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ABSTRACT

This report on student indebtedness is based primarily on a current study which is measuring the average Stafford loan balance facing students, as well as indicators of payment stress. The study is based on data on about 325,000 loans from the USA Group's entire loan servicing portfolio, which includes both subsidized and unsubsidized Stafford loans issued under the Federal Family Education Loan Program. The study examined debt levels for four borrower groups categorized by school type: four- and five-year institutions, graduate and professional schools, two- or three-year colleges, and proprietary vocational schools. Findings are detailed for the following: (1) average Stafford balances, principal only; (2) average cumulative Stafford indebtedness, including principal and accrued interest; (3) indebtedness levels, borrower distribution; (4) data suggesting that the debt burden growth is beginning to moderate; (5) minimum annual income needed to support post-school indebtedness; and (6) development of payment stress indicators, including repayment plan selection rates, repayment status and delinquency rates. Conclusions indicate that students are going more deeply into debt to finance their postsecondary education, with graduate students borrowing the most under the Stafford loan program. Detailed tables are appended. (Contains 31 references.) (DB)

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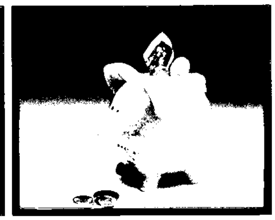

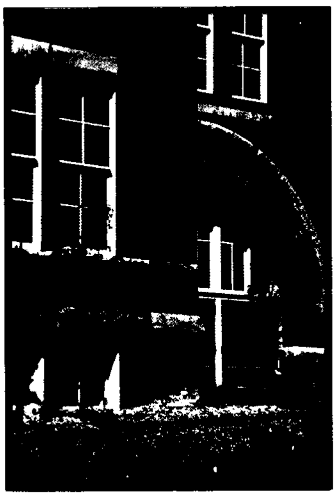

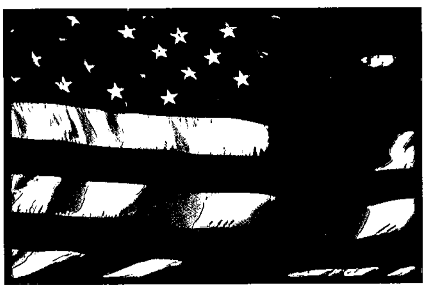

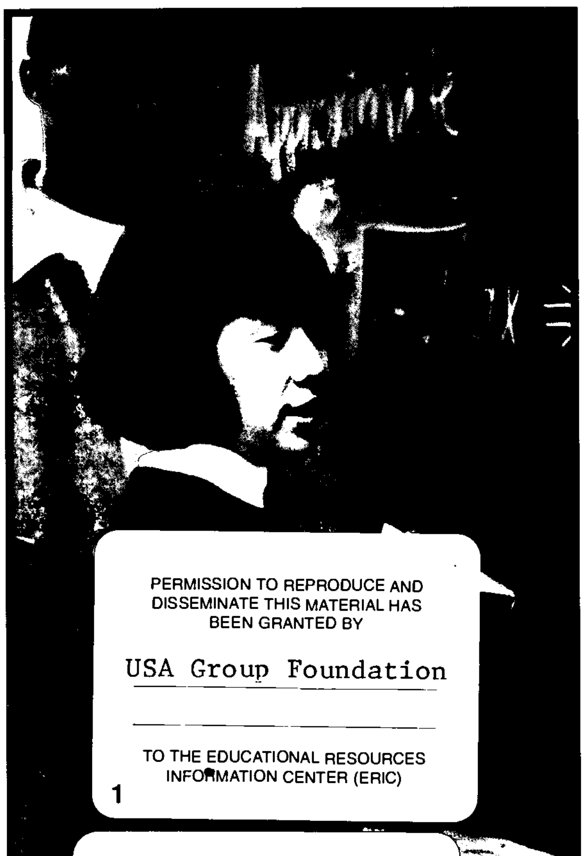

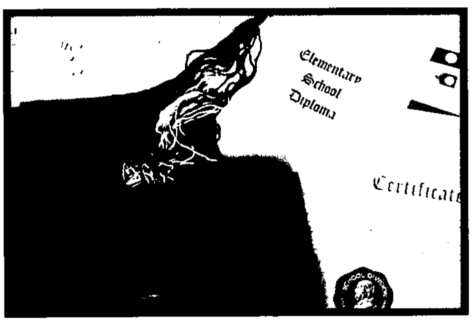

Student Indebtedness

Are Borrowers Pushing the Limits?

Patricia M. Scherschel

Acknowledgments

This report is based on a series of statistical reports drawn from USA Group Loan Services®' borrower account database. These reports were painstakingly compiled by David Pawlus and Paul Behymer.

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Are Borrowers Pushing the Limits?

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Introduction

After Congress increased student loan limits and eased borrowing restrictions in the early 1990s, few in the financial aid community were surprised by the immediate and dramatic surge in the annual volume of Stafford loans, the nation's largest single source of federal financial aid to students.

But, as gravity-defying indebtedness continued to grab headlines in the late 1990s, some researchers and policy makers began to ponder just how many more dollars students would be willing and able to borrow to fund their postsecondary education. Others asked just how much higher typical debt loads could rise, noting that, absent another increase in annual borrowing limits, the upward trend in student indebtedness would eventually have to level off.

Data gathered by an ongoing study at USA Group show that average student indebtedness continued to grow in 1998, but at a markedly slower pace than in 1997 and 1996, especially for students attending four- or five-year undergraduate programs, two- and three-year schools, and community colleges. This trend is illustrated in Charts I-1 and II-2. For example, the average cumulative undergraduate Stafford loan balance, including accrued interest, for students who left school in the first half of 1998 rose 1 percent to $9,830. In contrast, undergraduate Stafford balances rose on average by 4.5 percent in 1997 and nearly 9 percent in 1996.

Growth rates also declined for students at graduate and professional schools and for-profit vocational schools. The average total Stafford balance for graduate students rose 12 percent to $22,938, following increases of 25 percent in 1997 and 44 percent in 1996.

Despite the apparent slow down in the growth rate for Stafford loan balances, student indebtedness does not appear to be getting any easier to manage. Payment stress indicators tracked by the USA Group study show that a growing percentage of borrowers are seeking ways to reduce their monthly payment burden. For example, 8.5 percent of Stafford borrowers and 18 percent of consolidation borrowers entering repayment are now choosing graduated repayment, up from 6.7 percent and 16.2 percent, respectively, a year earlier. Moreover, record numbers of post-grace Stafford borrowers are using deferment and forbearance to postpone their loan payments. In fact, based on data provided by USA Group's loan servicing portfolio, nearly one in five borrowers with unsubsidized Stafford loans is in forbearance.

Cause for concern

The USA Group Stafford indebtedness surveys, as well as other student indebtedness studies, grew out of concerns about the unprecedented pace of student borrowing under the federal education loan programs during the 1990s. Financial aid administrators, public policy makers, and lawmakers are increasingly voicing fears that student borrowing is reaching excessive levels.

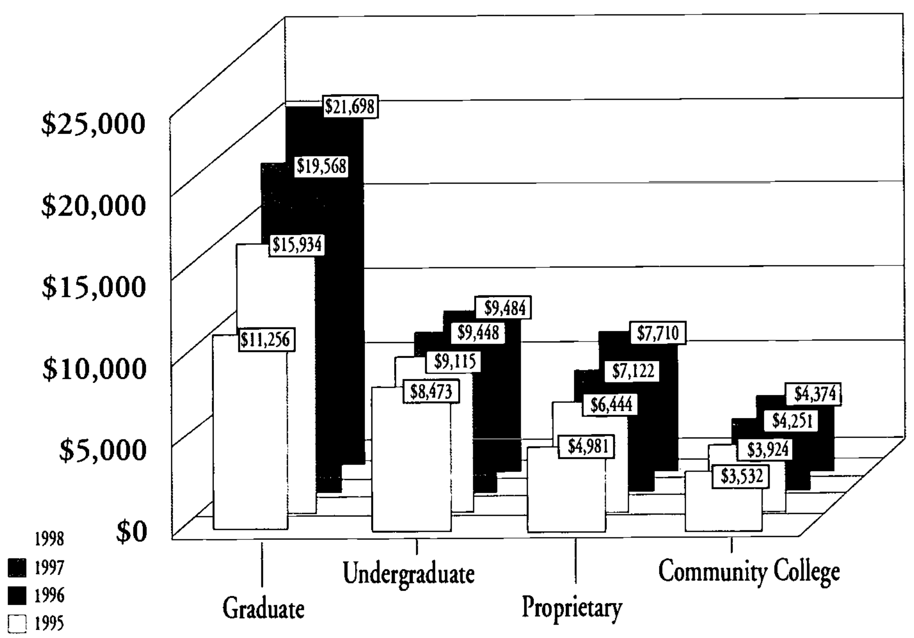
The danger that increasing post-school indebtedness will put more borrowers at risk of default is but one of their concerns. Just as worrisome are nagging questions about whether the prospect of hefty student loan payments may force a generation of college students, especially those planning to pursue graduate degrees, to limit their education choices, restrict their career plans to more lucrative fields of work, or fundamentally alter family and lifestyle goals.

