



# Borrowers Discuss the Challenges of Student Loan Repayment

Focus group participants express gratitude for their education, frustration over unaffordable payments and rising balances



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# The Pew Charitable Trusts

**Susan K. Urahn**, *executive vice president*

**Travis Plunkett**, *senior director*

## Team members

**Sarah Sattelmeyer**, *project director*

**Brian Denten**, *senior associate*

**Spencer Orenstein**, *principal associate*

**Jon Remedios**, *associate*

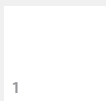
**Rich Williams**, *officer*

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**Contact:** Esther Rege Berg, communications officer **Email:** [eberg@pewtrusts.org](mailto:eberg@pewtrusts.org)

**Project website:** [pewtrusts.org/studentborrowersuccess](http://pewtrusts.org/studentborrowersuccess)

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# Overview

In a 2019 poll conducted by the opinion and market research company SSRS for The Pew Charitable Trusts, 7 in 10 Americans said that taking out a student loan is a reasonable choice given the benefits of a college degree, but 89 percent also expressed concern about people's ability to repay those debts. And they have reason to worry: Nearly 20 percent of the nation's 43 million federal student loan borrowers are in default—which is typically defined as having gone at least 270 days without a payment—and millions more are behind on their payments.<sup>1</sup>

Research has provided insight into the characteristics of borrowers who have the most difficulty repaying their student loans, but less is known about why they struggle and about their personal experiences with the repayment process. This knowledge gap makes it difficult for policymakers to get a full picture of why some people successfully navigate the repayment system while others fall off track, or to readily identify which current policies might not be working as intended and what reforms are needed to better support borrowers.

This report seeks to illuminate these issues by analyzing the responses provided during 16 focus groups, conducted by Pew in eight cities with more than 150 student loan borrowers, in late 2018 and early 2019. The researchers sorted participants into four categories, based on self-reported information about their experiences in repayment (see "About the Analysis" and Appendix B for more information): People who were **on track** to repay their student loans; those who were not on track to repay, regardless of the size of their balances (**general, off track**); those who were off track and had balances of \$40,000 or more (**high balance, off track**); and people who were off track and had balances of \$10,000 or less (**low balance, off track**). The research team conducted four focus groups with each category of borrower.

Taken together, these focus groups suggest that many participants found the repayment system difficult to navigate, experienced a number of challenges paying down their loans, and did not receive—or were not able to access—prompt and sustained relief, especially when they were financially stressed. Borrowers in these groups experienced a level of anxiety and frustration about their balance sheets. For example, they felt like they could not get ahead on their payments and were forced to make difficult trade-offs to manage their finances. Those who struggled to access longer-term solutions turned instead to shorter-term ones.

Key themes that emerged from the focus groups include:

- **Financial instability was the biggest barrier to repayment among off-track borrowers.** Across off-track categories, borrowers reported wanting, but being unable, to make payments because of other financial difficulties, including unexpected expenses that created ripple effects through their personal balance sheets. These borrowers said they had limited resources and needed to cover costs for transportation, housing, child care, and groceries before paying student loans. Among low-balance, off-track borrowers, these trade-offs were especially severe, and far fewer people in this group reported making payments than other off-track borrowers.
- **Off-track borrowers typically had difficulty early in repayment.** Many reported not feeling prepared to manage repayment and instead learning through trial and error. As a result, some off-track borrowers said they first interacted with their servicers when the servicer reached out after they missed payments. For some, an unexpectedly large first bill, compounded by other financial difficulties, may have contributed to missing payments early in the process.
- **Borrowers consistently faced challenges understanding, enrolling in, and remaining in income-driven plans.** Certain repayment plans, known as income-driven plans, calculate monthly payments based on borrowers' incomes and family sizes. Focus group participants in all categories said the complex application and annual recertification processes for these plans made it difficult to take full advantage of these options.



And though a recently passed federal law has the potential to help streamline enrollment in income-driven plans, other challenges remain. Some participants also reported that they did not know about income-driven plans or said that their payments were or still would be unaffordable, primarily because those borrowers' incomes were volatile or because the plans did not adequately account for other aspects of their balance sheets, such as expenses.

- **Borrowers of all types paused payments, and many did so for far longer than they had initially planned.** Borrowers reported that using deferments and forbearances—tools that allow borrowers to postpone or suspend their payments—was easy and helpful in times of financial stress. And many chose this option over more complicated solutions, such as enrolling in an income-driven plan, especially when they needed immediate repayment relief. Some said they were not eligible for alternatives to suspending payments, and others noted that they were not offered such options. Others said that servicers applied forbearances to their loans to bring their accounts current or facilitate enrollment in income-driven repayment plans. Even participants who said forbearances and deferments had negative long-term consequences, such as substantial growth in the size of their loan balances, often said they felt they had no choice but to keep using those tools.
- **Borrowers reported both positive and negative experiences with servicers.** Some said that working with loan servicers got them the information they needed to understand the repayment system and make decisions and resulted in favorable outcomes. However, others—mainly off-track borrowers—indicated that servicer responses were complex or inconsistent and added to their confusion, and that making repayment changes required multiple phone calls.
- **Growing balances overwhelmed and discouraged off-track borrowers.** Having a growing balance—from interest accrual, capitalization (i.e., the addition of interest to the principal, which increases the amount subject to future interest charges), periods of paused or nonpayment, or income-driven payments that did not cover the accruing interest—created psychological and financial barriers to repayment for many borrowers. The tension between borrowers' desire for lower payments and their frustration at rising balances was especially prevalent in conversations around income-driven repayment plans. In addition, many participants were aggravated by the repayment process because of confusing rules, unaffordable payments, negative interactions with servicers, and impacts on other areas of their financial lives. Many said their monthly payments were out of reach and there was nothing they could do.
- **Participants reported feelings of regret and gratitude about borrowing.** Some borrowers said that their experiences made them unlikely to borrow for future education, that they would have made different college choices, or that they had warned family members against taking out student loans. However, others acknowledged positive aspects, including being able to earn a degree that would have been out of reach without loans, to have the career they wanted, and to provide for their children.

With the student loan repayment system under pressure as more borrowers struggle to repay, the focus group insights into the barriers borrowers face should provide federal policymakers with important guidance as they seek to reform the higher education financing system. These findings, in combination with existing quantitative data, suggest four actions that the U.S. Department of Education and Congress could take to facilitate successful repayment:

- **Ensure that information provided to borrowers is consistent, accurate, relevant, and timely.** Throughout the focus groups, borrowers reported receiving inconsistent information and experiencing confusion, especially around key friction points, such as the transition from school into repayment and enrollment in income-driven repayment plans. The department should facilitate more uniform, effective servicer communications by identifying and requiring that servicers use promising methods for delivering timely

information to borrowers, evaluating outcomes, and making changes as needed.

- **Establish clear standards for servicing and provide oversight to ensure proper implementation.** Standards should include a focus on borrower outcomes—such as reducing rates of delinquency and default—and requirements for outreach to borrowers in periods of transition, such as early in repayment and while using a forbearance or deferment.
- **Help off-track borrowers enroll in affordable plans.** Timely, user-friendly information could guide borrowers through complex decisions. However, Congress and the Department of Education should also take steps to ensure that borrowers face fewer thorny decisions by effectively removing barriers to enrollment into income-driven plans—such as burdensome documentation processes—and transitioning more borrowers into such plans, especially those who are behind on their payments or in prolonged periods of deferment and forbearance.
- **Examine the causes of balance growth within the federal student loan portfolio and potential steps to address them.** Income-driven repayment plans and options for pausing payments provide some needed short- and long-term relief for struggling borrowers, but as rates of balance growth and the number of borrowers in default increase, policymakers should assess the costs and benefits to borrowers and taxpayers and seek solutions.

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 report aims to help illuminate the particular points at which borrowers encounter problems and to identify actions that policymakers can take to promote successful repayment among the millions of Americans with student debt.

## About the analysis

Between December 2018 and January 2019, Pew conducted 16 focus groups with 152 borrowers across eight cities—Alexandria, Virginia; Detroit; Kansas City, Missouri; Memphis, Tennessee; Miami; Phoenix; Portland, Maine; and Seattle. The researchers sorted participants into four somewhat overlapping categories based on self-reported information about their repayment experiences (see Figure 1 and Appendix B):

- **On-track borrowers** never or infrequently struggled to make payments, had not defaulted on a student loan in the past two years, and were or were expected to get on track to repay their loans or have them forgiven. Borrowers in this category had a range of balance sizes.
- **General, off-track borrowers** struggled to make payments most or every month, had defaulted on a student loan in the past two years, or were not on track and did not expect to get on track to repay their loans or have them forgiven. Borrowers in this category had a range of balance sizes.
- **High-balance, off-track borrowers** met the criteria for general, off-track but had original balances above \$40,000.
- **Low-balance, off-track borrowers** met the criteria for general, off-track but had original balances below \$10,000.

The researchers conducted four focus groups with each category of borrowers. The purpose of the focus groups with on-track and general, off-track borrowers was to better understand why some people successfully navigate the repayment system but others fall off track.

Borrowers who owe the least—often less than \$10,000—default at higher rates than those with larger balances,<sup>2</sup>

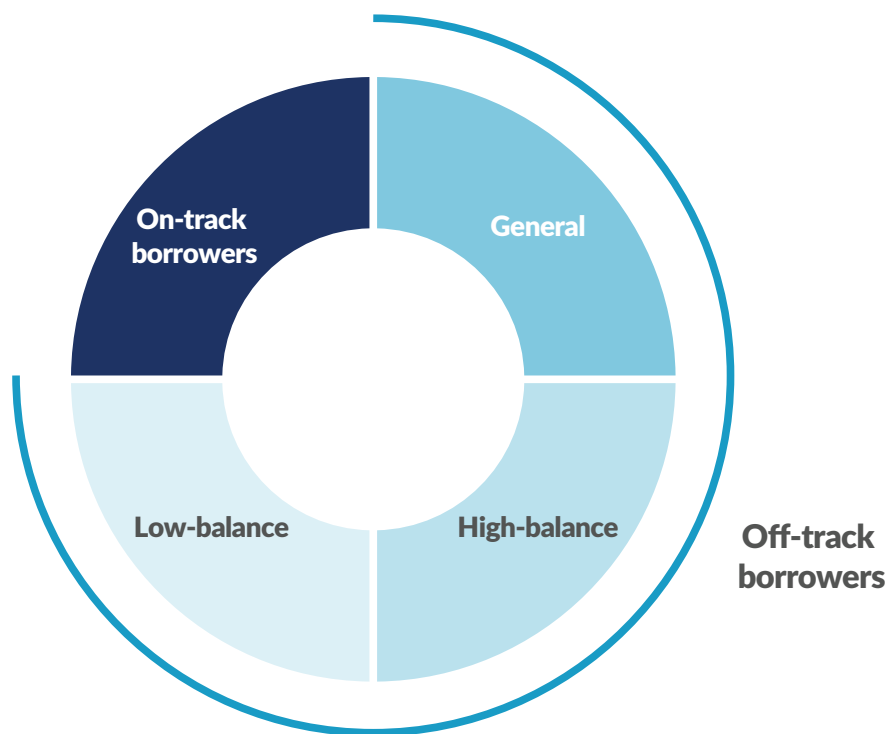


and even people who make payments on time sometimes have negative financial outcomes, such as growing loan balances resulting from payments that do not keep up with the interest that accrues and capitalizes on their loans.<sup>3</sup> (Although many borrowers experience the financial burden of growing balances, those with high balances often feel it acutely, even if they avoid default.) Because of that, Pew conducted focus groups with high- and low-balance, off-track borrowers to better understand the distinct realities each of these groups faces.

Figure 1

## Borrowers Were Sorted Into Four Categories

Four focus groups were conducted with each category



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“On-track” and “off-track” are names the researchers assigned to the categories based on borrowers’ answers to questions on a screening guide and for ease of communicating the results of the study. However, these names do not encompass all aspects of a borrower’s experiences in repayment. For example, some borrowers in the on-track focus groups indicated that they were or had been delinquent on their loans and experienced difficulties repaying, and several in off-track groups indicated that some aspects of the repayment system were working well for them.

This report highlights borrowers’ own words using a selection of borrower quotes, some of which may indicate a misunderstanding of the repayment process. Further, many focus group participants used the terms “deferment” and “forbearance” interchangeably, so they also are used interchangeably in this report. Additional quotes are available in Appendix A.

## Key Elements of Loan Repayment

Most federal student loans are managed by third-party companies, known as servicers. These firms are expected to perform functions, such as collecting payments and helping borrowers select a repayment plan and access tools for pausing payments in accordance with federal rules, regulations, and directions.<sup>4</sup>

### Repayment plans

Borrowers who graduate, drop below half-time enrollment, or leave school automatically get a six-month grace period before their first payments are due.<sup>5</sup> 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.<sup>6</sup> 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 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.<sup>7</sup>

**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.<sup>8</sup> Congress has authorized the Department of Education to forgive any remaining balance after 20 or 25 years of qualifying payments.

### 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.<sup>9</sup>

**Deferment:** Borrowers with certain types of loans may be able to pause their payments and avoid accruing interest during the deferment period.<sup>10</sup> Most borrowers who use deferments do so while enrolled in school or for financial hardship, such as unemployment.

