repayment status of struggling borrowers and identify potential interventions to reduce delinquency and default.⁸¹

Conclusion

Student loan borrowers in the U.S. face significant challenges, including delinquency, default, and increasing balances, as they navigate the complexities of the repayment system. This analysis begins the work of understanding where borrowers encounter problems while in repayment and why people who use the same tools, designed to aid struggling borrowers, can experience substantially different outcomes, but more research is needed. Illuminating the pathways borrowers take through the repayment process will help policymakers and other stakeholders take concrete action to provide real-time support to promote the long-term financial success of millions of Americans with student debt.

Appendix A: Borrower statistics

Table A.1

Composition of Texas Borrower Repayment Groups

Repayment group	Number of borrowers	Percent of borrowers	Repayment subgroup	Number of borrowers	Percent of borrowers	Subgroup as share of repayment group
Defaulters	93,770	24%	Paused-payment	56,201	14%	60%
			Missed-payment	37,569	10%	40%
Balance increasers	82,113	21%	N/A	N/A	N/A	100%
Balance decreaseers	176,792	45%	Uninterrupted	85,703	22%	48%
			Paused-payment	78,685	20%	45%
			Missed-payment	12,404	3%	7%
Consolidators	38,687	10%	N/A	N/A	N/A	100%
All Texas borrowers	391,362					

Note: Percentages may not add to 100 because of rounding.

Source: The Trellis Company's administrative data

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Table A.2

Select Characteristics of Texas Borrowers

		Defaulters	Balance increasers	Balance decreaseers	Consolidators	All
Total		93,770	82,113	176,792	38,687	391,362
School type and sector	2-year public and private nonprofit	30%	21%	13%	13%	18%
	4-year public	41%	52%	63%	60%	55%
	4-year private nonprofit	10%	13%	17%	17%	14%
	Private for-profit	14%	8%	4%	2%	7%
	Multiple types	5%	8%	4%	9%	6%
Highest grade level completed	1st-year undergraduate	50%	28%	22%	15%	29%
	2nd-year undergraduate	19%	19%	16%	17%	17%
	3rd-year undergraduate	11%	14%	16%	20%	15%
	4th-year undergraduate	13%	21%	25%	22%	21%
	5th-year undergraduate	2%	3%	3%	3%	3%
	Graduate coursework	6%	15%	18%	23%	15%
Completion status	Graduated	23%	35%	53%	45%	41%
	Not graduated	77%	65%	47%	55%	59%
Age at repayment entry	Younger than 22	24%	13%	11%	6%	14%
	22-25	32%	32%	51%	39%	41%
	26-30	20%	25%	20%	26%	21%
	31 or older	25%	31%	18%	29%	23%

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		Defaulters	Balance increasers	Balance decreaseers	Consolidators	All	
Amount borrowed	\$5,000 or less	36%	19%	30%	14%	28%	
	\$5,001 - \$10,000	29%	26%	27%	22%	27%	
	\$10,001 - \$20,000	20%	27%	28%	32%	26%	
	\$20,001 or more	15%	29%	15%	32%	20%	
Delinquencies	Zero	0%	25%	75%	52%	45%	
	One	44%	14%	12%	20%	21%	
	Two	28%	15%	6%	14%	14%	
	Three or more	27%	45%	7%	14%	21%	
Deferments	In-school	Zero	73%	39%	74%	54%	64%
		One	15%	22%	15%	25%	17%
		Two	7%	17%	7%	13%	10%
		Three or more	4%	22%	5%	9%	9%
	Hardship	Zero	85%	52%	90%	74%	79%
		One	11%	21%	6%	15%	12%
		Two	3%	13%	2%	7%	5%
		Three or more	1%	14%	1%	4%	4%
Forbearances	Zero	54%	12%	74%	39%	53%	
	One	24%	17%	14%	24%	18%	
	Two	12%	18%	6%	17%	11%	
	Three or more	10%	53%	5%	21%	18%	

Note: Percentages may not add to 100 because of rounding.

Source: The Trellis Company's administrative data

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Table A.3

Select Characteristics of Texas Defaulters

		Paused-payment	Missed-payment
Total		56,201	37,569
School type and sector	2-year public and private nonprofit	29%	30%
	4-year public	41%	42%
	4-year private nonprofit	10%	10%
	Private for-profit	14%	13%
	Multiple types	6%	4%
Highest grade level completed	1st-year undergraduate	47%	53%
	2nd-year undergraduate	20%	18%
	3rd-year undergraduate	11%	11%
	4th-year undergraduate	14%	12%
	5th-year undergraduate	2%	2%
	Graduate coursework	7%	4%
Completion status	Graduated	24%	21%
	Not graduated	76%	79%
Age at repayment entry	Younger than 22	23%	25%
	22-25	31%	34%
	26-30	20%	19%
	31 or older	26%	22%
Amount borrowed	\$5,000 or less	33%	40%
	\$5,001 - \$10,000	30%	29%
	\$10,001 - \$20,000	21%	19%
	\$20,001 or more	16%	13%

Continued on next page

			Paused-payment	Missed-payment
Delinquencies		Zero	0%	0%
		One	17%	85%
		Two	40%	11%
		Three or more	42%	4%
Deferments	In-school	Zero	55%	100%
		One	26%	0%
		Two	12%	0%
		Three or more	7%	0%
	Hardship	Zero	75%	100%
		One	19%	0%
		Two	5%	0%
		Three or more	2%	0%
Forbearances		Zero	24%	100%
		One	41%	0%
		Two	19%	0%
		Three or more	16%	0%

Note: Percentages may not add to 100 because of rounding.

Source: The Trellis Company's administrative data

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Table A.4

Select Characteristics of Texas Balance Decreasers

		Uninterrupted	Paused-payment	Missed-payment
Total		85,703	78,685	12,404
School type and sector	2-year public and private nonprofit	9%	16%	19%
	4-year public	66%	60%	55%
	4-year private nonprofit	18%	15%	16%
	Private for-profit	3%	4%	7%
	Multiple types	3%	5%	4%
Highest grade level completed	1st-year undergraduate	18%	24%	32%
	2nd-year undergraduate	14%	17%	18%
	3rd-year undergraduate	17%	16%	15%
	4th-year undergraduate	26%	26%	22%
	5th-year undergraduate	3%	3%	2%
	Graduate coursework	23%	13%	11%
Completion status	Graduated	61%	45%	49%
	Not graduated	39%	55%	51%
Age at repayment entry	Younger than 22	9%	14%	14%
	22-25	54%	48%	49%
	26-30	20%	20%	18%
	31 or older	17%	18%	19%
Amount borrowed	\$5,000 or less	29%	30%	38%
	\$5,001 - \$10,000	27%	27%	28%
	\$10,001 - \$20,000	28%	28%	24%
	\$20,001 or more	16%	15%	10%

Continued on next page

		Uninterrupted	Paused-payment	Missed-payment	
Delinquencies	Zero	100%	60%	0%	
	One	0%	17%	60%	
	Two	0%	10%	20%	
	Three or more	0%	13%	20%	
Deferments	In-school	Zero	100%	41%	100%
		One	0%	33%	0%
		Two	0%	15%	0%
		Three or more	0%	12%	0%
	Hardship	Zero	100%	78%	100%
		One	0%	14%	0%
		Two	0%	5%	0%
		Three or more	0%	3%	0%
Forbearances	Zero	100%	42%	100%	
	One	0%	33%	0%	
	Two	0%	13%	0%	
	Three or more	0%	12%	0%	

Note: Percentages may not add to 100 because of rounding.

