Delinquency: The Untold Story of Student Loans

Alisa Cunningham
Vice President for Research and Programs

PRESENTED BY
Institute for Higher Education Policy
ABOUT IHEP

– Independent, non-profit organization whose mission is to increase college access and success in postsecondary education around the world through unique research and innovative programs

– Committed to equal opportunity for ALL, with a special emphasis on historically underrepresented populations, such as low-income, minority, and first-generation college students

– Primary audiences for IHEP are those who make or inform decisions about higher education: policymakers, senior institutional leaders, researchers, funders, private sector leaders, and the media

– Key activities include policy research reports and studies, seminars and convenings, network- and capacity-building efforts, as an intermediary for various organizations
Student loans are increasingly used to access college

- 35% of UGs took out federal loan in 2009-10, an increase from 23% in 1999-2000

As the price of college has increased, loan indebtedness has risen

- Average total debt for BA recipients who borrowed was $20,300 at public 4-years, $25,900 at private non-profit 4-years

So have delinquencies and defaults – 2-year cohort default rate was 7% in 2008, up from 4.5% in 2003

- Differs by institution type, and 3-year rates are higher

Delinquency and default on federal student loans will have negative impacts on students’ credit ratings and ability to obtain future financing
Purpose of Study

• Get beyond the dichotomy of default vs. everyone else

• Provide a snapshot of borrowers who
  • Repay their student loans on schedule
  • Use federal repayment options to postpone payments and avoid delinquency
  • Become delinquent but do not default
  • Default

• Explore differences in repayment status by graduation status, last institution type attended, and other factors
Data and Characteristics

• Data from five national guaranty agencies

• Started repayment between October 1, 2004 and September 30, 2009 but analysis focused on borrowers who started repayment in 2005

• Overall, the data represent 8.7 million undergraduate and graduate borrowers, nearly 27.5 million loans, and $148 billion in loan activity

• The 2005 cohort comprises 1.8 million borrowers, over 6 million loans, and $38 billion in loan activity
## Borrower Repayment Status

<table>
<thead>
<tr>
<th>Detailed loan status (2005 cohort)</th>
<th>Percentage distribution</th>
<th>Number of borrowers</th>
<th>Total loans (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely repayment</td>
<td>37%</td>
<td>667,000</td>
<td>$13.4</td>
</tr>
<tr>
<td>Deferment, in-school enrollment *</td>
<td>7%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferment, economic hardship *</td>
<td>4%</td>
<td>400,000</td>
<td>$13.7</td>
</tr>
<tr>
<td>Forbearance only</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forbearance and deferment</td>
<td>6%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquency only</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquency and deferment</td>
<td>5%</td>
<td>454,000</td>
<td>$8.5</td>
</tr>
<tr>
<td>Delinquency and forbearance</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Delinquency/deferment/fbearance</td>
<td>8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Default</td>
<td>15%</td>
<td>258,000</td>
<td>$3.2</td>
</tr>
</tbody>
</table>

* An estimated two-thirds of borrowers deferred as in-school deferment, with the remaining due to economic hardship. Based on estimates from three out of the five guarantors.
## Loan Status by Institution Type

Percentage distribution of 2005 borrowers' loan status by last institution attended

<table>
<thead>
<tr>
<th>Loan status (2005 cohort)</th>
<th>Public 4-year</th>
<th>Private np 4-year</th>
<th>Public 2-year</th>
<th>For-profit 4-year</th>
<th>For-profit 2-year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely repayment</td>
<td>45%</td>
<td>53%</td>
<td>24%</td>
<td>35%</td>
<td>32%</td>
</tr>
<tr>
<td>Deferment/Forbearance</td>
<td>21%</td>
<td>20%</td>
<td>16%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>Delinquency, no default</td>
<td>24%</td>
<td>20%</td>
<td>36%</td>
<td>29%</td>
<td>27%</td>
</tr>
<tr>
<td>Default</td>
<td>10%</td>
<td>8%</td>
<td>24%</td>
<td>24%</td>
<td>36%</td>
</tr>
</tbody>
</table>