The potential repercussions are sobering. Should the rise in student debt levels reverse the current downward trend in the nation's student loan default rate,[1] lawmakers could decide to restrict the availability of federal loans. Bigger post-school debt burdens will require borrowers to allocate more discretionary income to their monthly student loan payments,

Data gathered by an ongoing study at USA Group show that **average student indebtedness** continued to grow in 1998, but at a markedly slower pace than in 1997 and 1996, especially for students attending four- or five-year undergraduate programs.

Chart I-1

Average Cumulative Stafford Borrowing – Principal Only



NOTE: Figures show average Stafford indebtedness for students leaving school during the first six months of the year. Accrued interest on unsubsidized Stafford loans is not included. *Source: USA Group Loan Services, Inc./USA Group, Inc.*

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Researchers in the higher education community are seeking to measure student debt and the ability of borrowers to meet their monthly student loan payments.

reducing their financial capacity to buy cars, purchase and furnish their homes, save for their children's college expenses, and build a retirement nest egg. Mounting debt loads could reduce the supply of students willing to pursue low-paying public service careers, in teaching and social work, for example. Worse yet, some individuals may conclude they cannot afford to invest in a college degree.

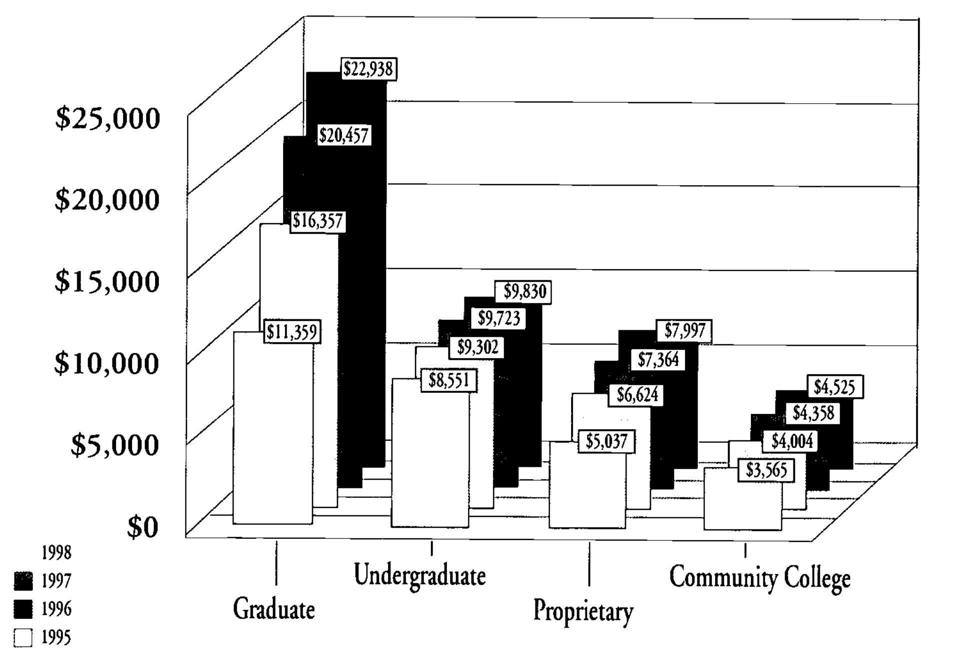
In response to these concerns, researchers in the higher education community are seeking to measure student debt and the ability of borrowers to meet their monthly student loan payments. Critical to their analysis is the ability to accurately and consistently monitor borrowing and repayment trends, but the supply of up-to-date, indebtedness statistics is limited.

Just how much do we know about student indebtedness? The U.S. Department of Education (the Department) tallies aggregate, national new loan volume and average loan disbursements on a quarterly basis. Between the inception of the federal loan programs in 1966 and the end of fiscal year 1997, students and parents borrowed an estimated $271.7 billion. They borrowed more than 40 percent of this amount — $111.6 billion — in just four fiscal years (FY1994, FY1995, FY1996, and FY1997). During this period, the average Stafford loan amount rose by nearly $600 to $3,751.[2]

The Department does not track, on an aggregate basis, annual changes in cumulative indebtedness — that is, how much borrowers typically owe upon leaving school. The current research on post-school debt loads primarily relies on data generated by a triennial sampling survey — the national Postsecondary Student Aid Study (NPSAS),[3] conducted by the National Center for Education Statistics (NCES), and occasional papers

Chart I-2

Average Post School Stafford Balances Including Accrued Interest on Unsubsidized Loans



NOTE: Figures include cumulative Stafford loan disbursements and accrued-but-unpaid interest on subsidized Stafford loans for borrowers who left school in the first six months of the year. *Source: USA Group Loan Services, Inc./USA Group, Inc.*

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and reports.[4] Many of the latter are based on NPSAS data; one of the most recent contributions, *Early Labor Force Experiences and Debt Burden*, for example, is based on follow-up surveys to the 1992-93 and 1989-90 NPSAS data sets.[5]

The latest sets of official indebtedness data were compiled by the 1995-96 NPSAS.[6] The NCES recently began to publish findings from this study, which surveyed 50,000 students and which, for the first time, incorporates data from the National Student Loan Data System (NSLDS). Researchers have begun to compare the 1995-96 NPSAS data to previous survey results to analyze recent trends in student indebtedness. An analysis of the NPSAS conducted by Jacqueline King of the American Council on Education found substantial increases in average indebtedness. Accumulated school debts for students who completed their degree programs in 1995-96 were 40 percent to 82 percent higher than the debt levels reported by the 1992-93 NPSAS. However, King's analysis also shows that the debt levels, in general, appear to be manageable in relation to post-school incomes and that the majority of students pursuing undergraduate, master's, and nonprofessional doctoral degrees had not borrowed to finance their education.[7]

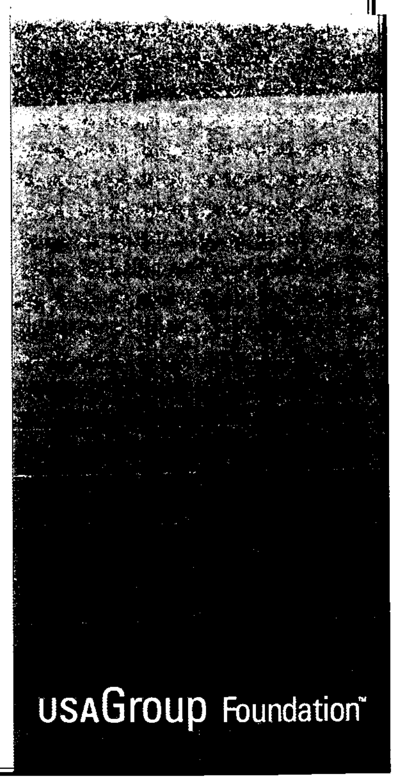
The Education Department's NPSAS surveys provide an extensive source of data on indebtedness, but their triennial schedule limits their effectiveness in tracking growth in student debt levels. An annual series would not only improve the ability to measure the growth rate in indebtedness but also potentially aid researchers in gauging the impact of changes in interest rates, tuition increases, economic conditions, and other factors in borrowing patterns.

Various education organizations also compile cumulative debt statistics for students pursuing graduate degrees in particular areas of study. For example, the American Association of Medical Colleges (AAMC) tracks indebtedness of medical students. The association's most recent data show that the average indebtedness for medical school students who graduated in 1997 was $80,462, an increase of 7.1 percent from the average debt load of $75,103 reported by the Class of 1996. The median loan balance rose nearly 12 percent to $80,000 from $71,500.[8]

Other loan sources are being tallied as well. In response to reports that students are showing an increased appetite for private loans and credit cards, researchers are seeking to determine how much non-federal loans are adding to student indebtedness. The College Board's annual *Trends in Student Aid* survey now compiles data on nonfederal education loans provided by private lenders, state agencies and others. According to the 1997 *Trends* report, nonfederal borrowing by postsecondary students jumped 15 percent to $1.5 billion during the 1996-97 financial aid award year. The College Board data, however, cover only the largest of the numerous private loan programs reportedly now being offered in the U.S.[9]

Researchers are tackling the arduous task of estimating the use of credit cards by students to fund college costs. According to a 1997 survey of college borrowers by Nellie Mae, slightly more than one-fourth (26 percent) of the respondents had used credit cards to help finance their education, while 6 percent had borrowed under private loan programs for graduate students.[10] However, a report published in June 1998 by The Education Resources Institute and the Institute for Higher Education Policy found that 64 percent of students surveyed had at least one credit card. Of those who had credit cards, 59 percent reported paying off their balances in full each month. The June 1998 survey results indicate that the vast majority of students who do maintain a revolving balance on their credit cards owe

According to a 1997 survey of college borrowers by Nellie Mae, **slightly more than one-fourth (26 percent)** of the respondents had used credit cards to help finance their education.