Source: The Trellis Company's administrative data

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Appendix B: Methodology

This analysis employed a mixed-methods approach. In addition to a quantitative analysis of Trellis's administrative data, the research team also conducted qualitative interviews with borrowers.

Quantitative analysis

About the data

The administrative dataset used for this study consists of 391,362 students who borrowed subsidized and unsubsidized loans through the FFEL program and whose Trellis guaranteed loans entered repayment between Oct. 1, 2007, and Sept. 30, 2011.⁸² Thirty percent of Trellis' borrowers had only subsidized loans.

The researchers followed these borrowers for five years after their six-month grace periods had ended. The five-year range was chosen because it spans the recent recession, constitutes Trellis' most recent years, and provides a longer perspective than the standard federal cohort default rate calculation, as described below.

Although Trellis borrowers took out loans to attend Texas public and private for- and nonprofit institutions, those who attended four-year public universities were overrepresented in the Texas data, and those who attended for-profit colleges were underrepresented.⁸³ In addition, during the years examined in this study, Texas residents tended to be more economically disadvantaged than those in other states: Texas ranked 36th in median household income in 2008, improving to 27th by 2011, and 40th in share of households falling below the federal poverty threshold.⁸⁴

Texas college students also leaned more heavily on loans than their peers throughout the country. In academic year 2004-05, when many loans that entered repayment during the study period would probably have originated, 66 percent of financial aid dollars in Texas came in the form of loans, compared with 56 percent of all financial aid dollars. This pattern remained largely unchanged through 2011.⁸⁵

Another way to compare the Texas and national data is through the cohort default rate, which reflects the percentage of borrowers who default within three years of beginning repayment. The Department of Education calculates cohort default rates annually for nearly all institutions participating in the federal student loan program, and if schools' cohort default rates are too high, they can lose access to federal grants and loans.⁸⁶ Some experts have criticized the cohort default rate for not capturing the full extent of student loan default.⁸⁷ Notably, the borrowers in Trellis' analysis entered repayment during the transition from two- to three-year cohort default rate metrics.⁸⁸

The fiscal 2011 cohort, which corresponds to the most recent cohort tracked in this study, shows differences by school sector in Texas and nationally.⁸⁹ (See Table B.1.)

Table B.1

3-Year Cohort Default Rates by School Sector: Texas vs. the U.S., FY 2011

	Texas	Nation
4-year public	9.7%	9%
4-year private	8.5%	6.9%
For-profit career college	22.2%	18.8%
Community college	20.1%	20.2%

Source: U.S. Department of Education cohort default rate files by school

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Finally, this analysis includes the experiences of borrowers who entered repayment during and after the Great Recession. Although the recession contributed to an increase in college enrollment, it also probably limited opportunities for students entering the workforce and reduced some starting salaries, potentially making student loan repayment more challenging.

About the analysis

SAS software was used to analyze the Trellis dataset and identify the number, order, and timing of significant loan events. Given decades of experience with their borrowers, Trellis staff started with broad, recognized patterns, such as successful repayment, delinquency, and default. Within each category, the data were examined to devise more specific borrower groups. The research team developed the final mutually exclusive repayment categories by separating divergent behaviors while avoiding creating a multitude of categories containing very small numbers of borrowers.

The team also constructed contingency tables and performed chi square tests to determine the significance of differences between groups for the borrower characteristics included in this report.

Data limitations

Multiple repayment years: If a borrower had loans enter repayment in more than one fiscal year included in this study, the earliest year was chosen to represent the year the borrower's entry into repayment and no later loans were included in the analysis.

"Split" loans (multiple guarantors): Trellis may not have guaranteed all of a borrower's loans and so would not necessarily have a complete picture of that student's borrowing. In addition, some borrowers might have had FFEL program and direct loans, in which case Trellis would have data only on the former. Trellis had much higher coverage in Texas compared with the nation as a whole, so this study necessarily focuses on Texas borrowers.

Consolidation loans: The dataset includes borrowers who eventually consolidated their loans into products not guaranteed by Trellis, after which the ability to further track the repayment pattern is lost. For these borrowers, Trellis had information on repayment behavior from the beginning of repayment until the consolidation. Although there was not a full history of repayment behavior or outcomes for these borrowers, they were included in the analysis if they had at least one year of repayment history.

“Put” loans: Trellis’ portfolio includes loans that were subsequently sold (commonly referred to as “Put”) to the Department of Education, resulting in the loss of the guaranty and any further information about repayment and outcomes. The Put program existed for a short time and allowed lenders to sell loans made during the 2008-09 academic year (later extended to July 1, 2010). Trellis’ Put loans tended to be taken out by borrowers in short-term academic programs, typically in the private for-profit sector, and tended to be riskier. Thus, the loss of these Put loans may have made the Texas portfolio appear less risky. In this study, Puts often occurred while borrowers were in school, during their grace periods, or shortly after entering repayment, and, therefore, Trellis has almost no information related to the repayment behavior of those borrowers (16.6 percent of the sample, about 78,150 borrowers). As a result, those borrowers were excluded.

Loans in multiple repayment categories: If a borrower had multiple loans in the study and defaulted on or consolidated one of them, all the loans were counted as defaulted or consolidated. In addition, in this analysis, default is treated as a terminal event. Once a borrower defaulted, tracking of that person stopped. Some defaulting borrowers may have returned to good standing during the study period but were not counted as such in this analysis. Borrowers who owed less or owed more after five years were assigned to those categories based on the sum of all their loans.

Cohort differences: Most of the behavior patterns observed in this paper were consistent across cohorts, but there were some differences over time. Between 2008 and 2011, the share of borrowers from two-year public and private nonprofit and private for-profit schools decreased, while the share at four-year public and private nonprofit institutions increased. (See Table B.2.)

Table B.2

Percent of Texas Borrowers by School Sector and Cohort Year

School type and sector	2008	2009	2010	2011
2-year public and private nonprofit	21	19	16	15
4-year public	52	54	58	60
4-year private nonprofit	13	14	16	16
Private for-profit	10	8	4	2
Multiple types	5	6	6	7

Note: Percentages may not add to 100 because of rounding.

Source: The Trellis Company’s administrative data

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In addition, between 2008 and 2011, the percentage of each cohort that graduated increased, the percentage of borrowers in each cohort that were successfully repaying without interruption increased, the percentage that defaulted decreased, and the percentage with no delinquencies increased. These changes were probably the result, at least in part, of the lack of data associated with borrowers whose loans were included in the Put program (as described above) and the Great Recession. The percentage of each cohort that saw no reduction in principal balance remained relatively stable over time.