**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 the borrowers can, for example, enroll in income-driven plans.

*Continued on next page*

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.<sup>11</sup> With some types of deferment and many types of forbearance, when the period of suspended payments ends, unpaid interest on the loan capitalizes—that is, is added to the principal and increases the amount subject to interest charges.<sup>12</sup> (See “How Does Interest Accrue and Capitalize on Federal Student Loans?” for additional information about interest accrual and capitalization.)

### **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.<sup>13</sup> Student loan delinquencies are generally reported to national credit bureaus after 90 days of nonpayment. Most loans today remain with the servicer between 271 and 360 days past due. Loans are then transferred back to the Department of Education, which generally assigns them to a private collection agency. Borrowers can make payments during the transfer period to avoid being sent to collections.<sup>14</sup>

In addition, and unlike most other types of debt, federal student loans continue to accrue interest during default and are rarely discharged in bankruptcy.<sup>15</sup>

### **Communication**

In addition to servicers, a variety of entities can contact borrowers about their federal student loans while they are in repayment. For example, those with loans made before 2010 (when the Department of Education became the lender for all new federal loans) might also hear from third-party entities, such as those acting as guarantors for their 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. Others could be contacted by their schools or by consultants that help institutions manage rates of default.<sup>16</sup> And borrowers who are in default are likely to hear from debt collection agencies.

Navigating this web of actors, on top of an already complex repayment system, may contribute to borrowers' broader confusion and the rise of third-party debt relief companies, private firms that offer loan management services for a fee.<sup>17</sup>

## Financial instability was the biggest barrier to repayment among off-track borrowers

Research indicates that the overall state of a family's finances informs how the household manages its individual bills and transactions, and off-track borrowers generally agreed that their repayment challenges were the result of budgets that were already stretched to the breaking point.<sup>18</sup> In addition to earning less money than they anticipated, many off-track borrowers reported experiencing income volatility and financial shocks—such as unemployment, major home or auto repairs, medical expenses, or deaths in the family—that rippled through their finances and hindered their ability to pay on their loans. In addition, borrowers who lived in high-cost metropolitan areas, such as Miami and Seattle, said the cost of living contributed to the unaffordability of their student loan payments.

*If your car breaks down, and it needs repair, are you going to get your car repaired, or are you going to do your student loan? (Detroit general, off-track borrower)*

*We've had lots of medical issues that have come up with me and our little boy. You don't have a choice when that happens. You have to take care of business. (Kansas City high-balance, off-track borrower)*

*I had a couple of really bad events. We had Hurricane Irma. We lost the roof on our house. (Miami high-balance, off-track borrower)*

*I was working as a delivery driver to get \$5 an hour plus whatever if you get tipped. ... We live paycheck to paycheck. (Miami high-balance, off-track borrower)*

*The payments stopped because I didn't have work. ... And so just trying to take care of myself in survival mode. (Seattle low-balance, off-track borrower)*

## Off-track borrowers, regardless of their balance size, reported paying other bills first

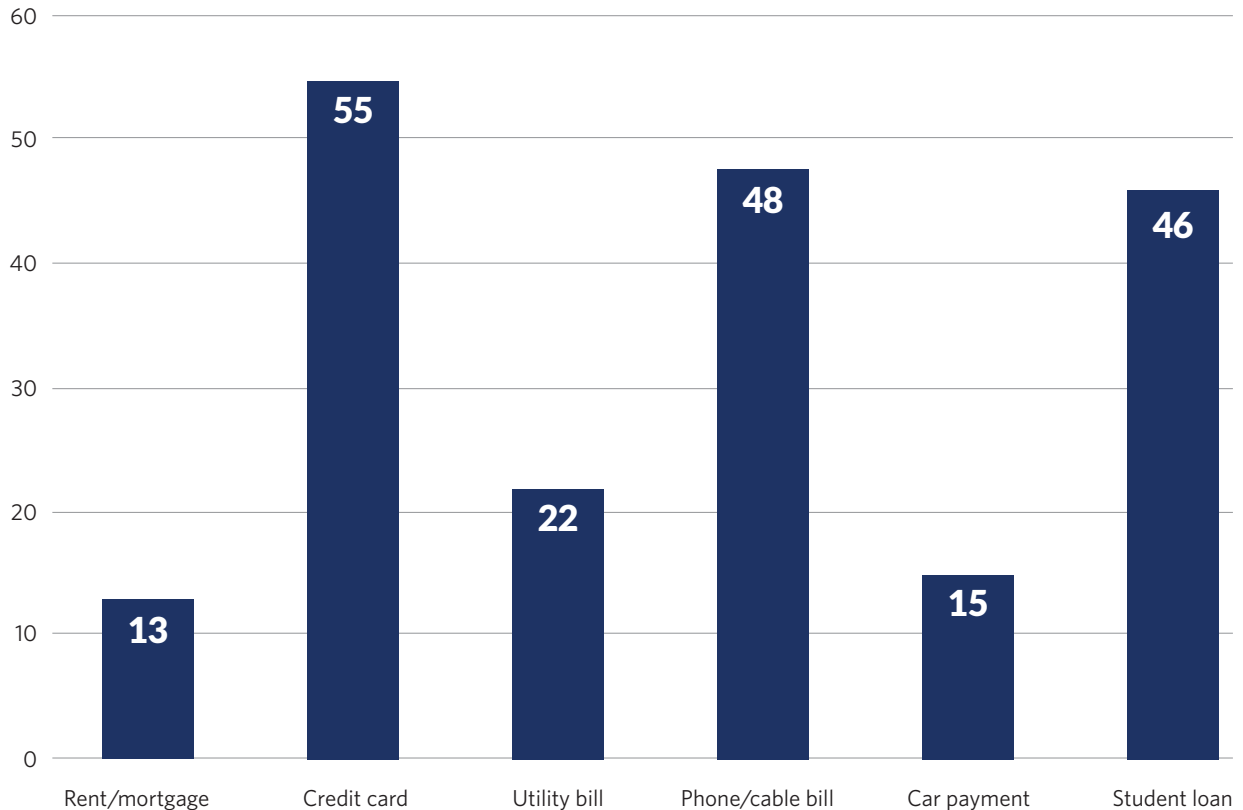
Across categories, off-track borrowers reported having limited resources and paying for transportation, housing, child care, and groceries before student loans, in part because, unlike rent, car, or utility payments, nothing was at risk of being repossessed or shut off when they missed a student loan payment.<sup>19</sup> Further, several focus group participants noted that most other bills do not offer the option to pause payments that is available for student loans.

That borrowers missed student loan payments instead of other types of bills is consistent with findings from previous research. For instance, a 2017 survey found that, among respondents with student loans who said they would struggle to pay their monthly bills in full if faced with a \$400 emergency expense, 46 percent said they would miss or make partial student loan payments in an effort to cover such an expense, compared with 13 percent who said they would skip a rent or mortgage payment and 22 percent who would skip a utility bill.<sup>20</sup> (See Figure 2.)

Figure 2

## Many Borrowers Would Skip or Make a Partial Student Loan Payment to Cover a \$400 Emergency

Percentage who would defer other obligations to cover an unexpected expense, by bill type delayed



Notes: Respondents were asked, “Which of the following bills would you likely skip paying, or make only a partial payment on, if you had a \$400 emergency expense that you had to pay?” This question was asked to respondents who said that they “will be able to pay all of my bills in full” this month but also said that, after a \$400 emergency expense, they “could not pay some other bills or would only make a partial payment on some of them.” Among respondents with student loans, only those who borrowed for their own education are included in these data.

Source: Board of Governors of the Federal Reserve System, “Survey of Household Economics and Decisionmaking: 2017 Survey Data” (2018), [https://www.federalreserve.gov/consumerscommunities/shed\\_data.htm](https://www.federalreserve.gov/consumerscommunities/shed_data.htm)

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These trade-offs were especially severe for low-balance, off-track borrowers, and far fewer people in this group reported making payments than other off-track borrowers.

*Utility bills—those have to be paid. Otherwise, your electricity is going to be cut off. So it’s either do I pay my electricity bill, or do I pay my bill to a college loan? (Miami low-balance, off-track borrower)*

*I started repaying, but things will come up and I’ll be like, do I pay for my child’s day care or do I pay for student loans? Oh, I’m going to pay for day care because I have to get to work. So that’s the end of it. That’s how it is. (Kansas City high-balance, off-track borrower)*

*Am I buy[ing] groceries this month? And am I going to be able to pay my rent? ... It's not thinking in the long term. It's dealing with the issue that's right in front of you. (Portland general, off-track borrower)*

*We're robbing Peter to pay to Paul. It's a juggling act. Like you might delay this, and you might pay your cable a few days late so that you can pay your student loan. ... It's this constant battle of figuring things out to make sure that everybody is paid. (Portland general, off-track borrower)*

*If you don't pay your electric bill, you lose your electricity. ... But student loans, you don't lose anything. You just try and schedule forbearance or deferment. (Seattle low-balance, off-track borrower)*

Failing to repay a student loan can have serious long-term financial consequences. Borrowers 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.<sup>21</sup> For some, fear of these consequences—predominantly damage to credit scores and wage garnishment—or previous experiences with delinquency and default drove them to continue repaying their loans even when they were facing other financial challenges.

*I don't want to ruin my credit or [have them] garnish my wages ... so I just pay. (Miami high-balance, off-track borrower)*

*They tried to garnish. And they'll suspend my license. They send me a whole list of threats, so I finally said, OK. I got to pay this. (Miami low-balance, off-track borrower)*

*My credit is very important to me. And bringing the score up is very important to me. ... I have paid my bills late, but it's still my bill, and I'm going to get to it eventually. (Phoenix low-balance, off-track borrower)*

*I just can't afford to have my credit be hit, because everything's tied into credit, from getting a job to, you know, if I needed to get a car someday, even to being able to rent an apartment, let alone buy a place. ... So, for me, as long as I'm able to, I feel obligated, like forced to pay, even though I might not be putting as much food on my plate in any one given month because of the credit issue. (Seattle high-balance, off-track borrower)*

*It feels good to pay your bills. ... But ultimately, I don't want to get garnished. ... My credit is bad anyway, so I just don't want to get garnished. (Seattle low-balance, off-track borrower)*

Some off-track borrowers reported that when they did have a bit of slack in their budgets, they did things to maintain and support their and their families' economic security and quality of life, such as paying for activities for their children, visiting or sending money to family members, and saving for the future. One Memphis general, off-track borrower indicated that she was “not going to take my [financial] cushion money and pay off my student loans. ... If my refrigerator was to go out, I've got to be able to buy food to feed my family.”

## **Across categories, off-track borrowers reported wanting to make payments**

In many cases, off-track borrowers who had missed or paused student loan payments or who reported needing to pay other bills first said they nevertheless wanted to make their student loan payments.<sup>22</sup> Some even took a second or third job to make up the difference.

*I don't think any of us enter into this thinking, oh, I'm going to go to school, and I'm not going to pay this money. I don't think that was any of our intent. But I definitely thought that I was going to make a substantial amount of money, and this wasn't going to be an issue. (Detroit general, off-track borrower)*



*It's my responsibility to pay it. I racked the bill up getting the degree, so I want to pay it off, but it's like, can I at this price, you know? (Memphis general, off-track borrower)*

*I don't think anybody just doesn't pay on purpose. ... We're responsible society members. If we're not paying something, it's because there's something else that's priority. (Miami high-balance, off-track borrower)*

*I work a full-time, like 9-to-5, corporate job I went to college for, and I also drive Uber. And my Uber money helps pay the student loans. (Miami high-balance, off-track borrower)*

*I have a sense of obligation about my school loans. I didn't take them out just to walk away from them. And they serve a purpose, and I'm driven to repay that. But I also have children and obligations in life. You know, so there's a line there. (Portland general, off-track borrower)*

## **Unlike many off-track borrowers, those who were on track were able to maintain steady incomes and receive help from family and social networks**

On-track borrowers also said that their balance sheets strongly influenced their repayment decisions, although their comments generally indicated that they were delaying major purchases instead of making trade-offs among household expenses. Some said the payments were not a burden, while others noted that paying their loans sometimes meant cutting back on discretionary expenses. Several mentioned that they saved less for retirement or put off major expenses, such as purchasing a home or pursuing additional education, in order to pay their student loans.

Many on-track borrowers reported previous repayment struggles and still felt some anxiety about repayment and their financial situations. However, this group generally had less financial stress and fewer shocks than off-track borrowers, and many cited having a stable job and income as well as receiving financial help from family and social networks as reasons they no longer had difficulty repaying their student loans.

*My savings is virtually nil because I've been dumping all my money in the student loans. I just want to get them done. (Alexandria on-track borrower)*

*The route that I chose is a very aggressive route. It means no new cars, no new clothes, living low, really low. I have a wife, and we constantly have to talk to each other, like we're doing this today, this sacrifice today for tomorrow. Down the road, we're going to have no debt, be able to have the house we want, etc., pay for the kids. So it's just sacrifices. But you have to constantly have that conversation to boost yourself up. (Detroit on-track borrower)*

*I struggled earlier, but I have a network, a wife, parents, people who could lend me money to get me by for a short period. (Detroit on-track borrower)*

*Nobody could afford to pay for me to ... go to school. But there was this understanding that it won't purely be your burden even though these are your loans. So if I can't make payments, my family will help me a little bit. (Memphis on-track borrower)*

*I have a great job right now. It's paying me a great amount of money, and I'm good. (Memphis on-track borrower)*

## **Off-track borrowers typically had difficulty early in repayment**

When borrowers graduate, leave school, or drop below half-time enrollment, they are supposed to complete an online exit counseling course, which provides information about repayment. Nevertheless, many off-track

borrowers across categories indicated that upon entering repayment, they experienced confusion or lacked needed information.