Lenders typically recommend that the monthly **student loan installments** not exceed 8 percent of the borrower's pretax income.

less than $1,000. These studies appropriately note the need for more research into credit card debt and the ability of young graduates to manage their card balances and student loans.[11]

An up-to-date data series on student indebtedness is just one piece of the debt burden puzzle. The financial aid community and policy makers also need statistical tools for measuring the ability of recent graduates to repay their debts. How much debt an individual can afford is contingent on several factors, including income and the rate of interest the borrower must pay. The length of the payback period and the type of repayment plan (level, graduated, or income-based repayment) are also key determinants of the monthly payment burden. One of the most frequently cited measures of affordability is the percentage of gross monthly income needed to cover the monthly student loan installment; this is known as the debt-to-income ratio. Researchers seeking to measure payment stress have suggested debt-to-income guidelines ranging from 5.7 to 15 percent of pretax income, and some analysts have suggested that debt burden ratios should vary according to income levels.[12]

Lenders typically recommend that the monthly student loan installments not exceed 8 percent of the borrower's pretax income in order to ensure that borrowers have sufficient funds available to cover taxes, car payments, rent or mortgage payments, and household expenses. The 8-percent rule appears to be derived from standard credit underwriting standards that limit monthly mortgage payments (including payments for principal, interest, insurance, and taxes) to 25 to 29 percent of the borrower's income and total monthly debt service payments to 36 to 41 percent of income. Given that many borrowers are likely to have credit card bills or car payments, the 8-percent rule seems to be a reasonable benchmark for student loans.

Higher ratios may be acceptable for certain groups of borrowers. For example, students pursuing medical or law degrees can reasonably expect to earn substantial incomes after they complete their education. Conversely, borrowers with low debt loads or modest living expenses may also be able to tolerate higher debt-to-income ratios.

Yet, debt-to-income ratios are of limited use to lenders in monitoring payment stress. Some borrowers, particularly those with large credit card balances, may experience payment stress at ratios of less than 8 percent, while borrowers with substantial incomes may easily tolerate higher ratios. Moreover, borrowers generally do not have to report their post-school incomes to lenders.[13] From an operations standpoint, the financial aid community and lenders could be well served by the development of other payment stress indicators, based on more readily available and easily updated information, such as borrower payment status.

Borrower Database for Indebtedness Analysis

Number of Borrowers Entering Grace Period During January–June

1998	**77,000**
1997	**84,000**
1996	**92,000**
1995	**79,000**

In all, USA Group has examined the records of more than 332,000 Stafford borrowers who entered the grace period during the first six months of each of the years included in the study. Nearly three-fifths of these borrowers were classified as undergraduate students attending four-year institutions. Graduate students accounted for about 11 percent, students attending two- or three-year colleges, 12 percent; and proprietary school students, approximately 21 percent. The database includes borrowers from across the United States.

USA Group Study

In 1996, USA Group and its affiliate, USA Group Loan Services, began a long-term project to track the indebtedness of student borrowers whose loans are administered by USA Group Loan Services.

The ultimate goal is to develop a mechanism for monitoring and analyzing current trends in student debt loads and the ability of borrowers to repay their education loans. Although the servicing portfolio cannot be viewed as perfectly representative of the universe of student loans, it offers the size and scope needed for a national study. USA Group currently manages a $13 billion loan portfolio on behalf of approximately 150 lenders[14] and more than 1.6 million student and parent borrowers nationwide.

The goal of this project is to lay the groundwork to develop a mechanism for monitoring and analyzing current trends in student debt loads and the ability of borrowers to repay their education loans. The first phase of the USA Group study has focused on two objectives: (1) determining the average *Stafford* loan balance facing students when they graduate or leave school, tracking the annual rate of change in student indebtedness, and (2) identifying indicators of payment stress, including delinquency rates and borrower reliance on reduced-payment options.

Although the USA Group study measures only Stafford indebtedness, the results should help assess general trends in student loan burdens. The Stafford loan program is the single largest federal source of debt financing for postsecondary studies. According to The College Board, subsidized and unsubsidized Stafford loans accounted for 95.8 percent of the $28.6 billion in federal education loans issued to student borrowers during the 1996-97 academic year. In contrast, the total volume of Perkins loans issued to students during the 1996-97 academic year was $943 million, or 3.3 percent of total federal loans. Other federal loans, including loans to students pursuing degrees in the health-care profession, amounted to only $261 million, accounting for less than 1 percent of federal loans to students.[15]

As of yet, there are no regularly published, comprehensive data on private funding sources. The available data suggest, however, that student borrowing under nonfederal loan programs is modest in comparison to federal borrowing activity. Based on The College Board's estimate, nonfederal loans provided to students and parents by institutions and state loan programs equaled less than 6 percent of the

Data Limitations

At present, the USA Group study is restricted to subsidized and unsubsidized Stafford loans issued under the Federal Family Education Loan Program (FFELP). At this time, the study does not provide breakdowns for borrowers attending public institutions vs. borrowers attending private schools; nor does it differentiate between borrowers who completed their degrees or certificate programs and those who did not. Because the USA Group study is based on virtually its entire loan servicing portfolio, the results are not subject to sampling error, at least as they pertain to USA Group's customer base.

Subsidized and unsubsidized Stafford loans account for 95.8 percent of the $28.6 billion in **federal education loans** issued to student borrowers during the 1996-97 academic year.

Annual Stafford Borrowing Limits

	Subsidized Loan Limit	Maximum Loan Amount
Dependent Undergraduate Students		
First Year	$ 2,625	$ 2,625
Second Year	$ 3,500	$ 3,500
Third Year	$ 5,500	$ 5,500
Fourth Year	$ 5,500	$ 5,500
Fifth Year	$ 5,500	$ 5,500
Independent Undergraduate Students		
First Year	$ 2,625	$ 6,625
Second Year	$ 3,500	$ 7,500
Third Year	$ 5,500	$10,500
Fourth Year	$ 5,500	$10,500
Fifth Year	$ 5,500	$10,500
Graduate Students		
Each Year	$ 8,500	$18,500

Source: U.S. Department of Education.

estimated volume of Stafford loans (including both guaranteed and direct loans) issued during academic year 1996-97.[16]

This report builds upon the project's initial findings, which were published in the fall of 1997, in an informal briefing paper: *Reality Bites: How Much Do Students Owe?*[17] The latter examined the loan records of more than 250,000 borrowers and calculated indebtedness estimates for 1995, 1996, and 1997. By adding student loan data for 77,000 students who left school in the first half of 1998, this report extends the period of trend analysis to four years. A summary of the database is provided on page 6, and a brief discussion of the data's limitations appears on page 7; a more detailed description of the database can be found on page 26.

Indebtedness data

The study examines debt levels for four borrower groups categorized by school: four- and five-year institutions, graduate and professional schools, two- or three-year colleges, and proprietary vocational schools. In addition to determining the average (mean) Stafford loan balance for borrowers entering the grace period, the study provides a debt-range distribution to show the concentration of borrowers with low, moderate, and heavy debt loads.

The study compiled two different series of data on indebtedness. The first data series focuses on the *principal balance* owed by borrowers at the time they left school. This series, thus, measures average total disbursements of Stafford loans. The second data series measures the average *total loan balance* — that is, principal owed at the time the borrowers entered the six-month, post-school grace period plus accrued interest. This measurement is to take into account borrowers' increasing dependency on unsubsidized Stafford loans. The federal government pays the interest that accrues on a borrower's subsidized Stafford loans while the borrower is in school and during the grace period. Borrowers, however, must pay all of the interest that accrues on unsubsidized Stafford loans; this interest can be deferred until the beginning of the repayment period.

The volume share of unsubsidized student loans has more than doubled during the 1990s. Unsubsidized loans grew from 15.8 percent of total Stafford/SLS[18] volume during the 1991-92 financial aid award year to 36.8 percent during the 1996-97 award year, according to figures compiled by The College Board.[19] Preliminary data from the Department of Education indicate that the unsubsidized Stafford loan share rose to nearly 38 percent during the first six months of the 1997-98 financial aid award year.[20]

This increase is generally attributed to several factors, including the escalating cost of attending college and the creation of the unsubsidized Stafford program in 1992. In addition, the eligibility rules for unsubsidized Stafford loans make it possible for virtually all students to borrow under the unsubsidized loan program without regard to their ability to demonstrate financial need.