Qualitative analysis

Screeners

Trellis first emailed a short “screener” questionnaire to borrowers asking for demographic information and assessing their interest in participating in an in-depth interview.

Per Trellis security policy on its administrative databases, data on borrowers who have fully repaid their loans are subjected to a de-identification purge six years after repayment is complete. This includes the deletion of email addresses, so no contact information was available for borrowers who repaid six or more years before the questionnaire was sent (June 2017). This removed approximately 6 percent of borrowers from the dataset. An additional 14 percent of the total potential survey population had invalid or missing email addresses.

After removing these groups, a random sample of 100,000 borrowers, stratified by repayment category, was selected to receive the screener. This number was reduced to 98,998 after the survey software removed those who had opted out of previous Trellis surveys and those with invalid email addresses that were not previously removed by the SAS program. There was an 11.1 percent bounce rate and a 5.2 percent undeliverable rate on those that did not bounce. Email screeners were successfully delivered to 83,393 borrowers, 84.2 percent of the total survey sample of 98,998 borrowers. An additional 1.7 percent unsubscribed after receiving the survey invitation.

The response rate was 2 percent (1,665 completers), and borrowers who responded were not representative of all borrowers. (See Table B.3.) The primary purpose of the screener was to secure volunteers for the in-depth telephone interview, and nearly two-thirds of the respondents volunteered (1,084 completers).

Table B.3

Select Characteristics of Volunteers, Respondents, and the Full Dataset

	Screener respondents	Survey volunteers	Invited to take the survey	Texas borrowers
Age at repayment entry	28.2	27.59	27.7	27.37
School type and sector				
2-year public and private nonprofit	14%	13%	21%	18%
4-year public	59%	59%	54%	55%
4-year private nonprofit	16%	16%	13%	14%
Private for-profit	4%	4%	6%	7%
Multiple types	7%	8%	6%	6%
Average number of forbearances	1.43	1.49	1.39	1.18
Average number of deferments	1.15	1.25	1.13	0.98
Average number of delinquencies	1.69	1.67	1.70	1.43
Percent defaulted	26%	25%	27%	23%
Average number of loans	4.11	4.20	3.59	3.48
Cohort				
2008	29%	28%	31%	32%
2009	32%	32%	32%	31%
2010	24%	24%	22%	22%
2011	15%	16%	15%	15%
Completion status				
Graduated	43%	42%	38%	41%
Not graduated	57%	58%	62%	59%

Source: The Trellis Company's administrative data

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In-depth telephone interviews

Trellis assessed the screener respondents who volunteered to be interviewed and selected 51, interviewing five to 10 borrowers from each repayment category. (See Table B.4.) The interviewees represented a variety of demographic characteristics as offered on the survey and of repayment cohorts, graduated statuses, school types, loan amounts, and ages at repayment entry, per Trellis' administrative database. The researchers did not intend this selection of borrowers to be representative of all borrowers or of the full study sample. Rather, these borrowers were selected to provide input from people with different experiences.

Trained interviewers conducted one roughly 30-minute interview per participant during spring and summer 2017. At the time of the interviews, borrowers had been in repayment for six to 10 years. Borrowers were not asked to differentiate their loans in the interviews and, thus, those with multiple types of loans might have been reporting on federal or private loans. The interviewer used the same protocol for each interviewee, which included questions about student loan knowledge and decisions while in and just after school, perceptions about managing student debt, and savings.

Common themes were captured in first-level codes—labels for units or chunks of meaning that are descriptive or inferential and that help organize the data and interpretations. Initial codes were descriptive in nature and then assessed for further patterns and relationships. Coding was finalized when saturation was reached, as suggested by grounded theory (e.g., when no new information is offered).

Table B.4

Select Characteristics of Interview Participants

	Defaulters		Balance increasers		Balance decreaseers			Consolidators	Total
	Paused-payment	Missed-payment	Balance increasers	Uninterrupted	Paused-payment	Missed-payment	Consolidators		
Total	6	7	8	7	10	5	8	51	
Gender*									
Male	4	3	4	3	4	3	4	25	
Female	2	4	4	4	6	2	4	26	
Ethnicity / race*									
White	2	3	2	2	4	2	3	18	
Black	2	3	2	2	2	0	3	14	
Hispanic	2	1	3	2	4	1	2	15	
Other	0	0	1	1	0	2	0	4	
Income*									
Less than \$15,000	0	1	0	0	0	0	0	1	
\$15,000 - \$24,999	1	0	1	0	0	1	1	4	
\$25,000 - \$29,999	0	1	0	0	0	0	1	2	
\$30,000 - \$39,999	0	0	0	0	2	0	0	2	
\$40,000 - \$49,999	1	0	1	1	1	1	1	6	
\$50,000 - \$74,999	1	1	4	4	4	1	2	17	
\$75,000 - \$99,999	2	4	0	2	2	0	1	11	
\$100,000 or more	1	0	2	0	1	2	2	8	
Average number in household*	2.8	2.6	2.8	1.7	3.3	2.6	2.8	2.7	

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	Defaulters		Balance increasers	Balance decreaseers			Total
	Paused-payment	Missed-payment		Uninterrupted	Paused-payment	Missed-payment	
Average loan amount*	\$19,665	\$20,335	\$19,755	\$18,570	\$17,169	\$10,580	\$17,259
Average age	27	28.6	30.5	34.1	28.5	26.4	29.1
School type and sector	2-year public and private nonprofit	1	2	1	3	1	3
	4-year public	3	2	5	3	3	4
	4-year private nonprofit	1	3	1	3	1	1
	Private for-profit	1	0	1	1	0	0
Average number of delinquencies	2.3	1.1	3	0	0.5	2.2	1.4
Average number of deferments	1.3	0	2.5	0	1.7	0	1.1
Average number of forbearances	1.8	0	4.4	0	1.3	0	1.4
Cohort	2008	1	2	4	2	1	1
	2009	3	2	1	4	3	2
	2010	1	1	2	1	3	1
	2011	1	2	1	1	2	1
Completion status	2	3	5	4	6	3	4
Not graduated	4	4	3	3	4	2	4

* Self-reported by the borrower while completing the screener or in-depth telephone interview.

Source: The Trellis Company's administrative data

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Nationally representative data

About the BPS

Restricted-use data from the 2015 Federal Student Aid Supplement for the 2004 Beginning Postsecondary Students (BPS) Longitudinal Study Cohort—a nationally representative sample of first-time postsecondary students who began college in the 2003-04 school year, borrowed federal student loans (from either the direct loan or FFEL program), and entered repayment on those loans within 12 years of beginning college—were used in this report to benchmark the Texas administrative data.⁹⁰ These borrowers are referred to as “national borrowers” in this paper.

The number of semesters a student was enrolled over the 12-year period determined the number of quarters of repayment observed for each borrower. Borrowers enter repayment six months after school enrollment ends. For consistency, to minimize the truncation of borrowers’ loan histories, and to benchmark the Texas data, this analysis limited the sample to borrowers for whom at least five years (20 quarters) of repayment could be observed, which includes borrowers who were in repayment for more than five years and those who completed repayment within five years.