For example, many of these borrowers did not remember selecting—or were not aware that they could select—a repayment plan, and several said they were aware of only two options—pay or don't pay. For many, the monthly dollar amount they were being asked to pay—and how it would affect their ability to afford other expenses, such as child care and transportation—was the key factor in their choice of plan, rather than the specific features of each plan or the longer-term costs and benefits. For example, plans that decrease monthly payments also increase the time spent in repayment, cost the borrower more over the long term, and can cause the principal balance to grow if the payments are too low to cover the monthly interest. But income-driven plans can also result in the forgiveness of remaining balances after 20 or 25 years of qualifying payments.

When asked which repayment plan she was in, one Detroit general, off-track borrower said that she chose “the cheapest option.” And an Alexandria general, off-track borrower said, “It almost doesn't matter because ... I'm trying to lower the amount of my monthly payment to be able to pay for other things.” In the case in which none of the offered payments was affordable, borrowers often reported opting to pause or miss payments.

Although many did not recall participating in exit counseling, even those who did reported not feeling prepared to manage repayment and instead learning through trial and error.<sup>23</sup> As a result, some off-track borrowers said that they first interacted with their servicers when the servicer reached out after they missed payments to discuss if they could make their monthly payments and offer assistance and options.

*If you missed a payment by like a week ... they call you all the time. ... They'll just send you an email, and it's like, hey, noticed you missed your payment. (Alexandria general, off-track borrower)*

*They're calling because they're trying to find out why you're not paying. And then they'll offer some suggestions of what you need to do. ... It's the juggling [of your bills]. ... You almost become reactionary. They call you. (Detroit general, off-track borrower)*

*They call or email before you think about calling them. (Memphis general, off-track borrower)*

*They call ... and [ask whether] you can ... afford this payment right now or [tell you] you've missed this payment. (Seattle high-balance, off-track borrower)*

*They call you, but the very first thing they offer when you speak to someone, and in the recording, is that there are options to help you. (Seattle low-balance, off-track borrower)*

All categories of borrowers shared a consensus that their initial monthly bills were higher than they had anticipated. Research indicates that many students underestimate the amount they borrow while in school.<sup>24</sup> And some, when taking out their loans, may not have been aware of or accounted for the interest that would accrue and capitalize on their loans before they entered repayment. (See “How Does Interest Accrue and Capitalize on Federal Student Loans?” for more information.) For some off-track borrowers, the surprising amount of their first monthly bill combined with other financial difficulties may have contributed to early missed payments.

## **Borrowers consistently faced challenges understanding, enrolling in, and remaining in income-driven plans**

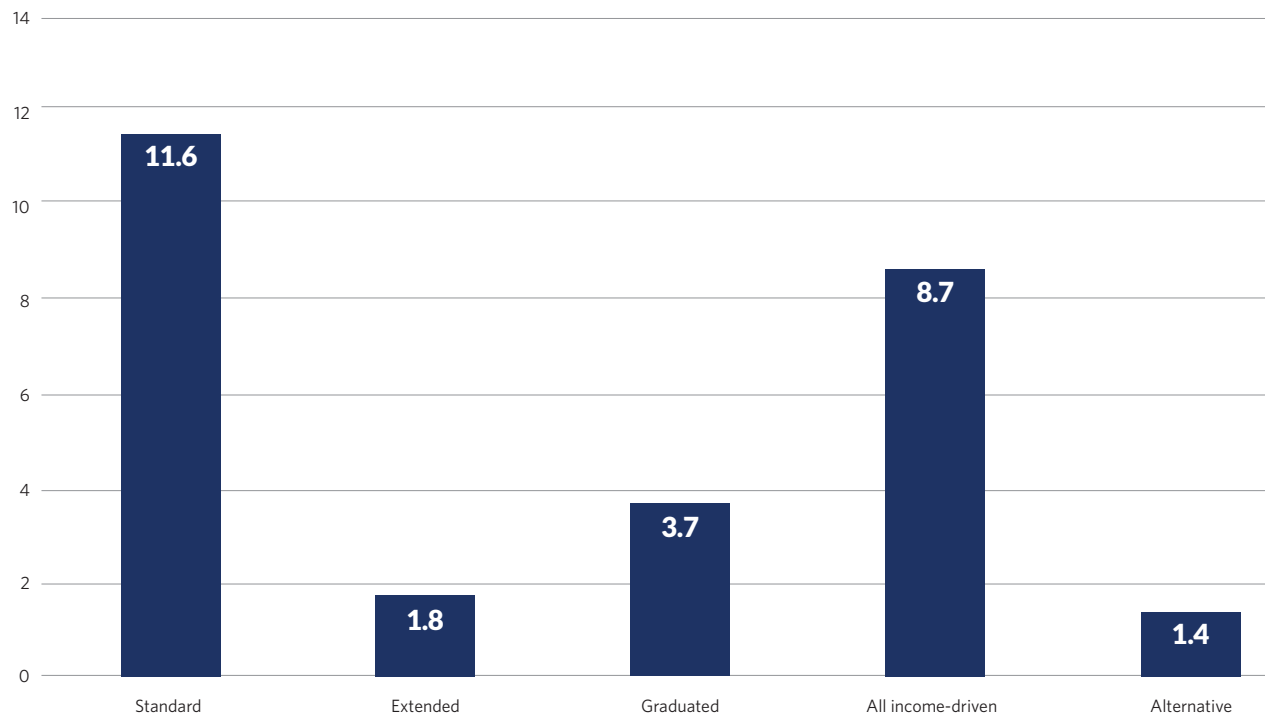
Borrowers have access to a range of repayment options, including income-driven plans, which calculate payments based on a borrower's income and family size and must be recertified annually. (See Figure 3.) Research and

government analysis show that income-driven plans can help struggling borrowers avoid delinquency and default. For example, studies in Iowa found that 35 percent of community college students enrolled in the Standard Repayment Plan defaulted compared with just 3 percent of those in income-driven plans.<sup>25</sup> However, only about 30 percent of borrowers are currently enrolled in such plans nationwide.<sup>26</sup>

Figure 3

## As of December 2019, More Than 8 Million Borrowers Were in Income-Driven Plans

Federal student loan holders by repayment plan enrollment (in millions)



Notes: This figure includes direct loan and Department of Education-held Federal Family Education Loan program borrowers in repayment, deferment, and forbearance. “Graduated” includes graduated and extended graduated plans. “All income-driven” includes the Income-Contingent, Income-Sensitive, Income-Based, Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE) plans. Data shown are at the loan level, so individual borrowers may be counted multiple times across varying loan statuses. Under some income-driven repayment plans, to be eligible, a borrower must be in partial financial hardship: That is, the borrower would owe more annually under a 10-year Standard Repayment Plan than on an income-driven plan. Among borrowers counted in income-driven plans, 1.7 million were not making financial hardship payments.

Source: Office of Federal Student Aid, “Federal Student Loan Portfolio,” <https://studentaid.gov/data-center/student/portfolio>

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Focus group participants reported that income-driven plans were difficult to get into initially and to stay enrolled in because of the complex application and recertification processes. According to federal data, between 2013 and 2014, more than half of borrowers in income-driven plans did not recertify by the deadline, and nearly a third went into hardship-related forbearance or deferment.<sup>27</sup> Such delays—which could occur because paperwork is not submitted or processed accurately or on time—cause monthly payments to increase and unpaid interest to capitalize.<sup>28</sup>

### FUTURE Act Could Improve Access to Affordable Repayment Plans

In December 2019, the federal Fostering Undergraduate Talent by Unlocking Resources for Education (FUTURE) Act became law.<sup>29</sup> Among its provisions, this legislation includes measures to improve the system for repaying federal student loans for more than 8 million borrowers now enrolled in income-driven repayment plans and those who will enroll in the future by directing the IRS and the Department of Education to securely share relevant borrower data. This data-sharing has the potential to streamline the burdensome and duplicative income verification requirements for these plans, bolster the accuracy of income information used to determine borrowers' repayment obligations, and reduce improper payments.

If the departments of Education and Treasury effectively implement the act, it will help ensure that millions of borrowers are able to more easily enroll and remain enrolled in income-driven repayment plans. However, implementation will probably be a lengthy process, could create additional barriers for borrowers, and raises key questions, such as: How can the actions of each agency best reduce the barriers that prevent borrowers from accessing affordable repayment plans? When and how can borrowers agree to having their data shared?<sup>30</sup> (See “Help off-track borrowers enroll in affordable plans” for more information.)

## Borrowers found enrolling and staying in income-driven plans challenging

Some focus group participants reported doing their own research and reaching out to servicers to request income-driven plans. However, many others indicated that they learned about these options only after they were already in distress, and a significant share believed they would have benefited from being enrolled and having lower payments months or years earlier.

Both off- and on-track borrowers identified the annual income and family size recertification process as the biggest challenge to enrolling and remaining in income-driven plans. Many borrowers were unable to complete the process on time, causing their payments to increase, and some cycled in and out of these plans, sometimes being placed in forbearance until they could re-enroll, which extended their time in debt.

*Every year, you have to redo your paperwork for every single loan that you have. And every single year they've screwed it up, and so, every single year ... I budget a month and a half where it's going to be screwed up. They're going to charge me over \$3,000 instead of \$300. I call, and they go, well, it's going to take us time, and then they put me in forbearance whether or not I want it. (Alexandria general, off-track borrower)*

*I got involved in a big trial, and I think I have an income-based repayment [plan], and I missed the notices. They just slipped past. And so in order to get the paperwork in and everything like that, I had to use like two months' forbearance so I wouldn't get a crippling payment. (Alexandria general, off-track borrower)*

*From year to year, you've got to recertify. You got to submit income information, and the servicer ... will figure out what your new payment is going to be based on the information that you've submitted. And your payment may go up. And that would depend on your income. And that's the main hassle—recertifying. (Detroit general, on-track borrower)*

*I'll talk to them on the phone, and then they'll be like, OK, now go to [www.mystudentloans.org](http://www.mystudentloans.org), and go here, and go here, and then you're going to click here. I hope I find what I'm looking for. ... I've even signed up for the wrong thing, because it was just a hassle, go here, go here, go here, and I signed up for something, and they were like, no, you did it wrong. (Memphis general, off-track borrower)*

*It's not as user-friendly to find out what you're supposed to do afterward. They're like, oh, just go on here and fill this out and do this, and we'll mail you this, and then you do this. It's like so many steps, and it's so much overwhelming information that it's like, it was easier to get the loan than it is to repay the loan. (Phoenix high-balance, off-track borrower)*

## **Many off-track borrowers found their income-driven payments unaffordable**

Despite the calculations used for income-driven plans, many off-track borrowers, regardless of balance size, said their payments were still unaffordable, or would be if they enrolled. Participants indicated that this was primarily because their income was volatile or because the plans did not adequately take the other aspects of their balance sheets, such as expenses, into account. As a result, some borrowers who reported being enrolled in income-driven plans also used deferments and forbearances or missed payments.

*Even if they did make it easy, I still probably couldn't afford the payments. (Alexandria general, off-track borrower)*

*They don't consider all the other stuff, my mortgage payment, my car, you know what I mean. I can never get it lower than as low as what I could afford. (Kansas City high-balance, off-track borrower)*

*If there was a way to show each and every single bill on top of your W-2 or your biweekly or monthly paycheck, they could clearly see that you simply cannot do it. (Miami high-balance, off-track borrower)*

*They act like that's the only bill you have to live. They don't ... factor in any mortgage, any anything. (Miami high-balance, off-track borrower)*

*Right now, I'm not making payments because there's probably no way I could make payments. Even with the programs available, I don't qualify for reduced payments, because I technically make too much despite having two kids and a bunch of other stuff that they don't consider. (Seattle high-balance, off-track borrower)*

*They want a huge payment. And in order for me to reduce the payment, because I actually don't earn the money that I should with my degree ... they say, OK, send me all this paperwork, send me pay stubs, send me this, write this, do this. It's only for 12 months, and then you have to redo it. I struggle with that part of it. ... It's a huge process. Because you're in the midst of living, so that's why it's just easier to pay a straight bill and have it be straightforward than to go through all this paperwork. (Seattle high-balance, off-track borrower)*

However, as mentioned previously, most borrowers making decisions about income-driven repayment plans did not factor in the potential for loan forgiveness. In general, they focused on more near-term concerns, and a growing balance made them extremely uncomfortable; many said they did not trust that their balances would be forgiven in the longer term.<sup>31</sup>

## On-track borrowers were generally able to enroll and remain in a plan with affordable payments

Although borrowers across categories faced difficulty with income-driven plan recertification, on-track borrowers generally reported being able to manage the process or re-enroll within a short period of missing the deadline, which probably contributed to their general satisfaction with their current plans. On-track borrowers who remained in the Standard Repayment Plan were able to make their payments without problems or said they preferred to pay down their balances more quickly than was possible on an income-driven plan. One Alexandria on-track borrower said, “I’ve considered income-based repayment but chose not to because I didn’t want to extend the life of the loan longer than I needed to ... and I wasn’t missing payments, and so I thought, well, [I’ll] just keep the Standard [Repayment Plan].”

