Too many student loan borrowers struggling, not enough benefiting from affordable repayment options

By Seth Frotman and Christa Gibbs – AUG 16, 2017

For five years, we've heard from borrowers like you about the problems you encounter when repaying student debt, particularly when you run into trouble and need help finding a way to make ends meet. Today, we released a new report showing how student loan repayment has changed over the last 15 years. In our report, we show that many of the most vulnerable student loan borrowers continue to struggle. For many borrowers—particularly ones with lower balances, likely including many who have not completed their degree or certificate—the benefits of affordable payment options remain largely untapped.

This suggests increased efforts to help this population of "at-risk" borrowers access and enroll in affordable repayment options may be able to address an important driver of student debt stress. Nearly every federal student loan borrower has the right under federal law to make a monthly payment based on their income (known as Income-Driven Repayment or IDR). If you have low or no income, "payments" can even as low as zero dollars a month. After 20 or 25 years, you may be eligible to have any remaining debt forgiven. Getting into an IDR plan can be an important buffer against economic uncertainty; it can be the difference between getting by and going broke.

But these new data raise questions about whether some of the borrowers who need these protections get the help necessary to benefit from them. These data also build on complaints and stories from tens of thousands of borrowers who have told us how, far too often, they've paid a steep price when their student loan servicer fails to provide a basic level of service, particularly if they are experiencing financial distress.

Many vulnerable borrowers aren't getting the full benefit of affordable repayment plans

To better understand the differences between borrowers who have benefited from affordable payment plans and those who have not, we looked at the performance of groups of borrowers who began to repay student debt between 2002 and 2011. We then took a closer look at those borrowers who, five years after entering repayment, were not paying down the principal of their student loan debt.

Generally, these borrowers fell into two broad categories.

- **Borrowers who have fallen behind on their student loans and are in "poor standing."** Most borrowers who aren't paying down their debt five years into repayment are in "poor standing" on their student loan debt. This means that they are not keeping up with their required monthly payments. These borrowers likely have not benefited from the now widely available options to make student loan payments more affordable. These borrowers are also likely taking a hit on their credit score, potentially impacting their larger financial life.
- **Borrowers who likely have made arrangements to keep up with their loan payments and are in "good standing."** Some borrowers who aren't paying down their debt five years into repayment are still in "good standing" on their student loan debt. These borrowers are likely benefiting from IDR and other affordable payment options—preserving their credit record and staying current on their loans.

The share of borrowers not paying down their balances nearly doubled over a ten year period. By taking a closer look at those borrowers, we saw that:

- **Most student loan borrowers who are not reducing their balances were in poor standing.** Five years into repayment, borrowers who aren't paying down their balances are more likely than not to be delinquent on their loans. Despite increases in the availability of affordable repayment options, the share of borrowers not paying down their balances who are delinquent on a student loan increased by 26 percent over the past 10 years.
- **Lower debt borrowers—likely including many who did not complete college—do not appear to gain the full benefits of affordable payment plans.** We saw that among borrowers with less than $20,000 in student debt, those who are not paying down their student loan debt are three times more likely to be delinquent than to be in good standing. In total, fewer than 30 percent of these borrowers are in good standing after five years. This was generally true for earlier groups of these borrowers, as well as more recent ones, even as access to affordable payment plans expanded rapidly in recent years—suggesting many are not benefiting from these programs.
- **Higher-debt borrowers—including many with advanced degrees—do appear to benefit from affordable payment plans.** In contrast, high balance borrowers (borrowers owing $50,000 or more) fare much better: of those not paying down debt five years into repayment, almost two-thirds (64 percent) are in good standing.

During the period of time covered in our analysis, most borrowers in earliest groups we observed did not have widespread access to IDR for their federal student loans, since these programs were first made widely available to borrowers beginning in 2009. As a result, we expected to see growth over time in the share of borrowers who are not making progress toward repaying their debt five years into repayment, but nonetheless remain in good standing.

Our analysis shows the opposite.

For many borrowers, particularly those with lower debt burdens, the benefits of IDR remain elusive. In contrast, our analysis suggests that borrowers with higher balances—including many of the most sophisticated borrowers—may be better-able to invoke their right to these protections. IDR should be a financial lifeline accessible to borrowers, regardless of the amount of debt they owe or level of education they attain.

Simply, these data may reflect that many borrowers are struggling to benefit from programs designed to protect them from default and keep their loans in good standing. With far too

many at-risk borrowers falling through the cracks, we have an opportunity to help a large number of borrowers stay on track—providing better access to payment relief in the short term and helping these borrowers strengthen their financial futures over the long term.

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