The research team calculated statistics for these borrowers at two points in time: five years after repayment entry (between 2004 and 2011) and the latest point that each borrower appears in the data.

Variation in the number of semesters enrolled and in the time borrowers took to repay their loans contributed to the fact that complete repayment histories were observed for some borrowers (i.e., until their loans were paid off) but only partial histories for others.

Because students in the BPS dataset depart postsecondary education (by dropping out or graduating)—and thus enter repayment—at different times, the research team standardized time in repayment by introducing each borrower to the dataset during the quarter when he or she first entered repayment on any federal student loan.

Other factors also influenced when students exited postsecondary education. For example, those who earned single-year certificates and some who did not complete their programs might have exited in 2004 or 2005 while those who graduated from four-year institutions exited in 2007 or later. In addition, the recession and changing economy during this period affected each student group differently.

Differences between Trellis and BPS data

Variations between the Texas and nationally representative data could have occurred for a host of reasons:

Time period: Although Trellis’ borrowers entered repayment between 2007 and 2011, national borrowers entered repayment between 2004 and 2011, meaning at least some of the national borrowers entered repayment before the recession.

Because the FFEL program stopped issuing new loans in 2010, loans in the Trellis portfolio, like those of other guaranty agencies, have advanced to later stages of the loan cycle compared with direct loans made after 2010. Although the organizational structure of the FFEL and direct loan programs differ, the two programs’ eligibility rules; interest rates; loan limits; and access to grace periods, deferments, and forbearances are nearly identical, suggesting commonality between Trellis borrowers and those in the direct loan program.

Sample: The national data include only first-time undergraduates, while Trellis' data include returning students but are limited to Texas borrowers. The national data do not support measurement of forbearances or delinquencies during a given time frame, and thus, they were left out of the national analysis.

Consolidation: Trellis' borrowers who consolidated their loans were separated from the rest of its portfolio in this analysis. Assuming their trajectory matched their status when they consolidated, 35 percent of them (3.5 percent of all Trellis borrowers) would have owed less after five years in repayment and 65 percent (6.5 percent) would have owed more. National borrowers who consolidated were not removed from the BPS dataset.

Table B.5

Comparisons Between Texas and Nationally Representative Data

Borrower group		After 5 years in repayment	After maximum time observed—up to 12 years in repayment
Defaulters	Texas: Defaulted and did not consolidate	24%	N/A
	National: Defaulted and may have consolidated	26%	32%
	Texas paused-payment: Used a deferment or forbearance before defaulting and did not consolidate	14%	N/A
	National paused-payment: Used a deferment before defaulting and may have consolidated	5%	N/A
	Texas missed-payment: Did not use a deferment or forbearance or consolidate before defaulting	10%	N/A
	National missed-payment: Did not use a deferment before defaulting and may have consolidated	21%	N/A
Balance increasers	Texas: Owed more and did not default or consolidate	21%	N/A
	National: Owed more and did not default but may have consolidated	14%	8%
Balance decreaseers	Texas: Owed less and did not default or consolidate	45%	N/A
	National: Owed less and did not default but may have consolidated	60%	60%
	Texas uninterrupted: Never had a delinquency, forbearance, or deferment and did not consolidate	22%	N/A
	National uninterrupted: Never had a deferment but may have consolidated	28%	N/A
	Texas paused-payment: Used a deferment or forbearance and did not consolidate	20%	N/A
	Texas missed-payment: Did not use a deferment of forbearance and did not consolidate	3%	N/A
Consolidators	Texas	10%	N/A
	National	18%	N/A

Sources: The Trellis Company's administrative data and the 2015 Federal Student Aid Supplement for the 2004 Beginning Postsecondary Students Longitudinal Study Cohort

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Endnotes

- 1 The total student loan holders figure includes direct, FFEL program, and Perkins loans. The total borrowers in default figure includes direct and FFEL program loans; borrowers with both may have been counted more than once. The yearly default figure includes direct loans during fiscal years 2015-18. While technical default occurs after 270 days of missed payments, these figures measure default after 360 days of nonpayment. U.S. Department of Education, Office of Federal Student Aid, "Federal Student Loan Portfolio," accessed August 2019, <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>; and U.S. Department of Education, Office of Federal Student Aid, "Default Rates," accessed August 2019, <https://studentaid.ed.gov/sa/about/data-center/student/default>.
- 2 U.S. Department of Education, Office of Federal Student Aid, "Understanding Delinquency and Default," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/default>; N. Dalal and J. Thompson, "The Self-Defeating Consequences of Student Loan Default" (2018), The Institute for College Access and Success, <https://ticas.org/content/pub/self-defeating-consequences-student-loan-default>; J.D. Delisle, P. Cooper, and C. Christensen, "Federal Student Loan Defaults: What Happens After Borrowers Default and Why" (2018), American Enterprise Institute, <http://www.aei.org/publication/federal-student-loan-defaults-what-happens-after-borrowers-default-and-why/>; K. Blagg, "Underwater on Student Debt" (2018), Urban Institute, https://www.urban.org/research/publication/underwater-student-debt/view/full_report; U.S. Department of Housing and Urban Development, "FHA Single Family Housing Policy Handbook 4000.1" (2019), https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1.
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- 4 Those who defaulted again did so on a new or existing loan. In addition, in a 2016 report, the Consumer Financial Protection Bureau estimated that, "in the last year, more than 650,000 student loan borrowers rehabilitated a defaulted federal student loan" and projected that "over the next 24 months ... more than 220,000 of these borrowers will default for a second time." Delisle, Cooper, and Christensen, "Federal Student Loan Defaults"; Consumer Financial Protection Bureau, "Annual Report of the CFPB Student Loan Ombudsman: Transitioning From Default to an Income-Driven Repayment Plan" (2016), http://files.consumerfinance.gov/f/documents/102016_cfpb_Transmittal_DFA_1035_Student_Loan_Ombudsman_Report.pdf.
- 5 A. Looney and C. Yannelis, "Most Students With Large Loan Balances Aren't Defaulting. They Just Aren't Reducing Their Debt" (2018), Brookings Institution, <https://www.brookings.edu/research/most-students-with-large-loan-balances-arent-defaulting-they-just-arent-reducing-their-debt/>; M. Brown et al., "Payback Time? Measuring Progress on Student Debt Repayment," Liberty Street Economics, New York Federal Reserve Bank, Feb. 20, 2015, https://libertystreeteconomics.newyorkfed.org/2015/02/payback_time_measuring_progress_on_student_debt_repayment.html.
- 6 Recent research indicates that the typical borrower who defaults remains in default for nearly three years—and 70 percent of those who default are able to return their loans to good standing within five years of defaulting—making it possible that some loans were returned to good standing during the study period but were not counted as such in this analysis. Under certain circumstances, borrowers may consolidate a single loan. Delisle, Cooper, and Christensen, "Federal Student Loan Defaults"; U.S. Department of Education, Office of Federal Student Aid, "What Are the Requirements to Consolidate a Loan?" accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/consolidation#requirements>.
- 7 Although federal student loans make up most of the postsecondary education financing market, private loans were more common during the earlier years analyzed in this study than they are today. The College Board, "Trends in Student Aid 2018" (2018), <https://trends.collegeboard.org/student-aid>; and the College Board, "Percentage of Undergraduate and Graduate Students Borrowing Private Loans Over Time," accessed January 2019, <https://trends.collegeboard.org/student-aid/figures-tables/percentage-undergraduate-and-graduate-students-borrowing-private-loans-over-time>.
- 8 Borrowers in this study did not necessarily remain in Texas after leaving school.
- 9 When interviewed, borrowers had been in repayment for six to 10 years. Borrowers were not asked to differentiate their loans in the interviews, and thus, those who held multiple types of loans might have been reporting on federal or private loans.