### How Does Interest Accrue and Capitalize on Federal Student Loans?

The Department of Education originates new loans through the William D. Ford Federal Direct Loan Program, commonly known as “direct loans.” Borrowers and their families can take out three main types of direct loans:<sup>32</sup>

- Subsidized loans are available for undergraduate students with demonstrated financial need.
- Unsubsidized loans are available for undergraduate, graduate, and professional students, independent of need.
- PLUS loans are available to graduate or professional students and parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid.

#### **Borrowers must repay their student loans with interest**

In general, interest accrues daily on federal student loans, including while a borrower is in default, and interest rates are set each year and fixed for the life of the loan. For the 2019-20 school year, subsidized and unsubsidized loans for undergraduates had an interest rate of 4.53 percent; the rate for unsubsidized loans for graduate or professional students was 6.08 percent, and PLUS loans had an interest rate of 7.08 percent.<sup>33</sup>

In general, subsidized loans do not accrue interest while the borrower is enrolled in school at least half time, during the grace period, and during periods of deferment, but unsubsidized and PLUS loans do. Under some income-driven plans, the government may also pay all or a portion of the accrued interest due each month for a specified period, depending on the plan and the loan.<sup>34</sup>

Federal rules and guidance require that borrowers’ monthly payments first be applied to unpaid interest and then to outstanding principal until the loan is paid off. However, during periods of paused, non-, or income-driven payments, interest can accrue, and balances can grow.

#### **Accrued interest can capitalize**

Interest capitalization can occur at certain times during the repayment process, including:

*Continued on next page*



**After the grace period:** When borrowers enter repayment after their six-month grace period, all unpaid interest is added to their outstanding balances, increasing the principal balance on which interest is calculated before borrowers make their first payments.

**After deferments and forbearances:** All unpaid interest at the end of one or a series of consecutive deferments or forbearances is added to the principal. This includes unpaid interest that accrued both during the period of suspended payment and before payments were paused.

**Income-driven repayment:** All unpaid interest capitalizes when borrowers change, exit, or become ineligible for reduced payments under an income-driven repayment plan.

**Consolidation and default:** Additionally, unpaid interest also capitalizes when borrowers consolidate or default on their loans. For certain borrowers, unpaid interest also capitalizes when exiting default.

Capitalization contributes to principal balances and rising payments and may also play a role in many borrowers' lack of progress paying down their balances. Among the cohort of borrowers who began college in 2003, 38 percent had not managed to lower their principal as of mid-2015.<sup>35</sup> Further, 33 percent of borrowers who entered repayment in 2002 owed more after two years, and that share rose to 57 percent among those who entered repayment a decade later.<sup>36</sup> The Department of Education reports that \$18.5 billion in unpaid interest was capitalized in fiscal year 2018 alone.<sup>37</sup>

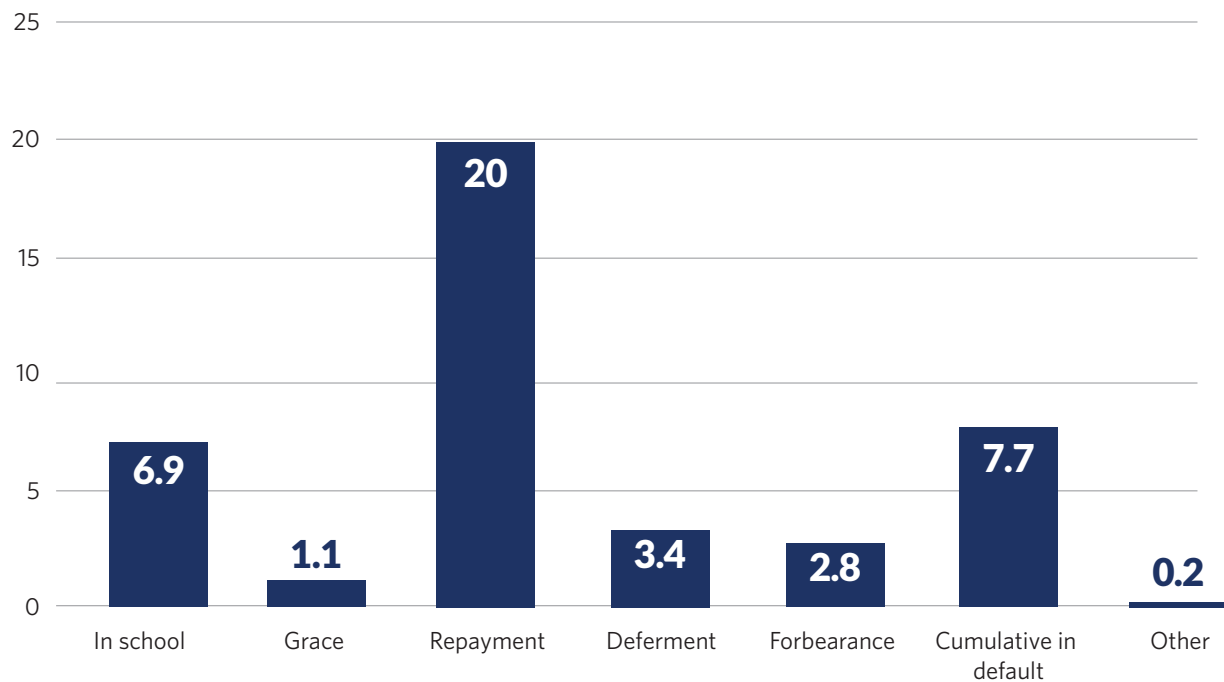
## Borrowers of all types paused payments, and many did so for far longer than they had initially planned

Almost every off-track borrower and many on-track borrowers reported using deferments and forbearances to suspend their payments at least once, and many did so multiple times.<sup>38</sup> (See Figure 4.) Most who reported pausing payments said they did so for far longer than they had initially planned, and many reported learning about deferments and forbearances from servicers after missing a payment or reaching out for help when they were unable to make payments.

Figure 4

### More Than 6 Million Borrowers Were in Deferment or Forbearance as of December 2019

Holders of federally managed student loans, by status (in millions)



Notes: These data include direct loans and Department of Education-held Federal Family Education Loan program loans. Data shown are at the loan level, so individual borrowers may be counted multiple times across varying loan statuses. "In school" includes loans that have not entered repayment because the borrowers are enrolled in school. "Repayment" includes loans that are in repayment and current or delinquent, but not those in default. "Cumulative in default" includes loans that are more than 360 days delinquent. "Other" includes loans that are in nondefaulted bankruptcy or in a disability status.

Source: Office of Federal Student Aid, "Federal Student Loan Portfolio," <https://studentaid.gov/data-center/student/portfolio>

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Some borrowers reported using deferments or forbearances when their first payments were due because they did not have adequate resources to pay. Others did so when they had a financial shock, had a child, or needed extra money, such as for school supplies or Christmas presents for their children.<sup>39</sup>

*I deferred or had forbearance when I went through a separation and divorce process. I was a single mom, and I decided to go back to school to get my teaching certificate so I could have the same schedule as [my daughter]. So it was probably a year to two years at that time, which was really great. To be able to do that was a gift really. (Alexandria general, on-track borrower)*

*Mine was getting my footing after graduating. ... And I didn't have the money to pay at the time, so I went into forbearance pretty early. (Alexandria general, off-track borrower)*

*I had one in between jobs. I lost my job, and so I had to get a deferment. (Detroit general, off-track borrower)*

*You think you're going to come off [the forbearance] and make payments. The problem is once you stop making those payments, you're still living paycheck to paycheck. So, maybe something else happens in those six months. And when you come out of it, you're still not in any better position to start making payments again. (Miami high-balance, off-track borrower)*

*The recent one was because of Christmas. I needed some extra cash for the holidays. They give you up to three months max, so I did it for three months. (Kansas City high-balance, off-track borrower)*

Other borrowers decided to use deferments or forbearances when their monthly payments rose—perhaps after failing to recertify for an income-driven plan or as part of a graduated plan—and they could no longer afford them. And some reported that servicers applied forbearances retroactively to bring accounts current, while they processed income-driven plans or other loan-related applications, or while borrowers worked to submit required documentation.<sup>40</sup> One Portland general, off-track borrower said, “When you call, they’ll erase like if you’re a month late. They erase it and say ... we’ll make this [forbearance] retroactive. So, OK, so it’s not as pressing as it could be.” Another said, “You can use a month of forbearance to bring your account current and then get back on paying.”

Some borrowers indicated that they were not eligible for or offered options for lowering payments other than deferments or forbearances, while others said they were given other options but requested a deferment or forbearance. One Kansas City high-balance, off-track borrower said, “I’m just [going to] defer, I don’t even want to hear the options. No options are going to help me alleviate the balance.”

## Pausing payments was easy

Almost everyone who had paused a payment said it was easy to do. Borrowers reported that pausing payments with their servicer was quick and could be completed in one interaction online, over the phone, or by electronic communication.

*They'd send me an email, and it was so easy to say, yes, I'll defer it, or I'll go into forbearance again for a couple months to give me time to try to get my finances back in order. (Alexandria general, off-track borrower)*

*I just said, I can't make my payments, and she said, you're eligible for a forbearance for X amount of time, and I jumped on it. I said, OK, let's do it. ... It was automatic. (Alexandria general, off-track borrower)*

*[They ask] what's going on? And then you tell them, and then they tell you what options they have available, and then you answer. All you have to do is say yes to this, or we'll send you an email and you just have to sign it and send it back. It's usually pretty easy. (Memphis general, off-track borrower)*

*I took advantage of the deferment thing. ... It was so easy. I just called again, and I figured let me just ask if I can defer, and they said, sure. (Miami low-balance, off-track borrower)*

*My job, from the place I went to go to lunch is like maybe six minutes away, literally, and I called from the time I left my job to Smashburger. And by the time I got to the parking lot of the Smashburger, I was already on deferment, like it was super-duper easy. (Phoenix high-balance, off-track borrower)*

Further, many participants said they chose the expedient option—deferment or forbearance—over more complicated solutions, such as enrolling in an income-driven plan, especially when financial circumstances forced them to think in the short term and they needed immediate relief.

Although many borrowers acknowledged that interest continued to accrue when their payments were paused, some did not fully appreciate the impact that would have on future monthly bills or understand that interest could capitalize when they began making payments again. One Alexandria general, off-track borrower noted that, after his forbearance ended, “they capitalized my payment ... without telling me. ... So I’m paying interest on all of it.” And a Detroit general, off-track borrower said, “You’re suspending because you’re at a financial crossroads, and life happens, and things are happening. So when you suspend it, that was supposed to help me. But you pretty much kicked me up really high, and now I’m really, you know, just trying to keep my head above water after that forbearance.”

But even when focus group participants acknowledged that their use of short-term options had long-term consequences, they often continued to use them because they felt they had no choice, especially if they were not able to afford their monthly payments.<sup>41</sup> As another Detroit general, off-track borrower said, “They said, well, we gave you this forbearance, your interest is going to go up. ... I was laid off in my case, so I had to say, yes, I’ll take it. ... So the interest didn’t stop. I just stopped having to make the payment. And so that blew up, and, of course, I was laid off longer than six months. And so I had to go back and get another forbearance.”

Further, some borrowers faced with financial insecurity tried to make partial payments rather than using forbearances or deferments but encountered barriers to doing so. Making partial payments can put borrowers into delinquency status, and servicers must report borrowers who fall behind by 90 days’ worth of payments as delinquent to the credit bureaus. Many off-track borrowers who could not afford their payments said the repayment system was not flexible or responsive enough to accommodate their financial situations.

## **Borrowers reported both positive and negative experiences with servicers**

Several borrowers in each category also indicated that they first learned about their options from their servicers—typically when the servicer called after they had missed a payment—that the servicer gave them the information they needed, and that working with the servicer resulted in favorable outcomes.

*They’re very accommodating, at least in terms of the person you talk to, and they’re very helpful. ... They won’t just refer you to the website or whatever. They’ll even ask you, do you want me to send you the document? (Alexandria general, off-track borrower)*

*[My servicers] were very pleasant, very helpful, gave me a wealth of information, didn’t make me feel like they were getting ready to come after me, but gave me some solutions as to what I needed to do, gave me the websites, gave me the names, you know. (Detroit general, off-track borrower)*

*My company has always been really good. I haven't had any complaints with them other than they call me every day. ... I found out about the plan I'm on now, because I didn't know about that particular income-driven plan. The guy on the phone was really informative, and he said, hey, we've got this plan here. Have you looked at it? And then [he gave me a] 20-minute explanation of how it works. (Memphis general, off-track borrower)*

*The whole advice-giving process felt like it was somebody who was like really in it for me and like explaining all the parts. (Portland on-track borrower)*

*I've found that the loan servicers have worked with me all along the way very well. ... If I ran into an issue, they were really good at working with getting the repayment plan that would fit. (Portland general, off-track borrower)*

However, others—mainly off-track borrowers—said servicers added to their confusion, and they expressed frustration that servicers were not able to lower their payments or that they had to do “detective work” to chase down information. And many of these borrowers indicated that they received inconsistent information each time they spoke with their servicers and that the customer service representatives varied in how helpful or knowledgeable they were.<sup>42</sup> As a result, these borrowers reported that it took multiple calls to get something done, that they did not trust the information, and that they had to ask many questions or do their own research to find solutions. These issues also made many borrowers feel that servicers did not care about their long-term success or act in their best interest.