Total 315,300 278,400 172,300 171,500 143,800

Note: Does not include borrowers with consolidation loans.
## Loan Status by Highest Grade Level

Percentage distribution of 2005 borrowers’ loan status by highest grade level attained

<table>
<thead>
<tr>
<th></th>
<th>First year</th>
<th>Second year</th>
<th>Third year</th>
<th>Fourth year</th>
<th>Fifth year</th>
<th>Graduate student</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely repayment</td>
<td>26%</td>
<td>34%</td>
<td>43%</td>
<td>52%</td>
<td>50%</td>
<td>58%</td>
</tr>
<tr>
<td>Deferment/forbearance but not delinquent</td>
<td>10%</td>
<td>16%</td>
<td>20%</td>
<td>21%</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>Delinquent but not defaulted</td>
<td>30%</td>
<td>39%</td>
<td>27%</td>
<td>21%</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>Default</td>
<td>34%</td>
<td>18%</td>
<td>11%</td>
<td>6%</td>
<td>6%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Total: 100% 100% 100% 100% 100% 100%

*Note: Does not include borrowers with consolidation loans.*
贷款状态与选定特征

- 年龄与成为违约者的可能性有关
  - 几乎60%的借款人21岁以下曾在某个时间点违约。
  - 较大的借款人更少违约；45岁及以上的比例为33%。

- 违约的借款人拥有较少的贷款和较低的贷款金额
  - 本科生平均拥有3笔贷款；研究生平均拥有5笔贷款
  - 违约的借款人通常拥有最少的贷款；不违约但使用延缓还款的借款人则拥有更多的贷款

注：不包括拥有合并贷款的借款人。
# Loan Status by Graduation

Percentage distribution of 2005 borrowers' loan status by highest grade level attained

<table>
<thead>
<tr>
<th>Loan status (2005 cohort, undergraduates)</th>
<th>Left without credential</th>
<th>Graduated</th>
<th>All undergraduate borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely repayment</td>
<td>26%</td>
<td>48%</td>
<td>35%</td>
</tr>
<tr>
<td>Deferment/Forbearance</td>
<td>15%</td>
<td>14%</td>
<td>15%</td>
</tr>
<tr>
<td>Delinquency, no default</td>
<td>33%</td>
<td>22%</td>
<td>28%</td>
</tr>
<tr>
<td>Default</td>
<td>26%</td>
<td>16%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Note: Does not include borrowers with consolidation loans.
What Can We Learn?

• More than a third were repaying on time, while almost a quarter used repayment options to avoid delinquency

• More than a quarter were delinquent but did not default
  - For every default, there are at least two borrowers who are delinquent but do not default

• When taking defaulters into account, two in five were delinquent at some point

• Borrowers who attended 4-year institutions and those who graduated with a credential were less likely to be delinquent
Reframing the Debate

• Current focus on default rates does not fully capture the extent of borrowers’ difficulties in repaying student loans

• Questions to guide policymakers
  • With short-term solutions such as deferment and forbearance available, why do borrowers become delinquent?
  • Can we provide information about repayment options in a more targeted and timely way?
  • Is there a better way to track students who are experiencing difficulties with loan repayment?
  • Whose responsibility is it to provide information and assistance?
Contacts

Alisa Cunningham
alisa@ihep.org

Gregory S. Kienzl
gkienzl@ihep.org

Michelle Asha Cooper
mcooper@ihep.org
Delinquency: The Untold Story of Student Loans

Debra J. Chromy, Ed.D.
Vice President Strategic Partnerships

Presentation at the College Board 2012 New England Regional Forum

January 31, 2012
American Student Assistance

• FFELP Guarantor
  – Created in 1956
  – Boston-based; national guarantor
  – Lender-held Loan Portfolio
    • 1.4 million borrowers
    • $38 billion in guaranteed loans