- 10 Since the FFEL program discontinued new loans in 2010, loans in the Trellis portfolio, like those of other guaranty agencies, have advanced to later stages of the loan cycle. U.S. Department of Education, Office of Federal Student Aid, "Federal Student Loan Portfolio"; U.S. Department of Education, Office of Federal Student Aid, "What Types of Federal Student Loans Are Available?" accessed January 2019, <https://studentaid.ed.gov/sa/types/loans>.
- 11 In academic year 2004-05, when many loans that entered repayment during the study period would probably have originated, 66 percent of financial aid dollars in Texas came in the form of loans, compared with 56 percent of all financial aid dollars. This pattern remained largely unchanged through 2011. (See Appendix B for more information about Texas borrowers.)
- 12 H. Schwandt, "Recession Graduates: The Long-Lasting Effects of an Unlucky Draw" (2019), Stanford Institute for Economic Policy Research, <https://siepr.stanford.edu/sites/default/files/publications/PolicyBrief-Apr2019.pdf>; E. Schmidt, "Postsecondary Enrollment Before, During, and Since the Great Recession" (2018), U.S. Census Bureau, <https://www.census.gov/library/publications/2018/demo/p20-580.html>; J. Godofsky, C. Zukin, and C. Van Horn, "Unfulfilled Expectations: Recent College Graduates Struggle in a Troubled Economy" (2011), Work Trends, John J. Heldrich Center for Workforce Development, Rutgers University, <http://heldrich.rutgers.edu/products/unfulfilled-expectations-recent-college-graduates-struggle-troubled-economy>.
- 13 These firms are under contract to the U.S. Department of Education.
- 14 U.S. Department of Education, Office of Federal Student Aid, "What's a Grace Period?" accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/understand#grace-period>.
- 15 U.S. Department of Education, Office of Federal Student Aid, "Choose the Federal Student Loan Repayment Plan That's Best for You," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/understand/plans>.
- 16 Borrowers who consolidate can repay over 30 years. U.S. Department of Education, Office of Federal Student Aid, "Choose the Federal Student Loan Repayment Plan."
- 17 Among the available income-driven plans, borrowers with FFEL program loans are generally only eligible for the Income-Based Repayment Plan and the Income-Sensitive Repayment Plan unless they consolidate their loans into the direct loan program. In addition, FFEL program borrowers are not eligible for Public Service Loan Forgiveness—a federal program that discharges loans after 10 years of qualifying payments for borrowers working in the public sector—unless they consolidate their loans into the direct loan program. U.S. Department of Education, Office of Federal Student Aid, "Income-Driven Plans," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven#eligible-loans>; U.S. Department of Education, Office of Federal Student Aid, "If Your Federal Student Loan Payments Are High Compared to Your Income, You May Want to Repay Your Loans Under an Income-Driven Repayment Plan," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven#pros-cons>; U.S. Department of Education, Office of Federal Student Aid, "Choose the Federal Student Loan Repayment Plan."
- 18 The Department of Education reports that it currently processes approximately 29 million deferments and 40 million forbearances annually. U.S. Department of Education, Office of Federal Student Aid, "NextGen Business Process Operations, Amendment 4" (July 2019), https://www.fbo.gov/index?s=opportunity&mode=form&id=35d5548a58fd3c8ec1841e6a4438bba2&tab=core&_cview=1; U.S. Department of Education, Office of Federal Student Aid, "A Deferment or Forbearance Allows You to Temporarily Stop Making Your Federal Student Loan Payments or to Temporarily Reduce the Amount You Pay," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance>.
- 19 This study examined borrowers with subsidized and unsubsidized loans. Thirty percent of Trellis borrowers had only subsidized loans, which do not accrue interest while the borrower is in school at least half-time, during the six-month grace period, and during periods of deferment. In general, interest does accrue on subsidized loans during forbearances. In contrast, interest typically accrues on unsubsidized loans during school, the grace period, and periods of deferment and forbearance.
- 20 Less than 1 percent of Trellis' Texas sample had deferments that were not for returning to school, unemployment, or hardship.
- 21 Certain borrowers may be eligible for a range of deferments or forbearances, some of which may not be time-limited. U.S. Department of Education, Office of Federal Student Aid, "A Deferment or Forbearance"; U.S. Government Accountability Office, "Federal Student Loans: Actions Needed to Improve Oversight of Schools' Default Rates" (2018), <https://www.gao.gov/products/GAO-18-163>.
- 22 U.S. Department of Education, Office of Federal Student Aid, "What Is Capitalization and How Does It Relate to Interest?" accessed January 2019, <https://studentaid.ed.gov/sa/types/loans/interest-rates#capitalization>.
- 23 Borrowers are also considered delinquent—and can eventually default—when they make partial payments. U.S. Department of Education, Office of Federal Student Aid, "Don't Ignore Your Student Loan Payments or You'll Risk Going Into Default," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/default>.
- 24 "Filing a claim" refers to the servicer notifying the guarantor that the maximum statutorily defined delinquency period has ended. In the direct loan program, instead of filing a claim, the servicer transfers the loan back to the Department of Education's Debt Management Collection System (DMCS), which then generally assigns it to a private collection agency. Borrowers can make payments during the transfer period to avoid being sent to collections.