*My experience calling in, like it's going to take five phone calls to get any answers, and no one knows the answers, anyone who works there it seems. (Alexandria general, off-track borrower)*

*When you talk to somebody on the phone, it very much depends on who you're talking to. Maybe it's me and the day I'm having, and I didn't have enough coffee, because some days, I swear I don't understand. It's like they're not making sense, or they just don't care what my problem is or what I'm looking for. (Detroit general, off-track borrower)*

*I don't know that I trust them to give me information ... because they're going to tell you what's going to be best for them. Not what's best for me. (Miami high-balance, off-track borrower)*

*You have to fight to pay your bill. You have to do all this detective work, and they make it so tough to pay it. That's why I paused it, honestly, because of what I was dealing with. (Phoenix low-balance, off-track borrower)*

*They're not going to offer you anything. You have to know what you want when you call. (Seattle low-balance, off-track borrower)*

Although on-track borrowers reported fewer interactions with servicers than those who were off track, on-track borrowers tended to mention contacting servicers for assistance with billing or payment allocation. For example, several participants reported contacting a servicer to request that extra payments be applied to principal. And a Detroit on-track borrower reported being charged double payments: “I finally got that straightened out, an hour on the phone, right? The next month, I started looking online, and they've scheduled me for both payments again.”

## **Several participants reported not hearing from their servicers**

Some borrowers said they did not remember hearing from their servicers, but federal rules require servicers to contact borrowers at certain times in the repayment process.<sup>43</sup> These borrowers may not recall their servicers' attempting to reach them for various reasons, including that they did not receive the communications (for example, because of changes in address), that outreach was attempted but contact was not made, that servicers were noncompliant, or that the information reached but was not acted upon by borrowers.<sup>44</sup>

*Anywhere else, you would get a phone call. Your credit card company will call you, definitely. If you miss like one day, they're calling you. (Kansas City high-balance, off-track borrower)*

*Until I got the letter from collections ... that was the first I heard about it. ... I will say, collections works with you. ... But it's sad that you have to wait for it to get to collections in order for them to work with you on it. (Kansas City high-balance, off-track borrower)*

*I feel like I never heard from the federal government. ... Even now, like I have not heard from them. I only know I owe because of the taxes being taken by it. I moved over the years. I don't know if they sent things to other addresses, or things have got lost, but I never heard from them about it. (Phoenix high-balance, off-track borrower)*

*I would like help. I would like people from the company I owe money to to call me every now and then [and say], hey, can we set something up? (Phoenix high-balance, off-track borrower)*

*It was probably like two or three years after I stopped going to school that I finally started getting either an email or something in the mail saying, hey, you got to start paying your student loans. But I should have been starting to pay my student loans two and a half years prior. There was no information given about how to go about paying back your student loans, from anyone. (Phoenix high-balance, off-track borrower)*

Among those who initially reported not being contacted by their servicers, several later said they had received letters, emails, or calls, and others reported moving and losing contact with the servicer.

## **Growing balances overwhelmed and discouraged off-track borrowers**

Among off-track borrowers, growing balances often presented a psychological barrier to successful repayment.<sup>45</sup> Borrowers reported being overwhelmed and frustrated, and lost their motivation to make payments toward a balance that continued to grow. Many were resigned to being in debt indefinitely.

*It feels like it's never going to be paid off. ... It's just a lot of interest. And I'm not really paying hardly any of the principal off, because I can't afford to. ... Which is also why you don't care about paying it off. It's never going to be paid off. (Kansas City low-balance, off-track borrower)*

*And even in forbearance, you still get tacked on all this interest. ... And the interest accumulates more and more and more, and then you have to look at your bill and ... your principal just even gets bigger. (Miami high-balance, off-track borrower)*

*If I saw that my payments made the principal go down, I'd get excited ... [and] keep on paying. But it just keeps adding on to the point that you just lose the desire. You just want to focus on things you really need right now. (Miami low-balance, off-track borrower)*

*I have a resentment toward [it] because it went up so high. Fifteen years ago, I remember borrowing \$3,000. And it got so high. ... So I don't want to pay them. (Miami low-balance, off-track borrower)*

*It feels insurmountable. ... But just like even the car payment, like when you make the payments ... and you see the balance went down, that does something. That makes me want to continue doing it. Student loans, you be like, I'm just throwing money down the drain. (Seattle high-balance, off-track borrower)*

Borrowers often felt that the rate of balance growth was unfair: One Miami low-balance, off-track borrower said, "I'd be willing to do a payment plan for the principal, what I really borrowed and a little bit more, but the interest makes me say, you know what, I will never be able to pay this off at the rate that they're willing to give me."



The tension between borrowers' desire to have lower monthly payments and their frustration at rising balances permeated the conversations around income-driven repayment.<sup>46</sup> One Detroit general, off-track borrower mentioned that she "did pay \$300 last month. ... Your goal [is] to pay it off. It just doesn't look like that on paper." And a Seattle high-balance, off-track borrower said, "I've been paying the same amount month after month, and, you know, it's hardly making any dent."

Several off-track borrowers reported that they chose not to enroll in income-driven plans to avoid paying more over longer periods of time. As one Kansas City low-balance, off-track borrower said, "They called me and asked me if I wanted to make lower monthly payments, but I would have to pay longer, and I said no."

## Multiple negative experiences led to distrust and disengagement

Repeated incidents of confusion about repayment, unaffordable payments, negative interactions with servicers, financial consequences, and growing balances created a generalized frustration with and distrust of the repayment process among focus group participants. Even those who were initially motivated to repay and had made payments or interacted with their servicers said that failures of the system chipped away at their resolve.

In the most severe cases, off-track borrowers indicated that they had exhausted all their options and simply gave up on repayment, ignoring communications from their servicers and resigning themselves to the idea that their loans would never be repaid.<sup>47</sup> Many felt that their monthly payments were out of reach and there was nothing they could do. Low-balance, off-track borrowers in this situation often reported not getting a return on their investments in higher education and not completing a degree of any kind.

*It's hard to see success in this format. I mean, even if I was paying the minimum payment, it's not eating away at the balance. So when you see that balance continuing to grow ... well, the hell with it, I might as well just get what I can out of life, and it will be what it will be. You know, I got it now, and I'll have it when I'm dead, so be it. (Kansas City high-balance, off-track borrower)*

*That's how it's been for me. Make a payment or don't make a payment and ignore all the mail because it feels like my school is getting sold and bought again by another like a collection company. And they keep adding their fees. So the ... amount that I started with now is like quadrupled. ... The interest is so high that I'm just like, what's the point? (Miami high-balance, off-track borrower)*

*It was like when the economy got really bad, like in 2009 or 2010, and I could not find a job. And then I pretty much had stopped answering my phone, because I had a lot of people calling me. It wasn't just them. (Memphis general, off-track borrower)*

*[I want] to tell them to stop [calling] because the hardship isn't going to change. They keep asking the same question repeatedly in different words. And you're going to keep getting the same answer. (Miami high-balance, off-track borrower)*

*Unless you can pay, there's no reason to answer. ... I never answer unless I have money to pay them. (Seattle low-balance, off-track borrower)*

In addition, some low-balance, off-track borrowers indicated that servicers were aggressive and that they received a very high volume of mail and phone calls, including instances of servicers calling them at early hours or multiple times a day, and even calling their relatives. Many borrowers in this category also reported experiencing late-stage delinquency and default, and some focus group participants may have also had private loans, both of which could mean that certain unwelcome communications may have also come from collection agencies, entities servicing private loans, or the borrowers' schools as part of efforts to manage cohort default rates, i.e., 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 a school's rate exceeds the department's guidelines, the school risks losing access to federal grants and loans.) But regardless of who was calling, many of these overwhelmed borrowers said they ignored the communications, especially when they felt they could not make their payments or do anything to help their situations.

## Participants reported feelings of regret and gratitude about borrowing

Focus group participants across categories said that the challenges they encountered in repayment led to mixed feelings about borrowing for higher education. Some reported that their experiences with student loans made them unlikely to take out more, and some said they wanted to return to school to complete a program or get an advanced degree but chose not to because they did not want to borrow more or have interest accumulate on their existing loans.<sup>48</sup> Others indicated that if they could do it over, they would not go to college if it meant taking out loans, would go later in life when they perceived they could have borrowed less, would have gone to a different school or program, or would not have gotten a graduate degree.

In addition, participants reported warning their children or other family members against taking out student loans in light of their own experiences. Even those who reported paying down their balances sometimes believed that the burden of repayment was too great.

*I'm not going back to school because I know if I ever went back for a master's or grad school, I would have had to defer [my existing] loan. (Alexandria on-track borrower)*

*If I could do it all over again, I probably wouldn't go to, I probably would go to college later on in life. All of my friends that did not go to college are doing much better than I am financially. (Detroit general, off-track borrower)*

*I think if I were to go ... back in time, I would never take loans out. ... I preach it to my nephews and my nieces and anybody I know. Do not take a student loan out unless you really, really have to because I regret no one ever telling me how much it was going to be after graduation and how much the interest rate was going to increase. ... I feel like I'm going to die and still have a student loan. I'm never going to pay it off. (Kansas City high-balance, off-track borrower)*

*I know two of my nephews were debating it. And I actually showed them how to make money without going to school. And they're way more successful making way more money than probably most people that graduate with a college degree with no student debt. ... So I always encourage people, unless you know specifically what you want to do, it's so easy to make a lot of money [without going to school] if you have the drive. (Portland on-track borrower)*

*I used to be a college adviser, so anybody that comes to me now and they're students and they're like what do you think about loans? And I'm like no ... work and pay your tuition. If no one else is going to do it for you, try to do it yourself. You don't want to have loans. (Seattle high-balance, off-track borrower)*

However, in all but the low-balance, off-track category, borrowers also reported positive aspects of borrowing, including the ability to earn a degree and have the career path they wanted.<sup>49</sup> A Detroit general, off-track borrower said, "I got to be a lawyer because I was able to take out that money. I don't regret my education for one second." Several people noted that, although it took awhile for their incomes to grow so they could make real progress paying down their loans, they believed that the cost was ultimately worth it. A Portland on-track borrower said, "I feel like I got a pretty good deal in terms of the education I got, what it set me up for, all of that

stuff. Like I feel like it was really worth it. So there's a part of me that's like, OK, this money ... is what I pay for just getting to get a good education. And so it feels fair to me."

Some reported that loans were the only way to get a college education or provide one for their children. One Portland general, off-track borrower said, "I applied [for the loans] for my son to be able to go to a good school [so] he would have a career. ... I felt damn proud when I got approved for it, I got to tell you. And so did my husband. Like we were actually going to be able to do good for our kids and give them something we didn't have."

## More can be done to help borrowers successfully repay

Throughout the focus groups, off-track borrowers defined success as a combination of paying down principal and having the ability to make payments that did not significantly harm other aspects of their financial lives.

*Success for me means actually moving forward in my debt. Because I've just been pretty much treading water the past couple years. I haven't made any progress. My personal goal would be to be chipping away at it as opposed to not. (Detroit general, off-track borrower)*

*Maybe [success means] you're able to pay your monthly payments, and it doesn't put a factor on your other bills. (Detroit general, off-track borrower)*

*Success is getting my bill to a stable point to where I can pay it without any issues. I can pay it whether a mishap happens or not. I can pay it if a tree falls on the roof. (Memphis general, off-track borrower)*

*I'd say [success is] like getting in front of the interest. ... I would feel like it would at least be not digging yourself further into the hole by at least keeping up with the interest. (Phoenix high-balance, off-track borrower)*

*For me success is checking in with [my servicer] to keep my payment at what I can afford, which right now is \$0, so that I don't go into default. (Portland general, off-track borrower)*

However, many borrowers reported not feeling successful on either front and said the repayment system did a poor job of delivering prompt and sustained relief when they were financially stressed.

These focus group findings are consistent with those in a growing body of research pointing to the challenges student loan borrowers face navigating repayment and show that borrowers who have difficulty repaying are more likely to question the value of loans in helping to facilitate higher education.<sup>50</sup> For example, the opinions and experience presented in this report are similar to those expressed during other focus groups conducted with student loan borrowers.<sup>51</sup> Similarly, the Department of Education has indicated that some borrowers report not having the information they needed to select the right repayment option, not knowing how to avoid and get out of delinquency and default, receiving hard-to-understand communications, and receiving inaccurate or inconsistent information from a servicer.<sup>52</sup> And analyses of student loan borrower complaints by the department and the Consumer Financial Protection Bureau found problems related to communication and customer service, including receiving conflicting or incorrect information.<sup>53</sup>

The experiences shared by focus group participants also reinforce the findings from Pew's quantitative research that the significant challenges faced by current borrowers should drive efforts to reform the student loan repayment system and that the Department of Education and Congress can help improve outcomes by making structural changes that facilitate borrowers' long-term success.<sup>54</sup>

This analysis suggests four actions that the Department of Education and Congress should take to ensure borrowers are able to successfully navigate the repayment system: Ensure that information provided to borrowers is consistent, accurate, relevant, and timely; establish clear standards for loan servicing; help off-track borrowers enroll in affordable plans; and examine the causes of balance growth and potential steps to address them.