Today's students can and do borrow substantial amounts under the Stafford program.[21] Annual limits range from $2,625 to $10,500 for undergraduates. Dependent undergraduates can borrow as much as $23,000 to finance a baccalaureate degree. Undergraduates who are financially independent of their parents may borrow up to $46,000, although only half of this amount may be subsidized.

Many graduate students easily qualify for the maximum annual Stafford loan limit of $18,500. Of this amount, only $8,500 can be subsidized, which means the interest meter is ticking on the unsubsidized portion of $10,000. At current interest rates, simple interest is accruing at an annual pace of approximately $750 per $10,000 of unsubsidized debt.

In all, an eligible student may receive Stafford loan disbursements totaling $138,500 to finance undergraduate and graduate studies; of this amount, no more than $65,500 may be subsidized. A borrower who lets the interest ride throughout his/her academic career on a substantial amount of unsubsidized loans will face a repayment balance that is significantly greater than the amount borrowed.

Annual loan limits play an important factor in gauging student indebtedness data. Because of the relatively low limits that apply during a borrower's early years of study, changes in the college drop-out rate among undergraduate students can affect average indebtedness. Moreover, if an increasing number of students borrow the maximum loan amounts throughout their academic careers, the presence of loan limits will curb the growth rate in Stafford indebtedness. The impact of Stafford loan limits on debt burdens is discussed in greater depth in section IV of this paper.

Payment stress data

To determine whether increasing student debt burdens are becoming more difficult to manage after borrowers leave school, the study explores possible indicators of payment difficulties. Borrower delinquency rates are well-established indicators of payment stress for both the home mortgage industry and credit card issuers. The USA Group Loan Services data base maintains up-to-date repayment status data for more than 1 million Stafford borrowers. In addition, the study has begun to examine selection rates for the various repayment options (including standard, graduated, and income-sensitive payment plans) available to borrowers.

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Summary of Results

The next three sections examine (1) average cumulative Stafford loan balances — principal only; (2) average total Stafford loan balances, including principal and accrued interest; and (3) the distribution of borrowers across a range of debt levels.

The fourth section explores possible reasons for a slowdown in the growth rate of Stafford debt burdens.

The last two sections focus on measures of borrowers' ability to manage their student loans. The fifth section estimates annual income levels needed to support post-school indebtedness. The sixth section discusses possible statistical indicators of borrower payment stress.

Detailed data compiled for the study are provided in the Appendix.

I. Average Stafford Balances — Principal Only

All four student borrower categories posted debt gains in 1998, but the rate of increase slowed markedly for all of the categories, with the exception of proprietary school students.

As shown in the table to the right, the typical indebtedness for undergraduates edged up by less than half a percent, to $9,484. The rate of increase fell by 89 percent from the year-earlier rate, and the 1997 rate was approximately half the 1996 increase.

Total Stafford borrowing by graduate and professional students expanded by 10.9 percent, less than half the 22.8

Annual Cumulative Stafford Borrowing

		Annual Percentage Change
Graduate Students		
1998	$21,698	+10.9%
1997	$19,568	+22.8%
1996	$15,934	+41.6%
1995	$11,256	—
Undergraduate Students		
1998	$ 9,484	+ 0.4%
1997	$ 9,448	+ 3.7%
1996	$ 9,115	+ 7.6%
1995	$ 8,473	—
Community/2/3-Year College Students		
1998	$ 4,374	+ 2.9%
1997	$ 4,251	+ 8.3%
1996	$ 3,924	+11.1%
1995	$ 3,532	—
Proprietary School Students		
1998	$ 7,710	+ 8.3%
1997	$ 7,122	+10.5%
1996	$ 6,444	+29.4%
1995	$ 4,981	—

Figures include the cumulative principal balance of Stafford loans for borrowers leaving school in the first half of the year. Figures exclude accrued-but-not-yet-capitalized interest.

Source: USA Group Loan Services, Inc./ USA Group, Inc.

Annual Cumulative Stafford Loan Balances

		Impact of Accrued Interest on Average Balance	
Graduate Students			
1998	$22,938	+$1,240	+5.7%
1997	$20,457	+$ 889	+4.5%
1996	$16,357	+$ 423	+2.7%
1995	$11,359	+$ 103	+0.9%
Undergraduate Students			
1998	$ 9,830	+$ 346	+3.6%
1997	$ 9,723	+$ 275	+2.9%
1996	$ 9,302	+$ 187	+2.1%
1995	$ 8,551	+$ 78	+0.9%
Community/2/3-Year College Students			
1998	$ 4,525	+$ 151	+3.5%
1997	$ 4,358	+$ 107	+2.5%
1996	$ 4,004	+$ 80	+2.0%
1995	$ 3,565	+$ 33	+0.9%
Proprietary School Students			
1998	$ 7,997	+$ 287	+3.7%
1997	$ 7,364	+$ 242	+3.4%
1996	$ 6,624	+$ 180	+2.8%
1995	$ 5,037	+$ 56	+1.1%

Figures include average cumulative principal balance of Stafford loans and accrued-but-not-yet-capitalized interest for borrowers leaving school in the first half of the year.

Source: USA Group Loan Services, Inc./ USA Group, Inc.

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percent rate posted in 1997 and approximately one-fourth the 1996 rate. Although the downward trajectory in graduate debt growth rates is welcome news, 1998 saw a $2,130 increase in the average Stafford debt load to $21,698. This amount includes debts incurred during the borrowers' undergraduate studies.

For borrowers who left community colleges and other two- and three-year schools (both public and private) in the first half of 1998, the estimated average Stafford principal balance is $4,374, an increase of 2.9 percent from the year-earlier level. In 1997, the average cumulative Stafford principal balance rose 8.3 percent to $4,251.

The rate of increase for students attending for-profit vocational schools also fell in 1998, but to a much lesser extent. The average amount borrowed rose 8.3 percent to $7,710. Average Stafford borrowing for students who left vocational schools in 1997 was $7,122, up 10.5 percent from 1996.

II. Average Cumulative Stafford Indebtedness, Including Principal and Accrued Interest

Capitalized interest is becoming a more significant contributor to student loan balances, including those of proprietary and community college students. To analyze the impact of the growing reliance on unsubsidized Stafford loans, the USA Group study compiled cumulative debt totals that include both principal and the amount of interest that has accrued (but has not yet been paid) by the students' departure date. The general practice for lenders served by USA Group Loan Services is to let interest accrue on a simple basis during a borrower's in-school period and the grace period. This interest is then capitalized in lump sum at the beginning of the repayment period. At this point, the borrower begins to pay interest on interest.

Accrued interest increased the average cumulative Stafford debt for graduate students leaving school in the first half of 1997 by $1,240, or 5.7 percent, to an estimated $22,938. In contrast, for students leaving graduate school in the first half of 1995, accrued interest increased average indebtedness by only $103, or 0.9 percent, to $11,359.

The average cumulative Stafford loan balance, including principal and accrued interest, for undergraduate borrowers leaving school in the first half of 1998 is an estimated $9,830, $346 more than the average principal-only balance of $9,484. Thus, accrued interest increased the average balance by 3.6 percent. The average total Stafford balance exceeded the average Stafford principal balance by 2.9 percent in 1997 and 0.9 percent in 1995.

For proprietary school students, accrued interest increased the 1998 average cumulative loan balance by $287, or 3.7 percent, to $7,997. A year earlier, interest increased the typical Stafford debt load by $242, or 3.4 percent, to $7,364.

For community college borrowers who left school in the first half of 1998, accrued interest increased the average total Stafford balance by $151, or 3.5 percent, to $4,525. Three years earlier, accrued interest added only $33, increasing average Stafford indebtedness 0.9 percent to $3,565.

These data indicate that, in percentage terms, accrued interest has approximately the same impact on proprietary school and community college students as it does on undergraduates. This is noteworthy in light of the fact that community college and proprietary school programs are typically completed within two years, providing less time for interest to accrue. This suggests that community college and proprietary school students rely more heavily on unsubsidized Stafford loans than do undergraduates. Although community colleges and proprietary schools are more likely to draw students from lower-income groups, their student populations include more nontraditional students: that is, older students who are independent of their parents' financial support.[22]

According to the Department of Education's *Federal Student Loan Programs Data Book for Fiscal Years 1994-1996*, proprietary school students accounted for 17.1 percent of all unsubsidized Stafford borrowers in fiscal year 1996, compared with just 9 percent in fiscal 1994. During the same period, proprietary students' dollar-volume share rose from 6.8 percent to 12.8 percent. In contrast, the proprietary student share of subsidized Stafford borrowers has hovered in the 13-14 percent range during fiscal years 1994, 1995, and 1996. These students received approximately 9-10 percent of the dollar volume of subsidized Stafford loans issued each year.[23]

In view of the rapid increase in unsubsidized Stafford loans in recent years, it is reasonable to expect the difference between the cumulative Stafford loan disbursement amount and the actual amount to be repaid to continue to widen in the years ahead.