- 25 Although Texas defaulters did not consolidate their loans during the study period, similar national borrowers might have done so. If Texas consolidators went on to default within five years of entering repayment, the Texas figure underestimates total defaults.
- 26 In this paper, borrowers are counted as “graduated” when they complete any degree or program.
- 27 A. Looney and C. Yannelis, “A Crisis in Student Loans? How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults” (2015), Brookings Institution, <https://www.brookings.edu/bpea-articles/a-crisis-in-student-loans-how-changes-in-the-characteristics-of-borrowers-and-in-the-institutions-they-attended-contributed-to-rising-loan-defaults/>; S.M. Dynarski, “The Trouble with Student Loans? Low Earnings, Not High Debt” (2016), Brookings Institution, <https://www.brookings.edu/research/the-trouble-with-student-loans-low-earnings-not-high-debt/>; Scott-Clayton, “The Looming Student Loan Default Crisis.”
- 28 A small percentage of Texas borrowers used only an in-school deferment before defaulting. Most also used hardship deferments or forbearances.
- 29 Five percent of national borrowers used a deferment before defaulting. This figure underestimates the percentage of borrowers who paused payments before defaulting because it does not include those using forbearances.
- 30 The issue of borrowers, schools, and servicers using or encouraging forbearance has been widely discussed in the field. For example, in 2015 focus groups, borrowers reported that features built into the federal loan system made it easy to pause payments and indicated that it was simple to use forbearance when experiencing financial distress. Participants said that “their loan servicer informed them about the availability of forbearance and they had little difficulty enrolling in it.” Some mentioned learning about the option of pausing payments from mortgage brokers or the Internal Revenue Service.

In a 2018 report, the U.S. Government Accountability Office (GAO) indicated that some schools have used consultants to help manage their three-year cohort default rates and that some of these consultants encouraged struggling borrowers to use forbearances “over other potentially more beneficial options for helping borrowers avoid default, such as repayment plans that base monthly payments on income.” (For additional information about cohort default rates, see Appendix B.) The Department of Education’s Office of Federal Student Aid (FSA) did not concur with all of GAO’s recommendations, noting the limited scope of GAO’s analysis and that borrowers can incur additional interest costs while in both forbearance and income-driven plans, among other concerns.

Finally, a 2019 report from the Department of Education’s Office of the Inspector General indicated that, “from January 2015 through September 2017, monthly reports from FSA’s monitoring activities disclosed recurring instances at all servicers of servicer representatives not sufficiently informing borrowers about available repayment options.” In its reply, FSA indicated that neither the report nor additional oversight efforts “have identified material instances of noncompliance by our vendors.” J. Delisle and A. Holt, “Why Student Loans Are Different” (2015), New America, https://static.newamerica.org/attachments/2358-why-student-loans-are-different/StudentLoansAreDifferent_March11_Updated.e7bf17f703ad4da299fad650f47ac343.pdf; FDR Group, “Taking Out and Repaying Student Loans: A Report on Focus Groups With Struggling Student Loan Borrowers” (2015), https://static.newamerica.org/attachments/2358-why-student-loans-are-different/FDR_Group_Updated.dc7218ab247a4650902f7afd52d6cae1.pdf; U.S. Government Accountability Office, “Federal Student Loans: Actions Needed”; U.S. Department of Education, Office of Inspector General, “Federal Student Aid: Additional Actions Needed to Mitigate the Risk of Servicer Noncompliance with Requirements for Servicing Federally Held Student Loans” (2019), <https://www2.ed.gov/about/offices/list/oig/auditreports/fy2019/a05q0008.pdf>.

- 31 Throughout this paper, median total days does not necessarily indicate consecutive days.
- 32 This finding is consistent with other recent research. For example, one paper indicates that “a significant portion of defaulters (43.3 percent) do not postpone their payments using deferment or forbearance or make a payment before going into default.” C. Campbell and N. Hillman, “A Closer Look at the Trillion: Borrowing, Repayment, and Default at Iowa’s Community Colleges” (2015), Association of Community College Trustees, https://www.acct.org/files/Publications/2015/ACCT_Borrowing-Repayment-Iowa_CCs_09-28-2015.pdf.
- 33 While some quotes included throughout this report might indicate a misunderstanding of the repayment process, we include this information because perceptions play a role in borrower decision-making.
- 34 U.S. Government Accountability Office, “Federal Student Loans: Education Could Improve Direct Loan Program Customer Service and Oversight” (2016), <https://www.gao.gov/assets/680/677159.pdf>; 34 CFR § 682.411; Common Manual Unified Student Loan Policy, accessed July 2019, <http://commonmanual.org/>.

- 35 A recent analysis from the U.S. Government Accountability Office noted that outbound calls from servicers to borrowers are far more prevalent than inbound calls from borrowers to servicers: One servicer indicated that it makes over 60 times more outbound calls than it receives inbound calls. The report indicated that “some outbound calls result in a servicer leaving a message rather than having direct contact with a borrower,” and outbound calls are often made to borrowers who are delinquent and at risk of default. In another analysis, GAO found that some borrowers could “have difficulty obtaining information to manage their loans and be more at risk for delinquency or default.” In its response, the Department of Education’s Office of Federal Student Aid generally concurred with the report’s findings and recommendations and noted a number of steps it has taken to enhance customer service. U.S. Government Accountability Office, “Federal Student Loans: Key Weaknesses Limit Education’s Management of Contractors” (2015), <https://www.gao.gov/products/GAO-16-196T>; U.S. Government Accountability Office, “Federal Student Loans: Education Could Improve.”
- 36 U.S. Department of Education, Office of Federal Student Aid, “Don’t Ignore Your Student Loan Payments.”
- 37 Most direct loans remain with the servicer between 271 and 360 days past due. Loans are then transferred back to the Department of Education’s DMCS, which then generally assigns them to a private collection agency. Borrowers can make payments during the transfer period to avoid being sent to collections. Postsecondary National Policy Institute, “Issue Primers: Federal Student Loan Servicing” (January 2019), <http://pnpi.org/federal-student-loan-servicing/>; Delisle, Cooper, and Christensen, “Federal Student Loan Defaults”; U.S. Department of Education, Office of Federal Student Aid, “Collections,” accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/default/collections>.
- 38 Delisle, Cooper, and Christensen, “Federal Student Loan Defaults”; U.S. Department of Education, Office of Federal Student Aid, “In Some Cases, You Can Have Your Federal Student Loan Discharged After Declaring Bankruptcy,” accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/bankruptcy>.
- 39 Payments are equal to 15 percent of a borrower’s annual discretionary income divided by 12.
- 40 U.S. Department of Education, Office of Federal Student Aid, “Don’t Get Discouraged if You’re in Default on Your Federal Student Loan,” accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/default/get-out#loan-rehab>.
- 41 Ibid.
- 42 U.S. Government Accountability Office, “Social Security Offsets: Improvements to Program Design Could Better Assist Older Student Loan Borrowers With Obtaining Permitted Relief” (2016), <https://www.gao.gov/products/GAO-17-45>; U.S. Department of Education, Office of Federal Student Aid, “Collections.”
- 43 Delisle, Cooper, and Christensen, “Federal Student Loan Defaults”; U.S. Department of Education, Office of Federal Student Aid, “Loan Servicing and Collection: Frequently Asked Questions,” accessed January 2019, <https://ifap.ed.gov/LoanServicingandCollectionInfo/LSCFAQ.html>; U.S. Government Accountability Office, “Social Security Offsets.”
- 44 Delisle, Cooper, and Christensen, “Federal Student Loan Defaults”; U.S. Department of Education, Office of Federal Student Aid, “In Certain Situations, You Can Have Your Federal Student Loan Forgiven, Canceled, or Discharged,” accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation>.
- 45 Here, “intending to apply” refers to accruing qualifying payments toward Public Service Loan Forgiveness. Borrowers can resume making qualifying payments once they exit default. However, borrowers’ histories of making qualifying payments are erased and they must start over when they consolidate their loans. FFEL program loans are not eligible for Public Service Loan Forgiveness. U.S. Department of Education, Office of Federal Student Aid, “Public Service Loan Forgiveness,” accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service>.
- 46 U.S. Department of Education, Office of Federal Student Aid, “Understanding Delinquency and Default”; Dalal and Thompson, “The Self-Defeating Consequences”; Delisle, Cooper, and Christensen, “Federal Student Loan Defaults”; Blagg, “Underwater on Student Debt”; U.S. Department of Housing and Urban Development, “FHA Single Family Housing Policy Handbook.”
- 47 U.S. Department of Education, Office of Federal Student Aid, “Understanding Delinquency and Default.”
- 48 Blagg, “Underwater on Student Debt.”
- 49 U.S. Department of Education, Office of Federal Student Aid, “Don’t Ignore Your Student Loan Payments.”
- 50 U.S. Department of Education, Office of Federal Student Aid, “Collections”; and Dalal and Thompson, “The Self-Defeating Consequences.”
- 51 There are current efforts at both the federal and state levels to remove this consequence of student loan default. Dalal and Thompson, “The Self-Defeating Consequences”; R Street Institute, “How States Use Occupational Licensing to Punish Student Loan Defaults” (2018), <https://www.rstreet.org/2018/06/27/how-states-uses-occupational-licensing-to-punish-student-loan-defaults/>.
- 52 C. Wilson, “Delinquent Consumer Debt Leading Cause for Security Clearance Denials,” Inside Arm, Sept. 3, 2010, <https://www.insidearm.com/news/00027585-delinquent-consumer-debt-leading-cause-fo/>; Consumer Financial Protection Bureau, “Office of Servicemember Affairs: Annual Report” (2019), https://files.consumerfinance.gov/f/documents/cfpb_osa_annual-report_2018.pdf; and Dalal and Thompson, “The Self-Defeating Consequences.”