• Original VFA guarantor
  – Focus on proactive Education Debt Management
  – Averted $122M in defaults
## American Student Assistance

- Lender-held Loan Portfolio (September 2011)

<table>
<thead>
<tr>
<th>Status</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-School</td>
<td>1%</td>
</tr>
<tr>
<td>Grace Period</td>
<td>1%</td>
</tr>
<tr>
<td>Repayment (current)</td>
<td>80%</td>
</tr>
<tr>
<td>Deferment</td>
<td>9%</td>
</tr>
<tr>
<td>Forbearance</td>
<td>3%</td>
</tr>
<tr>
<td>Delinquent</td>
<td>6%</td>
</tr>
</tbody>
</table>
ASA Wellness Activities: Measuring Success

*Journeys targets new graduates entering repayment. This data highlights the impact early outreach (contacting borrowers during their grace period, prior to the start of repayment) has on the rate of delinquency. Delinquency rates are 50% lower for those borrowers we are able to make contact with (engage in communication). Delinquency Rate refers to borrowers having at least one delinquency filing within 1 year of the communication launch. Control population refers to borrowers that weren't sent any communication material and no attempt to contact.
Transitions program targets withdrawn borrowers entering repayment. This data highlights the impact of outreach to borrowers who have withdrawn (did not complete their program/graduate) from school on the rate of delinquency. Delinquency rates are more than 50% lower for those borrowers we are able to make contact with (engage in communication). Delinquency Rate refers to borrowers having at least one delinquency filing within 1 year of the communication launch. Control population refers to borrowers that weren't sent any communication material and no attempt to contact.
ASA Wellness Activities: Measuring Success

Our efforts to engage borrowers with repayment problems helps reduce delinquency and contain defaults. Contacted borrowers show higher and faster rates of cure.
ASA’s Cohort Default Rate has often been among the lowest in the nation, and during the term of our prior Voluntary Flexible Agreement (VFA) beat the national rate by an average of more than 50%. We believe our focus on getting borrowers off to a good start, with targeted, proactive communication and contact in the early stages of repayment, helps drive this success.
Summary

What ASA has learned:

• Debt Management is a “contact sport”
• Communications must be customized
• The “right message at the right time”
• Effective outreach and communication can lower delinquency and default rates

Why this is important:

• Outstanding Education Debt is approaching $1 Trillion
• $9.2 Billion in student loans defaulted in FY09
Contacts

Debra J. Chromy
dchromy@asa.org
617-521-6087

Web link to the report:
www.asa.org/pdfs/corporate/delinquency_the_untold_story.pdf
Struggling Student Loan Borrowers

The Institutional Perspective

Scott R. James, Ed.D.
Associate Vice President for Enrollment Management
Institutional Profile

• Located in Salem, MA
  – 15 miles north of Boston

• Comprehensive regional teaching university
  – Biggest programs are Nursing, Education, Social Work, Biology, Criminal Justice and Business

• Total Enrollment of 10,000
  – 6,000 FT undergraduates
  – 1,500 continuing education undergraduates
  – 2,500 graduate students
Full-time Undergraduates

• 33% live on campus
  – 70% of first-time freshmen
• 85% receive financial assistance
• 68% receive loans
• 50% of population are transfer students
• 22% students of color
Academic Profile

• First-time freshmen
  – 3.1 high school GPA
  – 1000 combined Math and Critical Reading

• Transfers
  – 3.0 transfer GPA
  – 60% come from community colleges
<table>
<thead>
<tr>
<th>Year</th>
<th>Default Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4%</td>
</tr>
<tr>
<td>2007</td>
<td>6.6%</td>
</tr>
<tr>
<td>2008</td>
<td>6.4%</td>
</tr>
<tr>
<td>2009</td>
<td>6.9%</td>
</tr>
</tbody>
</table>
Response to Delinquency

• Limited resources
  – Focus is on currently enrolled students

• Partnerships are critical
  – American Student Assistance
    • Formerly as a guarantor
    • SALT