## **Ensure that information provided to borrowers is consistent, accurate, relevant, and timely**

Although some borrowers were able to navigate the system and get what they needed from their servicers and the repayment experience, many reported confusion driven by inconsistent information, especially around key friction points, such as the transition from school into repayment and enrollment in income-driven repayment plans. In many ways, these issues are a result of the design of the repayment system—including when and how information is delivered to borrowers and gaps between repayment benefits and protections available to borrowers and the difficulty borrowers have in accessing those features. For example, the Higher Education Act provides important benefits and protections for borrowers in distress, such as income-driven repayment plans, that can help ensure their long-term repayment success. However, as described in this report, people’s repayment experiences can vary widely, even if servicers have focused on identifying effective outreach strategies.

In addition, although exit counseling provides essential information about loans and repayment with the goal of preparing borrowers for success, research on the effectiveness of such programs suggests that delivering general information is often not enough and that offering too much complex material all at once can be overwhelming. Exit counseling is provided during a period of disruption in students’ lives; students who leave school without completing a degree—a group that is more likely to struggle in repayment—might not take this counseling at all, and many borrowers do not experience financial distress until years after they leave school, making it unlikely that the information provided, no matter how helpful, will be remembered when needed.

On the other hand, studies have shown that targeting pertinent information to specific populations when they need it can be effective: People tend to retain information that they find applicable to their current circumstances, and advice is less likely to “stick” when it is not immediately relevant.<sup>55</sup> For example, recent research suggests that the way in which servicers explain income-driven repayment plans when borrowers are considering enrollment could influence how many borrowers choose to enroll, that personalized emails may be an effective mechanism for enhancing borrower outreach, and that showing borrowers how their payments will increase if they fail to recertify for income-driven plans might improve outcomes.<sup>56</sup>

The Department of Education and its servicing contractors should ensure that borrowers have, understand, and can identify opportunities to enroll in affordable repayment options.

## **Facilitate effective communication**

The Department of Education should facilitate more uniform, effective servicer communications by identifying promising methods for servicers to use in delivering timely information to borrowers and evaluating the outcomes. As it develops strategies for ensuring consistency and accuracy among servicers, the department should include requirements for the use of these best practices. In particular, guidance on best practices should be integrated into the Next Generation Financial Services Environment (Next Gen), a department initiative to modernize and streamline the technology and operational components of the repayment system. For example, as part of Next Gen, servicers and other contractors will have the opportunity to provide feedback and insights to the department about working with borrowers to help inform development of data-driven outreach campaigns.<sup>57</sup> Further, the department’s Aid Summary or Loan Simulator tools, centralized hubs for customer account information, may provide additional opportunities for the department to share targeted, timely information about repayment with borrowers.<sup>58</sup>

## Establish clear standards for servicing and provide oversight to ensure proper implementation

Standards should include a focus on borrower outcomes—such as reducing rates of delinquency and default—and require targeted outreach to borrowers in periods of transition, such as early in repayment and while using a forbearance or deferment. Recent Pew research indicates that missing a payment within a few months of entering repayment was common among borrowers who eventually defaulted, and many borrowers with growing balances paused payments multiple times, for long periods of time.<sup>59</sup>

## Help off-track borrowers enroll in affordable plans

Timely, user-friendly information can help guide borrowers through complex decisions. However, Congress and the Department of Education could help to ensure that borrowers face fewer thorny processes by removing barriers to enrollment into income-driven plans.<sup>60</sup>

## Facilitate enrollment

Many focus group participants across categories reported that income-driven plans are difficult to both get into initially and stay enrolled in because the application and recertification processes are overly complicated, requiring extensive and repeated documentation. As described earlier in this report, the FUTURE Act has the potential to help streamline the burdensome and duplicative documentation requirements for income-driven repayment plans and is an important step forward.

The act requires that the secretaries of Education and Treasury submit regular reports to Congress on implementation status, but it includes no effective date and leaves much of the process at the discretion of these agencies. To successfully deliver on the legislation's promise, Congress, the Education Department, and the IRS should ensure that five key issues are addressed.<sup>61</sup> Implementation should:

- **Be prompt and carefully designed to ensure unnecessary administrative hurdles no longer prevent borrowers from accessing affordable plans.** Data sharing is complex, and it will be helpful for policymakers to identify and understand the specific steps the department and the IRS need to take to facilitate data security. It will also be important to ensure that borrowers no longer experience the consequences of an inefficient system, which are significant.
- **Put in place multiple opportunities to engage with struggling borrowers.** To more easily access income-driven repayment plans, borrowers will need to agree to having their data shared. Questions remain as to how and when they will give this approval. For example, can borrowers provide approval only when applying for income-driven repayment, or also during other interactions across the loan life cycle, such as the new Annual Student Loan Acknowledgment or when leaving school during exit counseling?<sup>62</sup>

Recent Pew research indicates that a significant share of borrowers interact with the repayment system in more than one way, such as by requesting, being placed in, or retroactively using loan deferments or forbearances.<sup>63</sup> Some, however, do not engage before falling behind on loan repayment or in periods of financial stress. This suggests opportunities for engaging with struggling borrowers, both before and after they leave school.

- **Ensure that borrowers are clearly informed about payment changes.** How and when borrowers who agree to data sharing are notified annually of their new payment is important. This report highlights that participants' broader financial realities informed how they repaid their loans. For example, those struggling the most with repayment indicated that they had limited resources and needed to cover their costs for transportation, housing, child care, and groceries before paying student loans.

- **Ensure that the repayment process remains manageable for those who do not give approval.** These borrowers must still be allowed to access income-driven plans by using the IRS Data Retrieval Tool—a mechanism borrowers can manually use to transfer tax information into their plan applications—or submit alternative documentation of their incomes.<sup>64</sup> In addition, a clear process must be established to allow borrowers, such as those who lose their jobs, to manually recertify their incomes before the next year’s tax information is available.

As noted above, many participants in Pew’s focus groups reported barriers to repayment, such as confusion driven by inconsistent information, especially around key friction points, such as the transition from school into repayment and enrollment in income-driven plans. Efforts should be made to decrease barriers for all borrowers.

- **Align with other efforts by the Education Department to improve the student loan servicing system.** For example, as part of Next Gen, there could be opportunities to request borrower agreement in the department’s Aid Summary or Loan Simulator tools.

In addition, policymakers can further improve the system by simplifying and restructuring the process for direct, targeted outreach to struggling borrowers to ensure that borrowers who would benefit most from income-driven plans are aware of and have access to them. For example, providing incentives to servicers to contact at-risk and delinquent borrowers and facilitate their enrollment in income-driven or other plans that lower payments before loans reach 90 days past due could bolster access to affordable options and prevent default.

## Transition borrowers into income-driven plans

Borrowers should be encouraged to think about enrolling or be allowed to enroll in income-driven plans during nonstandard times, such as before they leave school and during exit counseling, to reduce the challenges they face during periods of transition. In addition, the Department of Education should require that servicers offer borrowers seeking deferments and forbearances the option to transition into an income-driven plan before paused payments end.

## Consider structural changes to income-driven plan design

Income-driven payments may still be unaffordable for some borrowers. In a 2019 Pew report, Texas borrowers who reported being enrolled in income-driven repayment plans indicated they used forbearances and deferments to pause payments, some for long periods, and other studies have also found that many borrowers who struggle to repay are already experiencing other financial distress.<sup>65</sup> And in the focus groups conducted for this report, a number of borrowers reported being enrolled in income-driven plans and using forbearances and deferments to avoid unaffordable payments.

For families facing longer-term financial setbacks, policymakers could consider modifying the structure of income-driven plans. Experts have proposed a range of potential changes, including altering the amount of income that is withheld or basing payments on a combination of income and amount borrowed, among other variables.<sup>66</sup> More data are needed to illuminate how and when borrowers use income-driven plans, and research needs to be done on how and whether such structural changes would meet the needs of those struggling most with delinquency, default, and growing balances, and on the potential cost to taxpayers.

Further, a number of focus group participants reported wanting to have the option to make payments of less than their full monthly bill. Policymakers should consider minimizing negative outcomes for borrowers making partial payments.



## Examine the causes of balance growth within the federal student loan portfolio and potential steps to address them

Previous Pew research has shown that identifying at-risk borrowers early in repayment and providing them with resources are key to facilitating successful repayment, and many focus group participants reported that they intended to repay when they began the repayment process but became discouraged watching their balances grow over time.<sup>67</sup> These findings suggest that policymakers should consider ways to keep borrowers engaged and should focus on balance growth throughout repayment.

For instance, the Department of Education student loan ombudsman reports that interest accrual and capitalization commonly lead to borrower confusion and complaints, and Pew's focus groups highlight that rising balances create frustration and can act as a disincentive for borrowers to continue repaying.<sup>68</sup>

Over the past few years, federal lawmakers from both parties have shown an interest in limiting interest accrual and eliminating capitalization. For example, the College Affordability Act, introduced by Democratic members of the House Committee on Education and Labor in 2019, would end interest capitalization on loans in deferment and forbearance. And 2017's Promoting Real Opportunity, Success, and Prosperity Through Education Reform (PROSPER) Act, introduced by Republican members of the House Committee on Education and the Workforce, would have imposed limits on the interest that could accrue on loans in income-driven repayment plans.

In addition, the Department of Education has recommended eliminating capitalization in all circumstances except for consolidation, while the federal government and some nonprofit organizations have proposed modifying income-driven plans in ways that would result in certain borrowers repaying their loans more quickly, thus limiting interest accrual.<sup>69</sup>

Income-driven repayment plans and options for pausing payments provide some necessary relief for struggling borrowers. But as rates of balance growth and the number of borrowers in default increase, policymakers should assess the costs and benefits to borrowers and taxpayers. To do so, analyses must illuminate how interest accrual and capitalization affect borrowers' repayment decisions and whether changes to the system could address balance growth and meet the needs of borrowers at risk of default.

## Conclusion

Higher education is among the most effective strategies available to bolster families' economic security, and Americans understand that: In a recent survey, 90 percent said that education beyond high school offers pathways for upward economic mobility, and Pew data indicate that most Americans agree that it is reasonable to borrow to pay for higher education, given the benefits of a college degree.<sup>70</sup> But many focus group participants expressed a sense of frustration with the complexity of the repayment system, unaffordable payments, inconsistent communication with servicers, effects on their financial lives, and growing balances. Some said that they regretted borrowing and advise others against it.

These problems indicate that the repayment system is not effectively facilitating affordable repayment in a way that helps borrowers and taxpayers. To improve outcomes and boost borrowers' long-term repayment success, policymakers should be guided by the significant challenges facing current borrowers.

# Appendix A: Additional borrower quotes

Table A.1

## Borrower Quotes by Chapter

Section	Subsection	Additional quotes
<p><b>Financial instability was the biggest barrier to repayment among off-track borrowers</b></p>	<p>N/A</p>	<p><i>I lost my job, didn't have a salary. I was just living on a 401(k), so I was like, I got to lower my payments. (Alexandria general, off-track borrower)</i></p> <p><i>My longest [forbearance or deferment] was when my husband lost his job. (Detroit general, off-track borrower)</i></p> <p><i>We had two funerals in the family in the same year. ... You have to pay [for] that. (Kansas City high-balance, off-track borrower)</i></p> <p><i>It was medical issues for me in my household. My mom was very sick. My father-in-law was very sick, and paying for those funerals threw us way off track. So that's when I needed to go into deferment. (Memphis general, off-track borrower)</i></p> <p><i>I had suffered an injury on the job, and I wasn't able to work for a year. I'm just recovering from it now. So I almost lost my house, and it's been really difficult. (Portland general, off-track borrower)</i></p> <p><i>I've gone through a lot of financial instability in the last year and a half. ... I've been chronically underemployed and have had to basically put all my student loans on forbearance because I had to eat. (Seattle high-balance, off-track borrower)</i></p>
	<p>Off-track borrowers, regardless of their balance size, reported paying other bills first</p>	<p><i>I had heating bills one winter that were like in the hundreds, and I would miss a couple [student loan payments] just to get through. But I was very aware that I was missing my payments. (Alexandria general, off-track borrower)</i></p> <p><i>Day care costs just as much as the student loans. [I couldn't pay my student loans] because I had to have groceries, because I had to have car insurance. (Detroit general, off-track borrower)</i></p> <p><i>Other bills came first. Everything from day care to utilities to car notes. If other things had forbearance or deferment options, it'd be a little less crucial. ... [But with] other bills, like utilities, they'll cut your lights off, vehicle, they'll repo your car. It's just it's much easier to miss a payment with a student loan than it is your other loans. (Memphis general, off-track borrower)</i></p> <p><i>When you're not making that much of an income, other bills are more pressing. (Phoenix low-balance, off-track borrower)</i></p> <hr/> <p><i>It's like the place you don't want to go. I don't want to default on the loan, because once you default, then everything is really crazy. They come after you. (Detroit general, off-track borrower)</i></p> <p><i>I'm always too scared of it affecting my credit. ... I just figure out how to do it. (Kansas City high-balance, off-track borrower)</i></p> <p><i>It's the fear of my wages being garnished. And it also reflects on my credit. (Kansas City low-balance, off-track borrower)</i></p> <p><i>If you ignore them ... they garnish your wages, your income tax return. ... If you work with them, you call them, you come into a payment arrangement, and you tell them your situation, they stop the calling and the emails. (Miami high-balance, off-track borrower)</i></p> <p><i>They'll garnish your wages if you don't pay them. ... I would imagine that [missing] a phone bill or a credit card bill will be negative on your credit report, but they won't go so far as to forcibly take money out of your paycheck. (Miami high-balance, off-track borrower)</i></p> <p><i>I'm sick of my credit being tanked. I got out of default and want it to just go up, and I don't care what that low payment is, I just want it to not impact it. (Phoenix high-balance, off-track borrower)</i></p>