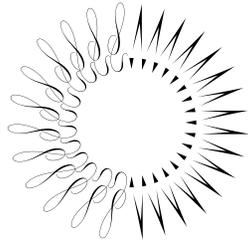
- 53 Although Texas balance increasers did not consolidate their loans during the study period, national borrowers who owed more after five years might have done so. If Texas consolidators had larger balances after five years than when they started repaying, the Texas figure underestimates the total percentage of balance increasers. This figure is probably lower at the national level because of differences in when borrowers were measured and the compositions of the datasets. (For more information, see Appendix B.)
- 54 Additional demographic information is included in Appendix A.
- 55 In its model, GAO assumed a 10-year loan term and an interest rate of 5.7 percent. In its response to the GAO report, the Department of Education's Office of Federal Student Aid noted that borrowers can incur additional interest costs while in forbearance and income-driven plans. U.S. Government Accountability Office, "Federal Student Loans: Actions Needed."
- 56 This was especially true at two-year colleges and among those who had already been in the workforce. Schmidt, "Postsecondary Enrollment Before, During, and Since the Great Recession."
- 57 U.S. Department of Education, Office of Federal Student Aid, "Subsidized and Unsubsidized Loans," accessed January 2019, <https://studentaid.ed.gov/sa/types/loans/subsidized-unsubsidized>.
- 58 Some of these borrowers may have been enrolled in an income-driven repayment plan and been making payments that did not keep up with the interest that accrued. Borrowers in income-driven plans might also have been using deferments or forbearances, particularly if they missed their recertification deadlines.
- 59 Current borrowers' greater access to and higher levels of enrollment in income-driven plans might increase the share with growing balances over longer periods of time. However, under newer income-driven plans, the government may pay all or a portion of accrued interest that is due each month for a specified period of time. The specific interest benefit varies depending on the plan and type of loan. U.S. Department of Education, Office of Federal Student Aid, "Do You Have Questions About the Different Types of Income-Driven Repayment Plans?" accessed August 2019, <https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven/questions>; Looney and Yannelis, "Most Students with Large Loan Balances."
- 60 Although Texas balance decreasers did not consolidate their loans during the study period, national borrowers who owed less after five years might have done so. If Texas consolidators had smaller balances after five years than when they started repaying, the Texas figure underestimates the total percentage of balance decreasers.
- 61 Additional demographic information is included in Appendix A.
- 62 Twenty-eight percent of national borrowers owed less after five years in repayment and never used a deferment. This figure overestimates the percentage of borrowers who did not miss or pause payments because it does not include those using forbearances or who missed payments.
- 63 Only 19 of the 78,685 Texas paused-payment decreasers had not missed or paused payments except for an in-school deferment. Most also used hardship deferments or forbearances.
- 64 For example, in a letter to the Consumer Financial Protection Bureau, Navient indicated that "borrowers tend to go into early delinquencies frequently but most resolve before there is any detrimental effect" and that "the challenge is ... finding the borrowers in early delinquency who are most at risk of moving into more serious delinquency and default." J. Remondi, president and chief executive officer, Navient, letter to M. Jackson, Office of the Executive Secretary, Consumer Financial Protection Bureau, "Request for Information Regarding Student Loan Borrower Communications," June 12, 2016, <https://news.navient.com/static-files/f378cb51-5d48-45ae-9f4b-a5fcf304bf55>.
- 65 Among consolidators, the time to consolidation varied: 31 percent consolidated by the end of the second year in repayment, 26 percent by the end of the third year, 23 percent by the end of the fourth year, and 20 percent by the end of the fifth year. Sixty-five percent of these borrowers owed more when they consolidated than when they entered repayment, and 35 percent owed less.
- 66 In general, these benefits would be available if borrowers consolidated to transfer their loans from the FFEL program to the direct loan program. U.S. Department of Education, Office of Federal Student Aid, "Should I Consolidate My Loans?" accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/consolidation#should-i>.
- 67 For one example, see Scott-Clayton, "The Looming Student Loan Default Crisis."
- 68 U.S. Department of Education, Office of Federal Student Aid, "Loan Servicing Contracts," accessed January 2019, <https://studentaid.ed.gov/sa/about/data-center/business-info/contracts/loan-servicing>.
- 69 U.S. Government Accountability Office, "Federal Student Loans: Key Weaknesses"; U.S. Department of Education, Office of Federal Student Aid, "Loan Servicing Contracts."
- 70 U.S. Department of Education, "U.S. Department of Education Announces Vision to Transform Federal Student Aid, Improve Customer Service" news release, Nov. 29, 2017, <https://www.ed.gov/news/press-releases/us-department-education-announces-vision-transform-federal-student-aid-improve-customer-service>.