III. Indebtedness Levels — Borrower Distribution

USA Group's study shows that more students are joining the ranks of the heavily indebted. An examination of the distribution of borrowers across a range of debt levels reveals that the share of undergraduate and graduate student borrowers who leave school with cumulative debts in excess of $25,000 has increased significantly during the past three years.

As demonstrated in the tables on pages 11 and 12, the share of graduate students who borrow more than $25,000 appears to be expanding at a sobering rate. In all, 26.2 percent of the graduate students who left school in the first half of 1998 have borrowed at least $25,000 in Stafford loans, up from 23.6 percent in 1997 and 9.9 percent in 1995. After taking into account accrued interest, an estimated 27 percent of graduate Stafford borrowers have accumulated debts in the $25,000-and-up category; only 10 percent were in this category in 1995. The average level of total Stafford indebtedness (principal and interest) for graduate students in this group has risen dramatically, from $35,836 in 1995 to an estimated $58,134 in 1998. For details, please see Table Series I and II in the Appendix.

Although the $25,000-and-up club accounts for a minority of undergraduates, a near-doubling of the percentage distribution, from 3.0 percent of the 1995 cohort of borrowers to 5.7 percent of the 1998 cohort, is remarkable. When accrued interest is included in the average debt totals, the share of undergraduates who have to repay $25,000 or more rises to 6.3 percent.

About two in 100 students attending proprietary schools amass Stafford debts in excess of $25,000. However, even this group of borrowers has seen a significant increase. Just 0.1 percent of all Stafford borrowers who left proprietary schools in the first half of 1995 owed at least $25,000 (in principal and accrued interest). By 1998, this group's share had risen to an estimated 2.3 percent. The percentage of the borrowers owing $10,000 to $24,999 has more than tripled since 1995, rising from 8.5 percent to 26.7 percent.

At present, approximately two out of three borrowers who attended community and other two-year colleges owe less than $5,000, based on the 1998 data; 26 percent have accumulated Stafford debts of $5,000 to $9,999. Just under 1 percent of two-year college students have borrowed $20,000 or more. Three years ago, none of the borrowers in this category owed more than $20,000.

Distribution by Stafford Borrowing

Percentage of borrowers who received Stafford disbursements totaling —

	1998	1995
Less than $5,000		
Graduate	19.4%	28.4%
Undergraduate	35.7%	35.6%
Community College	66.9%	74.9%
Proprietary	42.4%	57.7%
$5,000 – $9,999		
Graduate	22.3%	29.0%
Undergraduate	27.2%	30.9%
Community College	26.0%	22.8%
Proprietary	30.1%	34.1%
$10,000 – $14,999		
Graduate	13.5%	18.1%
Undergraduate	15.6%	17.8%
Community College	5.1%	2.3%
Proprietary	15.4%	6.4%
$15,000 – $19,999		
Graduate	14.1%	10.7%
Undergraduate	11.9%	9.8%
Community College	1.4%	—
Proprietary	8.1%	1.4%
$20,000 – $24,999		
Graduate	4.6%	3.9%
Undergraduate	3.9%	2.9%
Community College	0.5%	—
Proprietary	2.2%	0.4%
$25,000 or more		
Graduate	26.2%	9.9%
Undergraduate	5.7%	3.0%
Community College	0.1%	—
Proprietary	1.8%	0.1%

Source: *USA Group Loan Services, Inc./ USA Group, Inc.*

USA Group Foundation

Distribution by Total Indebtedness

Percentage distribution based on combined principal and accrued interest —

	1998	1995
Less than $5,000		
Graduate	19.0%	28.3%
Undergraduate	35.3%	35.4%
Community College	66.2%	74.6%
Proprietary	41.7%	57.0%
$5,000 – $9,999		
Graduate	22.0%	28.9%
Undergraduate	26.9%	30.8%
Community College	26.0%	22.9%
Proprietary	29.4%	34.4%
$10,000 – $14,999		
Graduate	13.3%	18.0%
Undergraduate	15.3%	17.9%
Community College	5.3%	2.4%
Proprietary	15.7%	6.7%
$15,000 – $19,999		
Graduate	13.2%	10.9%
Undergraduate	11.8%	9.9%
Community College	1.6%	—
Proprietary	7.5%	1.4%
$20,000 – $24,999		
Graduate	5.5%	3.9%
Undergraduate	4.4%	2.9%
Community College	0.6%	—
Proprietary	3.5%	0.4%
$25,000 or more		
Graduate	27.0%	10.0%
Undergraduate	6.3%	3.0%
Community College	0.3%	—
Proprietary	2.3%	0.1%

***Source:** USA Group Loan Services, Inc./ USA Group, Inc.*

The percentage of undergraduate borrowers who owe less than $5,000 actually increased in 1998, to 35.3 percent from 33.7 percent in 1997. At face value, this statistic suggests a reduction in student indebtedness. However, the reduction could reflect an increase in the undergraduate drop-out rate. Borrowers who quit school after a year or two will have lower loan balances than those who persist for four or five years and receive their degrees. But the modest loan balances of college dropouts are more likely to slide into delinquency and default than the higher debt loads borne by those who complete their degrees. Less debt means less education and weaker earning power. Indeed, earlier research by Laura Greene Knapp and Terry Seaks concluded that failure to finish the degree is a leading indicator of default.[24]

IV. Is Debt Burden Growth Beginning to Moderate?

The mid-1990s surge in Stafford borrowing is generally attributed to a number of factors, including:

- The rising cost of higher education.
- The growing use of debt to finance undergraduate studies.
- Increases in Stafford borrowing limits.
- The creation of the unsubsidized Stafford loan program, which allows students to borrow without regard to need.
- An increased willingness of students to borrow to pursue higher education, particularly a graduate degree.

These factors are significantly magnified at the graduate school level. Graduate degrees, especially professional degrees in medicine and law, entail much bigger tuition bills. Graduate students also enjoy higher loan limits. Then, too, the increase in graduate student indebtedness may be a direct reflection of the fact that individuals can borrow the substantial sums needed to finance their master's, professional, or doctoral degrees. Nellie Mae's recent debt burden survey found that 69 percent of the graduate students felt that the availability of loans was extremely important or very important to their ability to enroll in graduate school.[25] In this view, Stafford loans for graduate students are essentially enablers.

Still, the sharp reduction in the growth rates for most postsecondary students, especially undergraduates, in 1997 and 1998 suggests that the rate of increase in Stafford indebtedness may be leveling off. (See Charts II-1 and II-2 on pages 14 and 15.) One possible explanation is the presence of annual limits on the amounts students may borrow. As noted earlier, federal rules restrict annual undergraduate disbursements to $2,625 to $10,500, depending on the borrower's year in school and status as a dependent or independent student. Most graduate students may borrow no more than $18,500 annually. (Loan limits were recently increased for medical school students to offset the phase-out of another federal loan program.[26])

As shown in the table on the next page, the current Stafford loan limits were put in place following legislation enacted during the early- to mid-1990s. The increases that took effect in 1992 and 1993 were followed by sharp upswings in average Stafford loan disbursements during the 1993-94 and 1994-95 academic years. Since then, average loan disbursements have continued to increase, albeit at a lower rate.

These limits are now expected to remain in force at least through the end of the decade. At this writing, Congress is finalizing legislation to reauthorize the federal loan programs through fiscal year 2002, and a provision to increase the limits for subsidized or unsubsidized

Current Stafford Loan Limits and Dates of Inception

	Current Annual Limit for Subsidized Stafford Loans	Year When Current Loan Limit Went Into Effect	Current Annual Limit for Unsubsidized Stafford Loans	Year When Current Loan Limit Went Into Effect
1st Year	$2,625	1992	$6,625	1994
2nd Year	$3,500	1993	$7,500	1994
3rd, 4th, or Later Year	$5,500	1993	$10,500	1994
Cumulative Undergraduate Borrowing Limit	$23,000	1992	$46,000	1994
Graduate School	$8,500	1993	$18,500	1994
Cumulative Borrowing Limit	$65,000	1992	$138,500	1994

NOTE: Annual limits for unsubsidized Stafford loans are reduced by the amount of any subsidized Stafford loans issued to the borrowers.

Prior to the inception of the unsubsidized Stafford loan program in July 1994, borrowers obtained unsubsidized loans through the Supplemental Loans for Students (SLS) program. The $138,500 aggregate borrowing limit for subsidized and unsubsidized student loans became effective in 1992. Higher annual and aggregate loan limits are in effect for students attending certain medical schools. Annual limits vary according to the length of the student's enrollment period and type of program, and can range up to $45,167. The aggregate Stafford borrowing limit for medical school students is $189,125 (subsidized and unsubsidized combined).