<p><b>Financial instability was the biggest barrier to repayment among off-track borrowers</b></p>	<p>Across categories, off-track borrowers reported wanting to make payments</p>	<p><i>Right now, I, it's just, it's strictly economics. ... It's not because I don't want to pay it. It's an economic feasibility issue right now. (Alexandria general, off-track borrower)</i></p> <p><i>I have a third job, which I refer to as my student loan job. (Alexandria general, off-track borrower)</i></p> <p><i>It's a lot to deal with. Nobody wants to be the deadbeat not making their payments or whatever. Nobody had that intention in the beginning. It's just it's overwhelming. (Detroit general, off-track borrower)</i></p> <p><i>As far as the importance [of my student loan], all my bills are important. I pay my bills. I try to pay my bills. (Detroit general, off-track borrower)</i></p> <p><i>Before I had my daughter, I was an Uber driver, driving on the weekends so I could pay my loan. (Kansas City high-balance, off-track borrower)</i></p> <p><i>I work a full-time job and a part-time job, and [I'm] still not able to make the \$800 a month that they want. (Kansas City high-balance, off-track borrower)</i></p> <p><i>I don't think most of us would purposefully default if we actually had the money to do it. And sometimes it's just that they don't work with you. (Seattle high-balance, off-track borrower)</i></p>
<p><b>Off-track borrowers typically had difficulty early in repayment</b></p>	<p>Unlike many off-track borrowers, those who were on track were able to maintain steady incomes and receive help from family and social networks</p>	<p><i>I don't contribute as much to retirement. (Alexandria on-track borrower)</i></p> <p><i>I'm making these high payments, but ... it also limited my going out, having fun with my friends. ... I still can't afford to go out and spend even \$50 on Friday night. (Detroit on-track borrower)</i></p> <p><i>We set our kids up to make sure that they had a path that they would be able to graduate and have a job, hopefully, that they would be able to take on these student loans. And that has worked. ... There's still a ton [of student debt] left. But we've worked it out as a family. They're paying some. We're paying some. We don't want them ... to get over their heads. (Portland on-track borrower)</i></p>
<p><b>Borrowers consistently faced challenges understanding, enrolling in, and remaining in income-driven plans</b></p>	<p>N/A</p>	<p><i>They called me plenty of times. I got a letter in the mail saying that you owe ... and if you can't afford, call this number. (Detroit general, off-track borrower)</i></p> <p><i>If you missed one payment, they'll call you. (Kansas City low-balance, off-track borrower)</i></p> <p><i>Not even a full month after it's due, they call. (Memphis general, off-track borrower)</i></p> <p><i>They call you. When you miss a payment, I could show you a missed call right now. (Seattle low-balance, off-track borrower)</i></p>
<p><b>Borrowers consistently faced challenges understanding, enrolling in, and remaining in income-driven plans</b></p>	<p>Borrowers found enrolling and staying in income-driven plans challenging</p>	<p><i>When I got off the zero payments and started making payments, I missed some because I didn't understand when the time was [that I was] supposed to start making a payment, like, oh, this month. And then they didn't get the paperwork filed for my income-based ahead of time. And they're like, you owe this much. And I'm like, I'm a server. There's no way. So I couldn't pay that. (Detroit general, off-track borrower)</i></p> <p><i>[When you submit your paperwork] it takes two weeks to three weeks lead time for them to process it to even know if it's accepted. Sometimes they'll send me documents via email, and I can't open them, and then you're back on the phone. I'm trying to renew mine, and I think I've been trying to renew it for three months. (Detroit general, off-track borrower)</i></p> <p><i>I've been on auto payment. It was like \$48 a month. I was like, this is cool. I can keep doing this. And then it went to \$758 this month. And I was like, what? So I called them, and they said my tax documents and everything I filed as jointly from California and Kansas, it was a big mess of how to submit those documents. And so I just gave up and was like, what do I do? (Kansas City high-balance, off-track borrower)</i></p> <p><i>It was more of an internal thing. I had to call a couple times because I would get an email saying, we still haven't received your recertification, when I did send it. And then, you know, I had to call, and they were like, oh, that's just an autogenerated, one of those kind of like auto things, and to ignore it. (Kansas City low-balance, off-track borrower)</i></p>

<p><b>Borrowers consistently faced challenges understanding, enrolling in, and remaining in income-driven plans</b></p>	<p>Borrowers found enrolling and staying in income-driven plans challenging</p>	<p><i>I would say it's very complex. There are a lot of rules. I have a degree, but I still can't follow the student loan, the calculations, how the schedule for that works. (Miami high-balance, off-track borrower)</i></p> <p><i>If you don't upload your tax documents, though, then you get screwed because I forgot to do that once, and my payments went from \$12 to \$600. (Portland general, off-track borrower)</i></p> <p><i>Even when you are complying, there isn't that kind of ... checks and balances. So you never even know if they're receiving things, and then you, I might get a letter that says, oh, we didn't get this. There's a disconnect. (Seattle high-balance, off-track borrower)</i></p>
<p><b>Borrowers of all types paused payments, and many did so for far longer than they initially planned</b></p>	<p>Many off-track borrowers found their income-driven payments unaffordable</p>	<p><i>But the way they make it sound is that it's more manageable, because it's based on your real income and what your status actually is. It does not take into account things like what your rent is, what your other payments in life are. (Alexandria general, off-track borrower)</i></p> <p><i>Oftentimes the income-based is still a significant amount of money. My normal payment would be \$1,500. Income-based is between \$600 and \$700. That's not feasible. (Detroit general, off-track borrower)</i></p> <p><i>My bill is \$430 a month. I said, OK, look, I can pay \$250 without a problem a month, and it would be consistent. But I can't get them to budge from \$430 to make it where I can do the right thing. (Memphis general, off-track borrower)</i></p> <p><i>[If] they [were to] take into consideration what you make after you've paid all of your necessities, and they knew that after every month, you have \$200 left. If they're willing to take let's say \$45 a month with everything included, then I could feel confident and feel like I'm on the road to success knowing the exact amount that I'm going to end up paying. (Miami low-balance, off-track borrower)</i></p>
<p><b>Borrowers of all types paused payments, and many did so for far longer than they initially planned</b></p>	<p>N/A</p>	<p><i>I was like, this will give me breathing room, and by the time this forbearance ends, I'll have a job ... I'll have a steady income, and I'll be able to budget in my student loan payment into my bills. (Alexandria general, off-track borrower)</i></p> <p><i>Each time I had a baby, I had to stop. ... I was behind, and I called them, and they said these are the options. (Detroit general, off-track borrower)</i></p> <p><i>It was always, "we'll reevaluate after a year," but then the kids started to come. It wasn't like I said I'll take three years [of forbearance]. ... I knew that it was there. (Memphis on-track borrower)</i></p> <p><i>I've been pretty consistent on making my payments, and when I had issues or troubled times, I used deferment. And they were really good with that. It wasn't a problem, and then they gave me the time period, and then I went back on. (Phoenix high-balance, off-track borrower)</i></p> <p><i>Initially, I thought I would be able to ... start paying it again after that next year, [but it] didn't work out that way. ... I just had a whole bunch of other things always keep popping up. (Phoenix low-balance, off-track borrower)</i></p>
<p><b>Borrowers of all types paused payments, and many did so for far longer than they initially planned</b></p>	<p>Pausing payments was easy</p>	<p><i>When I ... started missing payments, they sent me an email, and it was really easy, like just reply back. ... And it's just always really easy to defer my payments. (Kansas City low-balance, off-track borrower)</i></p> <p><i>It was kind of easy, too easy, to the point that I'm like, wait, you're deferring your only, you're letting me just hold off on paying you. (Miami low-balance, off-track borrower)</i></p> <p><i>They make it so easy. It literally is just email, and it says, if you want to defer, respond, reply with a yes, and that's all it is nowadays. (Phoenix low-balance, off-track borrower)</i></p> <p><i>The website is really easy for me. Everything is there, and if you click, I can't afford this payment, they give you all the options you could choose. And then you just click on forbearance, and you tell them why. There's some options. So, I'm starting a new job. And that's all you have to do. It's three clicks. (Portland general, off-track borrower)</i></p>

Borrowers reported both positive and negative experiences with servicers		<p><i>[I wouldn't have known] about the 10-year excusing your loan if I hadn't called them and talked to them. I somehow didn't pick that up on the website. (Alexandria on-track borrower)</i></p> <p><i>The representative herself was really nice, and so she went through everything and verified that they had the documents and what we needed. (Kansas City high-balance, off-track borrower)</i></p> <p><i>I have found them to be pretty easy to communicate with and pretty helpful when I do come into some sort of spot with work or what have you, and I need to organize something. With them, I've found that the counseling I get, as brief as it is over the phone, has been helpful. (Portland on-track borrower)</i></p> <p><i>They've always been helpful. Sometimes they will call us back ... if they have to figure something out or get an answer. I can't think of any negative experience that I've had with a servicer. (Portland general, off-track borrower)</i></p> <p><i>I feel like it's consistent and they have good customer service. They're easy to talk to. (Seattle high-balance, off-track borrower)</i></p> <p><i>Through the website that holds my loans, they always offer options. ... There's a calculator, and you put in your income. ... It's actually been really helpful and interactive. (Seattle low-balance, off-track borrower)</i></p>
	N/A	<p><i>I think a lot of times they don't tell you of the options for flexibility to be able to make payments or different kinds of programs they might start up. They don't really tell you about [them] until you call. I think they could be more upfront or put it somewhere where you can find out everything that they offer. (Alexandria general, off-track borrower)</i></p> <p><i>[My servicer has been] talking down to me, very disrespectful, telling me that I knew that I owe this money, blah, blah, blah. I was like, pump your brakes. I'm calling you. You know, I'm trying to work something out. (Detroit general, off-track borrower)</i></p> <p><i>I would say, probably from all the times that I've spoken to them, there's been one time where one person was very helpful. ... But any other time I've called, no one had ever taken the time to explain. (Kansas City high-balance, off-track borrower)</i></p> <p><i>My experience with student loan people is, if I call back three times in a row, I'm going to get three different answers. (Phoenix high-balance, off-track borrower)</i></p> <p><i>It's like if you don't ask the right question a specific way, you don't get the answer that really helps you. (Phoenix low-balance, off-track borrower)</i></p> <p><i>They're not there to educate you. They're just trying to sort of get through the process. ... If you come not knowing anything, I don't think it works out well for you in the end. I think it's better to do a little bit of research to find out what the options might be, and then you call them. ... I just don't think they have time to do it. I don't think they have time to educate you. (Portland general, off-track borrower)</i></p>
	N/A	<p><i>When I last looked at the number, it was almost twice what I owed when I first left law school 18 years ago. And I have made payments. It's not like I've not made payments during this time. ... The last time I looked, I'll be collecting Social Security, and my student loans will finally get paid off. (Detroit general, off-track borrower)</i></p> <p><i>There really are no incentives. It's not like they're going to freeze the interest and say, OK, well, you know what, we won't get you any more interest. So it's hard to see a light at the end of the tunnel. (Kansas City high-balance, off-track borrower)</i></p>

<p><b>Growing balances overwhelmed and discouraged off-track borrowers</b></p>	<p>N/A</p>	<p><i>It's never going to go down. It's never going to go away. It's never going to be done. ... This is going to be forever. (Miami high-balance, off-track borrower)</i></p> <p><i>I don't know if anyone else felt like this, but I just felt like, I'm never going to pay it off before I die anyways, so what's the point? You know, honestly, that's how I felt. (Phoenix high-balance, off-track borrower)</i></p> <p><i>I pay and pay and pay, and I never really get ahead. (Phoenix low-balance, off-track borrower)</i></p> <p><i>It's hopeless for me. And I don't have big school loans. I just have some residual loans. But I don't see an end in sight. I'll be paying until I retire. (Portland general, off-track borrower)</i></p> <p><i>With what I can afford to pay and the amount that I owe, I will still owe. And [going by] the statistical human life span, I will die before they are paid off. (Portland general, off-track borrower)</i></p>
<p><b>Participants reported feelings of regret and gratitude about borrowing</b></p>	<p>Multiple negative experiences led to distrust and disengagement</p>	<p><i>It's really hard when you look at this big, huge bill that's about to take up, at least in some cases, 50 percent almost of your livelihood for that pay period. I think I'm kind of in the freeze mode. I'm just not quite sure, you know, because I'm getting letters. I know I'm behind. I know what you want. I need to call these people. I need to go on this line, this website. It's like, oh, and I'm just stuck. (Detroit general, off-track borrower)</i></p> <p><i>I get emails all the time from [my servicer] ... but I don't even open them anymore. (Kansas City high-balance, off-track borrower)</i></p> <p><i>I speak with them, and I'll say that I'm going to pay or make arrangements, but I don't. ... They'll keep calling, and I will just ignore them. (Miami low-balance, off-track borrower)</i></p> <p><i>I had my phone set to block that 888 number. ... I went through a whole lot of credit, debt issues, so I had my phone set that if you're not in my contacts, you'll go immediately to trash land. If I didn't get something in the mail, I wasn't paying attention to it. (Phoenix low-balance, off-track borrower)</i></p> <p><i>The amount I owe is like a phone number. It's a stupid amount of money. And I'm telling you, I don't have a job. But you're going to keep calling me every month. (Seattle high-balance, off-track borrower)</i></p>
<p><b>More can be done to help borrowers successfully repay</b></p>	<p>N/A</p>	<p><i>I would like to go back to school, but I can't pay it myself, so I don't want to. I don't go back, because I don't want the debt to grow. (Memphis general, off-track borrower)</i></p> <p><i>I tell my kids they need to rely on scholarships and their grades to go to school because we don't have money to pay for school. (Miami high-balance, off-track borrower)</i></p> <p><i>We're so scared to go back to school to ask for another loan. ... You kind of get discouraged to go back to school because you already owe X amount of dollars and increased X amount of dollars. If you go back to school and take out the loan again, it's just going to keep adding up, and it becomes stressful. (Miami low-balance, off-track borrower)</i></p> <p><i>I would never do it again. It takes so long. It's so much. Like it really does hang over you for so, so, so long. (Portland on-track borrower)</i></p> <p><i>I have not gone back to school because I don't want to owe more. And I make exactly the same as the people in my company who have further education than me. The only difference is I don't owe what they owe, which is hundreds of thousands. So that has made me not go back to school. (Seattle low-balance, off-track borrower)</i></p>
		<p><i>Success, to me, is just being able to make the payment, month to month. (Detroit on-track borrower)</i></p> <p><i>[Success is] being able to talk to the other person at the other end and say these are my finances. This is how much I can pay you. And for them to say, OK. (Miami low-balance, off-track borrower)</i></p>