- 71 For example, the Department of Education's Office of Federal Student Aid estimates its contractors receive around 48 million inbound calls per year but initiate close to 309 million outbound calls annually. U.S. Department of Education, Office of Federal Student Aid, "NextGen Business Process Operations, Amendment 4."
- 72 In addition to exiting default through consolidation and rehabilitation, others exit through full repayment. While debt collectors use more time- and resource-intensive tactics to find borrowers, importantly, they cannot and do not rehabilitate every loan. For example, a recent document from the Department of Education indicates that "approximately 67 percent of borrowers had no recoveries on their defaulted loans in fiscal year 2018." In general, if the borrower consolidated into an income-driven repayment plan, the collection fees charged will be \$150, unless that exceeds 18.5 percent of combined principal and interest. U.S. Department of Education and U.S. Senator Patty Murray (D-WA), "Questions Submitted by Senator Patty Murray" (March 2019), <https://www.help.senate.gov/imo/media/doc/SenMurrayQFRresponses32819LHHShearing.pdf>; U.S. Department of Education, Office of Federal Student Aid, "Getting Out of Default," accessed January 2019, <https://studentaid.ed.gov/sa/repay-loans/default/get-out>; U.S. Department of Education, Office of Federal Student Aid, "Private Collection Agency Contracts," accessed January 2019, <https://studentaid.ed.gov/sa/about/data-center/business-info/contracts/collection-agency>; Delisle, Cooper, and Christensen, "Federal Student Loan Defaults"; U.S. Department of Education, Office of Federal Student Aid, "Loan Servicing Contracts."
- 73 Interviewed Texas borrowers, as well as borrowers in focus groups conducted by other researchers, indicated that these tools were readily available in times of financial stress. Delisle and Holt, "Why Student Loans Are Different."
- 74 Campbell and Hillman, "A Closer Look at the Trillion"; C. Campbell and I. Love, "Lost in the Trillion: A Three-State Comparison of Community College Borrowing and Default," Association of Community College Trustees (2017), https://www.acct.org/files/Publications/2017/ACCT_Louisiana_Kentucky_Report_05-04-2017.pdf.
- 75 U.S. Department of Education, "Sample Data on IDR Recertification Rates for ED-Held Loans" (2014), <https://www2.ed.gov/policy/highered/reg/hearulemaking/2015/payee2-recertification.pdf>.
- 76 D. Herbst, "Liquidity and Insurance in Student Loan Contracts: The Effects of Income-Driven Repayment on Borrower Outcomes" (2019), https://drive.google.com/file/d/1A-gq_LlqffY6r2gDtUK9-Y3ZV8Go6SU/view.
- 77 According to the Department of Education, the method used to make this calculation "is designed to show how borrowers are affected by the different repayment plans," which is how it is being used here. This method is not used to assess the costs of income-driven plans to the government. U.S. Department of Education, "President's FY 2020 Budget Request for the U.S. Department of Education, Student Loans Overview," accessed July 2019, <https://www2.ed.gov/about/overview/budget/budget20/justifications/index.html>.
- 78 Blagg, "Underwater on Student Debt"; Delisle and Holt, "Why Student Loans Are Different."
- 79 The Pew Charitable Trusts, "Are American Families Becoming More Financially Resilient? Changing Household Balance Sheets and the Effects of Financial Shocks" (2017), <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/04/are-american-families-becoming-more-financially-resilient#0-overview>; The Pew Charitable Trusts, "How Do Families Cope With Financial Shocks? The Role of Emergency Savings in Family Financial Security" (2015), <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2015/10/the-role-of-emergency-savings-in-family-financial-security-how-do-families>; The Pew Charitable Trusts, "How Income Volatility Interacts With American Families' Financial Security: An Examination of Gains, Losses, and Household Economic Experiences" (2017), <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2017/03/how-income-volatility-interacts-with-american-families-financial-security>.
- 80 However, under newer income-driven plans, the government may pay all or a portion of accrued interest that is due each month for a specified period of time. The specific interest benefit varies depending on the plan and type of loan. U.S. Department of Education, Office of Federal Student Aid, "Do You Have Questions."
- 81 For example, the Department of Education creates the Cost Estimation and Analysis Division's Statistical Abstract (CEAD-STAB). M. Soldner and C. Campbell, "Using—and Improving—Federal Student Aid Data Systems to Support Policy Analysis" (2016), http://www.ihep.org/sites/default/files/uploads/postsecdata/docs/resources/using_and_improving_fsa_data_systems.pdf; Postsecondary Data Collaborative, Institute for Higher Education Policy, letter to J. King, secretary of education, Oct. 25, 2016, <http://www.ihep.org/sites/default/files/uploads/postsecdata/docs/resources/finaldraftfsaletter.pdf>.
- 82 Comparisons in this section are to the data sources indicated in endnotes and not the national dataset.
- 83 Fifty-five percent of Texas borrowers attended four-year public universities compared with 34 percent of all students, and 7 percent of Texas borrowers attended for-profit colleges compared with 29 percent of all students. These figures are the average of all the study years for the Trellis data and the U.S. Department of Education cohort data by school, using the same years as used for the Trellis data. This mix results from enrollment patterns in Texas and a greater customer loyalty from public universities to Trellis, its state-designated guarantor. The educational experience, demographics, and financial outcomes of students vary by school sector and contribute to different repayment patterns.
- 84 U.S. Census Bureau, "Table H-8: Median Household Income by State," retrieved from Historical Income Tables: Households, accessed January 2019, <https://www.census.gov/data/tables/time-series/demo/income-poverty/historical-income-households.html>.

- 85 Texas Guaranteed Student Loan Corporation (now Trellis Company), "State of Student Aid and Higher Education in Texas" (2006); Texas Guaranteed Student Loan Corporation (now Trellis Company), "State of Student Aid and Higher Education in Texas" (2008); Texas Guaranteed Student Loan Corporation (now Trellis Company), "State of Student Aid and Higher Education in Texas" (2010); Texas Guaranteed Student Loan Corporation (now Trellis Company), "State of Student Aid and Higher Education in Texas" (2011).
- 86 Schools with a small number of borrowers who entered repayment may not have published rates.
- 87 For example, because the cohort default rate tracks borrower behavior for only the first three years of repayment, borrowers who default after the third year are not reflected. In addition, the cohort default rate does not contain detailed information about the number of borrowers who use tools to delay payments and counts borrowers in deferment and forbearance as current on their loans. K. Carey, "Student Debt Is Worse Than You Think," *The New York Times*, Oct. 7, 2015, https://www.nytimes.com/2015/10/08/upshot/student-debt-is-worse-than-you-think.html?_r=0; P. Combe and J. Ryder Lammers, "Missing Data: Focusing on the Wrong Factors Could Contribute to Student Loan Distress," *Suffolk University Law Review* 48, book 3 (2015): 599, http://suffolklawreview.org/wp-content/uploads/2016/02/Combe_Article_48-3.pdf.
- 88 U.S. Government Accountability Office, "Federal Student Loans: Actions Needed."
- 89 Because cohort default rates vary by school sector, the mix of loans will shape the overall cohort default rate for the guarantor.
- 90 For additional information about this dataset and these methods, see: <https://www.pewtrusts.org/-/media/assets/2019/10/the-long-journey-through-student-loan-repayment.pdf>.

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