Source: *NCHELP Common Manual, U.S. Department of Education.*

Total Annual Stafford Loan Volume

Annual volume includes subsidized and unsubsidized Stafford loans.

Financial Aid Award Year	Total Stafford Borrowing (in bil.)	Annual % Gain
1990-91	$11.712	3.3%
1991-92	$12.827	9.5%
1992-93	$13.635	6.3%
1993-94	$19.648	44.1%
1994-95	$22.885	16.5%
1995-96	$24.948	9.0%
1996-97	$27.433	10.0%

Total Annual PLUS Loan Volume

Annual volume includes subsidized and unsubsidized Stafford loans.

Financial Aid Award Year	Total PLUS Borrowing (in bil.)	Annual % Gain
1990-91	$ .957	18.4%
1991-92	$1.165	21.7%
1992-93	$1.279	9.7%
1993-94	$1.529	19.5%
1994-95	$1.840	20.3%
1995-96	$2.436	32.4%
1996-97	$2.677	9.9%

Data for 1990-91, 1992-93, 1993-94, and 1994-95 include SLS loans, which were discontinued in 1994. Data for 1994-95 and later years include loans issued under both the Federal Family Education Loan and Direct Loan programs.

Source: *U.S. Department of Education, The College Board.*

A slowdown in the growth rate for average Stafford debt levels does not necessarily mean that students and families are **curbing their use of credit.** Instead, borrowers could be shifting part of their borrowing activity to nonfederal loan sources.

Stafford loans is considered unlikely. A number of higher education groups recommended modest changes in annual Stafford borrowing limits but did not aggressively lobby for them. One proposal, supported by advocates for private colleges and universities, sought to increase the annual borrowing limits for undergraduates but not the $23,000 aggregate Stafford limit for dependent undergraduates. At least one organization urged Congress to grant schools the authority to set lower limits for their students.[27] Thus, absent a significant increase in the number of borrowers, growth in annual Stafford loan volume over the next few years is less likely to repeat the huge increases that occurred in the mid-1990s.

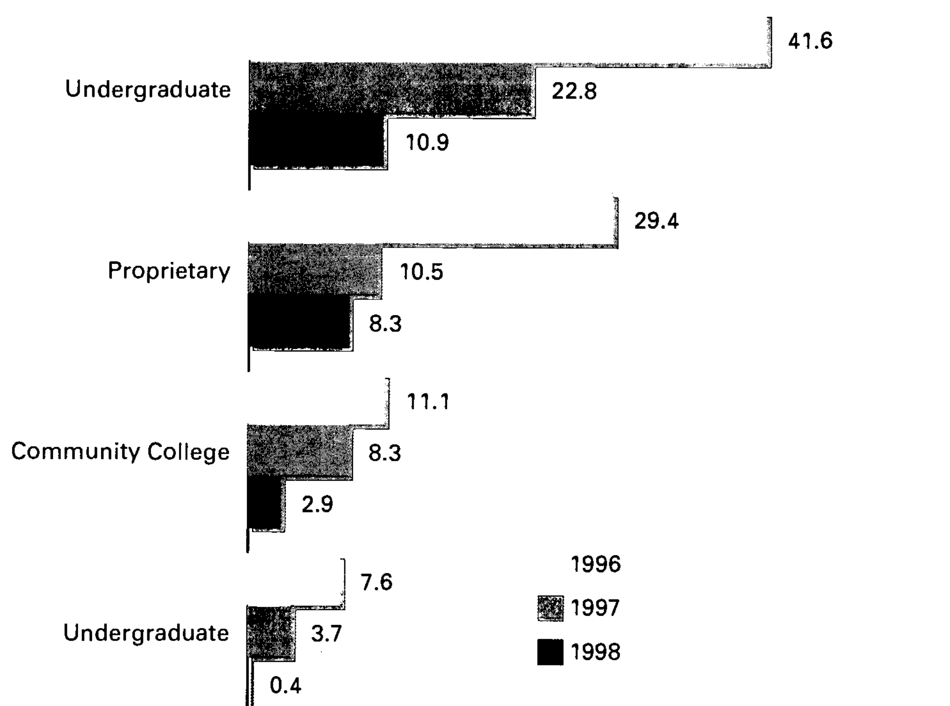
To be sure, loan limits are not the only factor affecting growth in Stafford indebtedness. As noted earlier, an increase in the college drop-out rate could reduce average loan balances. Freshman borrowing is limited to $2,625 a year (for dependent students), so a significant increase in "one-semester wonders" would exert downward pressure on average Stafford debt levels. Then, too, other factors may curb demand for Federal Stafford loans. Increases in the availability of other aid — for example, increases in Pell Grant awards and use of Hope Scholarship tax credits — could reduce student loan amounts.

Other factors at work could encourage Stafford borrowing. The restoration of the student loan interest deduction, which took effect at the beginning of the 1998 federal tax year, could make Stafford loans a more attractive means of funding college. Continued hikes in college tuition and room and board charges could increase pressure on students, especially those who are financially independent of their parents, to increase their borrowing under the unsubsidized Stafford loan program.

Readers must be cautioned, however, that a slowdown in the growth rate for average Stafford debt levels does not necessarily mean that students and families

Chart II-1

Annual Percentage Growth Rates in Average Stafford Balances – Principal Only



Source: USA Group Loan Services, Inc./USA Group, Inc.

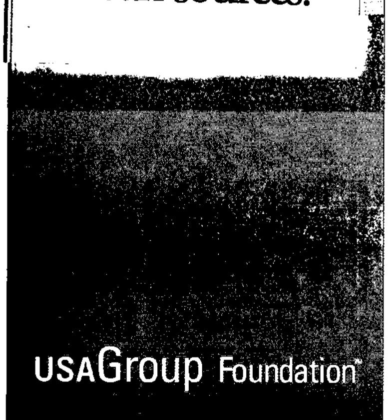
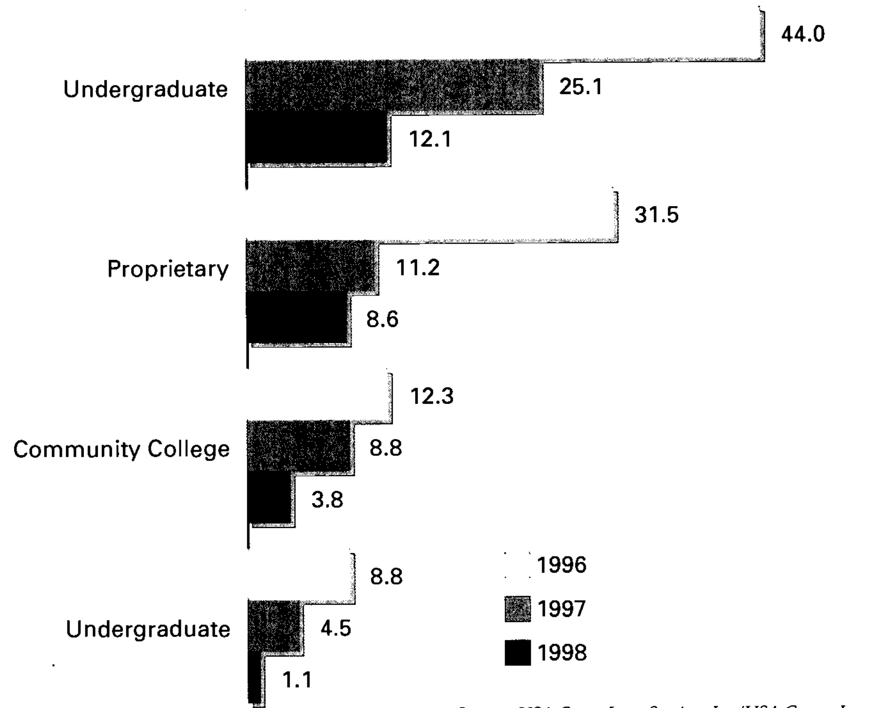


Chart II-2

Annual Percentage Growth Rates in Average Stafford Balances – Including Interest



Source: USA Group Loan Services, Inc./USA Group, Inc.

An increase in the number of borrowers who **reach the Stafford loan limits** but still have unmet financing need would boost the growth rate in private loan volumne.

are curbing their use of credit. Instead, borrowers could be shifting part of their borrowing activity to nonfederal loan sources, including state loan programs, private loans offered by banks, savings institutions, secondary markets, educational institutions, and the ubiquitous credit card. Indeed, the proliferation of private loan programs in recent years indicates that many lenders view the current Stafford loan limits coupled with continued increases in college costs as a lending opportunity.