## Appendix B: Methods

Pew contracted with Alan Newman Research (ANR) to conduct two focus groups in each of eight cities—Alexandria, Virginia; Detroit; Kansas City, Missouri; Memphis, Tennessee; Miami; Phoenix; Portland, Maine; and Seattle—for a total of 16 groups, between December 2018 and January 2019. (See Table B.1.) ANR managed recruitment and facility acquisition, and its staff moderated the groups. Pew staff created the screening and discussion guides, trained the moderators, observed the groups, and interpreted and analyzed the results.

Each focus group lasted 90 minutes to two hours, included seven to 12 participants, and generally followed a discussion guide but allowed conversation to develop among participants. The discussion guide included questions about transitioning from school into repayment, loan repayment challenges (including suspending, missing, and struggling to make payments and being delinquent and in default), enrolling in repayment plans, interactions with servicers, and other elements of borrowers' balance sheets.

Within 24 hours after each focus group, Pew staff produced memos to summarize the themes that emerged from the discussions. The memos in turn informed development of a code book that Pew staff used to analyze the focus groups' transcripts, along with NVivo software.

### Recruitment

Focus group participants were screened to include people who held student debt for their own or someone else's postsecondary education, had been in repayment for at least two years, and were between the ages of 20 and 60.<sup>71</sup> Postsecondary education was defined as any school, certificate, or training program beyond high school. Participants were not asked to specify which types of loans they had or whether those loans were federal or private. However, federal loans constitute a majority of the student loan market, and participants' comments were consistent with that fact.<sup>72</sup>

A total of 152 borrowers participated in this research. Participants were sorted into four categories of focus groups based on self-reported information about their experiences in repayment, and four focus groups in each category were conducted.

- **On-track borrowers** indicated that all of the following applied to them. They:
  - Had never or only in some months struggled to make payments on their student loans.<sup>73</sup>
  - Had not defaulted on a student loan in the past two years.
  - Were not on track to repay their loans or have them forgiven but thought they would get on track, were on track but weren't sure they would stay on track, or were on track and were confident they would stay on track.
- **General, off-track borrowers** indicated that at least one of the following applied to them. They:
  - Had struggled to make payments on their student loans most months or every month.
  - Had defaulted on a student loan in the past two years.
  - Were not on track to repay their loans or have them forgiven and did not think they would get on track.

Participants in the general, off-track focus groups had a range of balance sizes. But other focus groups were designed to include only borrowers with certain balances:



- **High-balance, off-track borrowers** had original balances above \$40,000.
- **Low-balance, off-track borrowers** had original balances below \$10,000.<sup>74</sup>

The focus groups comprised borrowers with various genders, annual incomes, original balances (for on-track borrowers and general, off-track borrowers), current balances, institutional sectors, highest levels of education, and racial/ethnic groups. (See Table B.2.) Although every effort was made to ensure diversity in the participants, the focus groups are not representative of all borrowers.

## Locations

The locations for the focus groups were chosen to include racial, age, political, geographic, income, professional and industry, educational attainment, and school-sector diversity.

Table B.1

### Pew Conducted 16 Focus Groups Across 8 Cities

City	Group 1	Group 2
Alexandria, Virginia	General, off-track borrowers	On-track borrowers
Detroit	General, off-track borrowers	On-track borrowers
Kansas City, Missouri	High-balance, off-track borrowers	Low-balance, off-track borrowers
Memphis, Tennessee	On-track borrowers	General, off-track borrowers
Miami	High-balance, off-track borrowers	Low-balance, off-track borrowers
Phoenix	High-balance, off-track borrowers	Low-balance, off-track borrowers
Portland, Maine	On-track borrowers	General, off-track borrowers
Seattle	Low-balance, off-track borrowers	High-balance, off-track borrowers

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Table B.2

## Self-Reported Borrower Demographics

	On-track borrowers	General, off-track borrowers	High-balance, off-track borrowers	Low-balance, off-track borrowers	TOTAL
<b>Income</b>					
Less than \$25,000	4	11	3	10	28
\$25,000-\$49,999	17	13	11	16	57
\$50,000-\$74,999	8	8	13	10	39
\$75,000-\$99,999	4	5	8	0	17
More than \$100,000	7	2	2	0	11
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>
<b>Original principal balance</b>					
Less than \$5,000	0	2	0	7	9
\$5,000-\$9,999	2	0	0	22	24
\$10,000-\$24,999	7	10	0	7	24
\$25,000-\$39,999	8	8	0	0	16
\$40,000-\$59,999	6	9	13	0	28
\$60,000-\$79,999	8	4	12	0	24
More than \$80,000	9	6	12	0	27
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>
<b>Current principal balance</b>					
Owed more than original principal balance	1	9	4	10	24
Owed less than original principal balance	19	8	11	6	44
In the same bracket as original principal balance	20	22	22	20	84
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>

### Highest level of education completed

Some college	5	4	4	20	33
Certificate/associate degree	4	5	2	9	20
Bachelor's degree	7	17	13	7	44
Graduate degree	24	13	18	0	55
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>

### Level of school for which loan was taken out

Undergraduate	20	28	20	35	103
Graduate	8	1	6	1	16
Both	12	10	11	0	33
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>

### School sector

Public	21	14	13	19	67
Private	8	9	15	9	41
For-profit	1	10	5	5	21
More than 1	10	3	3	1	17
Don't know	0	3	1	2	6
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>

### Race/ethnicity

Black/African American	12	11	11	7	41
White/Caucasian	25	26	19	16	86
Hispanic/Latino	1	0	7	9	17
Other	2	2	0	4	8
<b>TOTAL</b>	<b>40</b>	<b>39</b>	<b>37</b>	<b>36</b>	<b>152</b>

Age					
20-29	10	5	5	6	26
30-39	13	10	13	11	47
40-49	10	14	12	12	48
50-60	7	10	7	7	31
<b>TOTAL</b>	40	39	37	36	152
Gender					
Male	21	17	17	13	68
Female	19	22	20	23	84
Other	0	0	0	0	0
<b>TOTAL</b>	40	39	37	36	152

Notes: Because of recruiting challenges in two locations, seven low-balance, off-track borrowers had original principal balances between \$10,000 and \$17,000. These characteristics were self-reported when the screening guide was administered.

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## Quotations

This report quotes 89 of the 152 borrowers, and no borrower is quoted in any section more than once. Quotations were edited to remove fillers (e.g., “like,” “um”) and extraneous information and for clarity.

Although some quotes might indicate a misunderstanding of the process, this information is pertinent because borrowers often act based on their beliefs and perceptions, even when erroneous, and it is evidence of the complexity in the repayment system.

## Endnotes

- 1 Office of Federal Student Aid, "Federal Student Loan Portfolio," accessed Feb. 28, 2020, <https://studentaid.gov/data-center/student/portfolio>. Forty-three million federal student loan borrowers includes direct and Perkins loans and loans from the Federal Family Education Loan (FFEL) program. Twenty percent in default includes direct loans and FFEL program loans held by the Department of Education. Although default technically occurs after 270 days of missed payments, these figures measure default after 360 days.
- 2 Council of Economic Advisers, Executive Office of the President of the United States, "Investing in Higher Education: Benefits, Challenges, and the State of Student Debt" (2016); J.D. Delisle, P. Cooper, and C. Christensen, "Federal Student Loan Defaults: What Happens After Borrowers Default and Why" (American Enterprise Institute, 2018), <http://www.aei.org/publication/federal-student-loan-defaults-what-happens-after-borrowers-default-and-why/>; L. Ahlman, "Casualties of College Debt: What Data Show and Experts Say About Who Defaults and Why" (the Institute for College Access and Success, 2019), [https://ticas.org/sites/default/files/pub\\_files/casualties\\_of\\_college\\_debt\\_0.pdf](https://ticas.org/sites/default/files/pub_files/casualties_of_college_debt_0.pdf); M. Brown et al., "Looking at Student Loan Defaults Through a Larger Window" (Federal Reserve Bank of New York, 2015), [https://libertystreeteconomics.newyorkfed.org/2015/02/looking\\_at\\_student\\_loan\\_defaults\\_through\\_a\\_larger\\_window.html](https://libertystreeteconomics.newyorkfed.org/2015/02/looking_at_student_loan_defaults_through_a_larger_window.html); J. Scott-Clayton, "The Looming Student Loan Default Crisis Is Worse Than We Thought" (Brookings, 2018), <https://www.brookings.edu/research/the-looming-student-loan-default-crisis-is-worse-than-we-thought/>; the Institute for College Access and Success, "Students at Greatest Risk of Loan Default" (2018), [https://ticas.org/sites/default/files/pub\\_files/students\\_at\\_the\\_greatest\\_risk\\_of\\_default.pdf](https://ticas.org/sites/default/files/pub_files/students_at_the_greatest_risk_of_default.pdf).
- 3 A. Looney and C. Yannelis, "Most Students With Large Loan Balances Aren't Defaulting. They Just Aren't Reducing Their Debt" (Brookings, 2018), <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" (Federal Reserve Bank of New York, 2015), [https://libertystreeteconomics.newyorkfed.org/2015/02/payback\\_time\\_measuring\\_progress\\_on\\_student\\_debt\\_repayment.html](https://libertystreeteconomics.newyorkfed.org/2015/02/payback_time_measuring_progress_on_student_debt_repayment.html).
- 4 Common Manual Unified Student Loan Policy, "Common Manual," accessed July 31, 2019, <http://commonmanual.org/>; 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>.
- 5 Office of Federal Student Aid, "Student Loan Repayment," accessed Jan. 22, 2020, <https://studentaid.gov/manage-loans/repayment>.
- 6 Office of Federal Student Aid, "Choose the Federal Student Loan Repayment Plan That's Best for You," accessed Jan. 22, 2020, <https://studentaid.ed.gov/sa/repay-loans/understand/plans>.
- 7 Ibid. Borrowers who consolidate can repay over 30 years.
- 8 Payments may not cover the amount of interest accruing on the loan.
- 9 Office of Federal Student Aid, "Get Temporary Relief," accessed Jan. 22, 2020, <https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance>.
- 10 Subsidized loans 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, but generally do accrue interest during forbearances. In contrast, interest typically accrues on unsubsidized loans during school, the grace period, and periods of deferment and forbearance.
- 11 Office of Federal Student Aid, "Get Temporary Relief"; 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>. Certain borrowers may be eligible for a range of deferments or forbearances, some of which may not be time-limited.
- 12 Office of Federal Student Aid, "Understand How Interest Is Calculated and What Fees Are Associated With Your Federal Student Loan," accessed Jan. 22, 2020, <https://studentaid.ed.gov/sa/types/loans/interest-rates#capitalization>.
- 13 Office of Federal Student Aid, "Student Loan Delinquency and Default," accessed Jan. 22, 2020, <https://studentaid.ed.gov/sa/repay-loans/default>. Borrowers who make partial payments are considered delinquent—and can eventually default.
- 14 For older loans, borrowers are transferred directly to a debt collector, known as a guarantee agency.
- 15 Delisle, Cooper, and Christensen, "Federal Student Loan Defaults"; Office of Federal Student Aid, "In Some Cases, You Can Have Your Federal Student Loan Discharged After Declaring Bankruptcy," accessed Jan. 22, 2020, <https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/bankruptcy>.
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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 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 IRS.

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." The Department of Education's Office of Federal Student Aid (FSA) did not concur with all of the GAO's recommendations, noting the limited scope of the 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 on 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."

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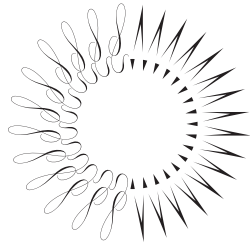
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