How many students "max out" under the Stafford limits and yet still need additional loan funds is unknown. Unmet borrowing needs could be offset, at least in part, by increased borrowing by parents under the PLUS program, which has seen a significant increase in annual loan volume in the past few years. The College Board *Trends* report shows that PLUS volume grew at an average annual rate of more than 20 percent during the 1993-94, 1994-95, 1995-96 and 1996-97 financial aid award years. The available information compiled by The College Board shows that borrowing under state-sponsored loan programs rose by 28 percent during financial aid award year 1996-97, to $302 million. During the same period, lending by major private loan programs rose 21.4 percent to $1.2 billion.[28] An increase in the number of borrowers who reach the Stafford loan limits but still have unmet financing need would boost the growth rate in private loan volume.

V. Minimum Annual Income Needed to Support Post-School Indebtedness

Lenders generally recommend that a borrower's monthly student loan payments should not exceed 8 percent of

Income Levels Needed to Support Average Stafford Debt Levels

Lenders urge borrowers to limit their student loan payments to no more than 8 percent of their incomes.

Graduate Students

Average Debt Burden	$22,938
Monthly Payment	$ 278
Minimum Annual Income Needed to Meet 8% Rule	$41,700

Undergraduate Students

Average Debt Burden	$ 9,830
Monthly Payment	$ 119
Minimum Annual Income Needed to Meet 8% Rule	$17,850

Community/2/3-Year College Students

Average Debt Burden	$ 4,525
Monthly Payment	$ 55
Minimum Annual Income Needed to Meet 8% Rule	$ 8,250

Proprietary School Students

Average Debt Burden	$ 7,997
Monthly Payment	$ 97
Minimum Annual Income Needed to Meet 8% Rule	$14,550

1998 debt burden data include average cumulative principal balance of Stafford loans and accrued interest. Monthly payment calculations assume a constant interest rate of 8 percent over a 10-year repayment period.

Source: USA Group Loan Services, Inc./ USA Group, Inc.

the borrower's gross, or pre-tax, monthly income. At this level, the borrower should have sufficient discretionary income to cover essential living expenses and maintain other debt service — for example, payments on car loans and credit cards. Using a debt-to-income ratio of 8 percent, a new college graduate would need an annual income of at least $17,850 to support the average undergraduate Stafford debt load of $9,830, assuming an interest rate of 8 percent, a standard, 10-year repayment period, and a monthly payment of $119. A borrower with a typical graduate student debt load of $22,938 would need an annual income of $41,700 or more to stay within the 8 percent guideline. Proprietary school students would have to earn $14,550 a year to meet the 8 percent debt-to-income guideline for the average trade school debt of $7,997. The monthly installment for the typical community college Stafford debt burden is $55; keeping this payment within the 8 percent rule would require an annual income of at least $8,250 a year.

According to several key employment surveys, the Class of 1998 is enjoying one of the strongest job markets in recent memory. In mid-1998, the national unemployment rate fell to its lowest levels since 1970.[29] Because today's advancing technologies favor employees with at least some college education, competition for skilled workers is pulling up starting salaries for arts and science degree holders as well as grads with engineering, computer, business or technical degrees. According to a 1998 survey by the National Association of Colleges and Employers, starting pay averaged about $42,000 for undergraduates who majored in computer science and $33,000 to $39,000 for business majors. Many students who pursued arts and science degrees can expect to earn $25,000 to $30,000 in their first jobs.[30]

Still, as shown in Table Series III in the Appendix, more heavily indebted borrowers will need even higher incomes to comfortably manage their student loan payments. For example, the average Stafford balance for undergraduates who owe at least $25,000 is $33,733. To limit the $409 monthly payment to 8 percent or less of gross income, a borrower would have to earn more than $5,100 a month — or $61,350 a year.

The income hurdle is much more challenging for highly indebted borrowers, especially the 25 percent of graduate students who leave school owing $25,000 or more. This group's average indebtedness (including accrued interest) in 1998 is $58,134. To repay this amount under the standard repayment plan, the borrower would have to make monthly payments of $705 for 10 years. Based on the 8 percent income guideline, the borrower would need a gross, annual household income of $105,750 to support this payment.

Borrowers whose incomes aren't enough to meet the 8 percent guideline can either (1) seek to reduce their monthly payments by extending their payback period or arranging graduated repayment terms or (2) allocate a larger percentage of their incomes to student loan payments.

Borrowers can reduce the monthly payment, typically, by arranging a graduated repayment plan or extending the repayment period. Under current federal rules, borrowers can take 10 to 30 years to repay their loans, depending on the amount owed. For example, under a consolidation loan carrying an interest rate of 8 percent, a borrower who owes $58,134 can more than double the length of the repayment period to 25 years, reduce the payment from $705 to $449, and drop the minimum annual income needed to meet the 8 percent rule to $67,350.

Although reduced payment plans free discretionary income for other uses, they add significantly to repayment costs, because borrowers must pay interest on a higher balance for a longer period of time. Taking 25 years to repay the $58,134 balance cited in the example above would nearly *triple* the borrower's total interest charges, to more than $76,000.

Whether the borrower can "bite the bullet" and allocate a bigger share of discretionary income to the monthly student loan payment depends on the borrower's financial and household circumstances. A borrower with a good income but no dependents and little or no consumer debt may decide that he or she can afford to dedicate, say, 12 percent of monthly income to the student loan payment. However, a borrower with a modest income, hefty child care expenses or large credit card balances may not be able to meet the 8 percent guideline.

Because different borrowers will experience payment stress at varying debt-to-income ratios, the appendix to this report includes a set of tables showing incomes needed to support debt-to-income ratios of 5 percent to 15 percent. Reducing this ratio would appear to put less strain on borrowers' pocketbooks. However, if the monthly debt burden remains constant, reducing the debt-to-income ratio means that borrowers must earn bigger incomes to meet the ratio. For example, a graduate student with $22,938 in school debts would need an annual income of $41,700 to support a $278 monthly payment and not exceed a debt-to-income ratio of 8 percent. Yet, to make sure the same payment does not consume more than 5 percent of income, the borrower would have to earn $66,720 a year.

Clearly, borrowers need to understand the impact of student loan payments on their post-school budgets and lifestyles. USA Group uses a variety of means to inform and counsel borrowers about their repayment options, including borrower contact letters, consumer brochures, toll-free customer hotlines, and loan counseling software. USA Group's Internet site on the World Wide Web (***www.usagroup.com***) offers comprehensive loan counseling information and interactive repayment calculators, as well as information on how much income is needed to support various levels of debt.

VI. Development of Payment Stress Indicators

Although debt-to-income ratios help borrowers gauge their ability to repay their loans, lenders and loan servicers cannot directly monitor, in most instances, whether borrowers have sufficient income to meet their student loan payments. Stafford loans typically are issued before a borrower gets a full-time job, and, except in cases where the borrower requests the relatively new income-sensitive repayment option, borrowers are not required to provide lenders with income data. Lenders also will not have information on other education loans the borrower may have with different lenders.

Lenders and loan servicers, however, may be able to develop a number of payment stress indicators by tracking operational data that can tell them whether borrowers are having increasing difficulty in meeting their monthly loan payments. The USA Group study is compiling data on several possible indicators, including repayment plan selection rates and portfolio delinquency rates. A marked increase in the delinquency rate and/or the number of borrowers selecting a repayment plan that offers a lower monthly payment than the standard, 10-year repayment plan could indicate that more borrowers find themselves in need of payment relief.

Repayment Plan Selection Rates

The USA Group study is developing a system for tracking repayment plan selection rates for Stafford borrowers who

Although debt-to-income ratios help borrowers gauge their ability to repay their loans, lenders and loan servicers cannot directly monitor, in most instances, whether borrowers have sufficient income to meet their student loan payments.

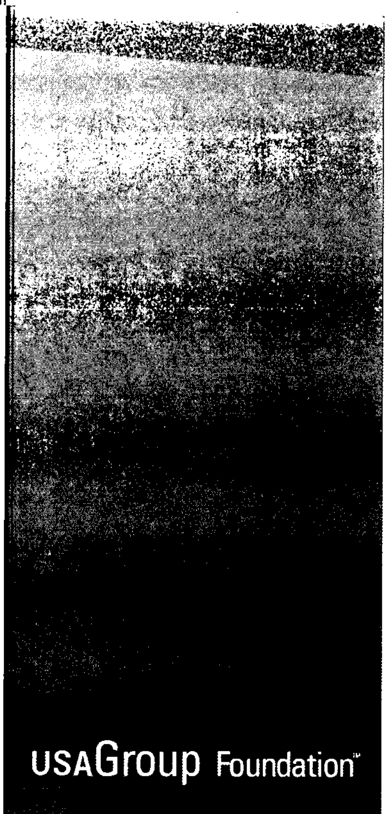
Repayment Plan Selection Rates for Stafford Borrowers Entering Repayment

Though the standard, level payment plan remains the payback option of choice, the percentage of borrowers selecting graduated repayment rose nearly 28% during the past year.

Repayment Option	1998	1997
Level Payment	91.01%	93.07%
Graduated	8.53%	6.68%
Income-Sensitive	0.45%	0.25%
	100.00%	100.00%

These percentages reflect payment plan selection rates for borrowers who entered repayment during the 12-month period ending June 30. Percentages may not add to 100 percent due to rounding.

Source: USA Group Loan Services, Inc./ USA Group, Inc.



are just starting to repay their loans. This endeavor includes an analysis of repayment plan selection rates for borrowers seeking loan consolidation. Borrowers can extend their repayment periods by consolidating their loans and, depending on interest rate levels and the length of the extended payback period, reduce their monthly payments by as much as 40 percent under the standard, level-payment plan. Consolidation borrowers can free even more discretionary income by selecting a graduated or income-sensitive repayment plan.

The standard repayment, 10-year, equal-installment plan has long been the repayment plan of choice among borrowers served by USA Group Loan Services. The reliance on the standard plan can be attributed to several factors, including:

- ❐ ***Cost.*** Total payments, and thus total interest expenses, will be lower under the equal-installment plan than under a graduated or income-sensitive repayment plan with the same payback period.
- ❐ ***Simplicity.*** Equal-installment plans offer a predictable, less complicated payment schedule than those offered under the other two plans.
- ❐ ***Suitability.*** Before the mid-1990s, the majority of borrowers owed amounts that could be comfortably repaid under the standard plan; the monthly payments did not impose excessive burdens on their incomes. The flexible terms offered by graduated or income-sensitive repayment were not needed.
- ❐ ***Lack of awareness.*** Until recently, many borrowers simply may not have been aware of their repayment options.

Flexible repayment options are relatively new. The income-sensitive repayment plan did not become widely available until the mid-1990s — after the Department of Education issued guidelines on how lenders were to implement the plan. The graduated payment option was introduced years ago, but lenders were not required to inform borrowers of this option until relatively recently.

Today, information on repayment options, including graduated repayment, income-sensitive repayment, and consolidation, is widely available from financial aid offices, lenders, loan servicers, and guarantors. USA Group Loan Services and affiliates, for example, use a variety of means to inform and counsel borrowers about their repayment options, including counseling, brochures, software, customer service hotlines, and an Internet site that features in-depth counseling information and interactive repayment calculators.

Growing awareness might prompt more students who are in need of payment relief to seek more flexible repayment terms. Thus, examining repayment plan selection rates for borrowers entering repayment may help us gauge whether post-school debt burdens are imposing economic hardship. As the table at the left shows, 91 of every 100 borrowers who entered repayment during the 12-month period ending June 30, 1998, chose to repay their loans under a level-repayment option. In contrast, nearly nine of every 100 borrowers are repaying their education loans under the graduated repayment plan. Just 45 of every 10,000 borrowers served by USA Group Loan Services have elected to tie their payments to their incomes under the income-sensitive repayment option.

A comparison of these data against the repayment selection rates reported a year earlier shows that the percentage of borrowers using graduated repayment rose nearly 28 percent. The proportion using the income-sensitive repayment option nearly doubled, but the results are scant percentages that represent a few hundred borrowers.

The selection rates for graduated repayment and income-sensitive repayment are higher for consolidation loans that were issued and added to USA Group Loan Services' portfolio in the 12-month period ending June 30, 1998. As shown in the table at right, slightly more than 18 percent of these loans entered repayment under the graduated repayment plan. Still, only 0.51 percent of these consolidation borrowers chose income-sensitive repayment.

The higher selection rate for graduated repayment among consolidation borrowers is noteworthy. Many borrowers elect to consolidate their education loans to reduce their monthly payment by extending the payback period from the standard 10 years to periods ranging from 12 to 30 years. Depending on the interest rate and length of the payback period, a level-payment consolidation loan can reduce the monthly payment by 10 to 40 percent from the monthly installment amount required under the standard 10-year repayment plan. A graduated or income-sensitive payment plan can reduce the initial installment amount by 40 to 50 percent. An increasing percentage of consolidation borrowers who are seeking graduated repayment terms may serve as an indicator of payment stress.

The available data do not permit calculation of repayment plan selection rates for borrowers entering repayment in prior years. However, USA Group will be able to track the selection rate in future years.

Repayment Status and Delinquency Rates

Lenders traditionally have used payment delinquency rates to measure and help manage potential losses on their portfolios of home mortgages and credit card accounts. For example, the Mortgage Bankers Association of America conducts and publishes a quarterly survey of residential mortgage delinquency rates; the survey, which covers approximately one-third of all residential mortgages, estimates the percentage of homeowners whose payments are 30, 60, or 90 days overdue.[31]

Repayment Plan Selection Rates Federal for Consolidation Loans

Repayment Option	1998	1997
Level Payment	81.46%	83.39%
Graduated	18.03%	16.23%
Income-Sensitive	0.51%	0.37%
	100.00%	100.00%

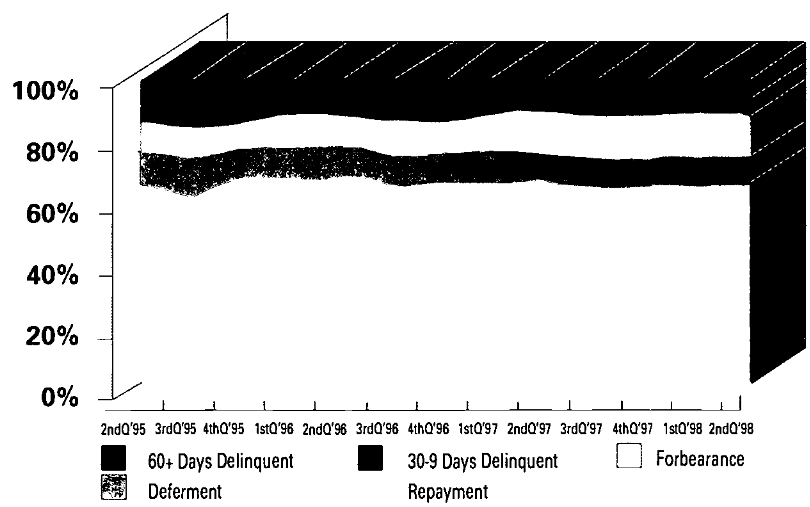
These percentages reflect payment plan selection rates for borrowers who arranged consolidation loans between July 1 and June 30. Percentages may not add to 100 percent due to rounding.

Source: USA Group Loan Services, Inc./ USA Group, Inc.

Chart III-1

Repayment/Delinquency Status of Borrowers

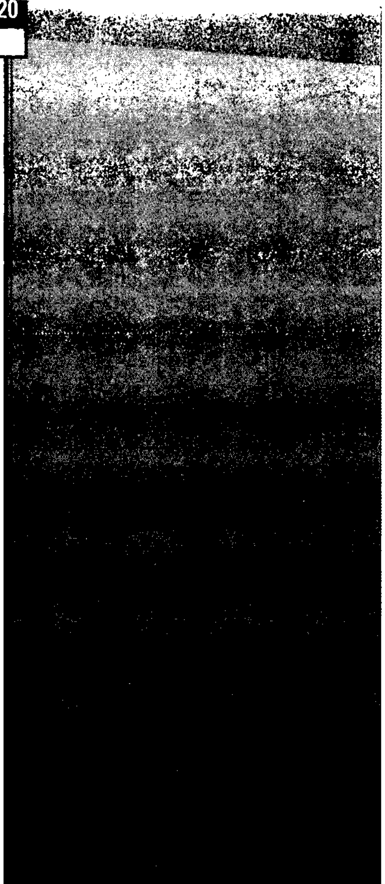
Subsidized Stafford Loans – June 1995 through June 1998



NOTE: This chart reflects payment status for all Subsidized Stafford borrowers whose accounts are serviced by USA Group Loan Services and who are no longer in school or the six-month grace period.

Source: USA Group Loan Services, Inc./USA Group, Inc.

The percentage of borrowers – especially borrowers with **unsubsidized Stafford loans** – who are in active repayment has been trending downward.



USA Group has begun work on a repayment status series that tracks delinquency rates for Stafford borrowers and monitors the use of deferment and forbearance benefits, which are unique to the federal student loan programs. These rates, which are calculated as percentages, are based on the number of Stafford borrowers who have entered the repayment phase of their loans. By mid-1998, the study had tracked repayment status on an end-of-quarter basis over a three-year period (second quarter 1995 through second quarter 1998).

Two different sets of rates have been calculated, one for borrowers with subsidized Stafford loans and another for borrowers with unsubsidized Stafford loans. (These are not mutually exclusive groups.) Borrowers who are in school or the post-school grace period are not included. These borrowers have not yet begun to repay their loans and, in effect, cannot be deemed delinquent.

The USA Group study also examined the severity of delinquency by establishing individual (and mutually exclusive) delinquency rates for borrowers who are at least 30, 60, 90, 120, or 150 days overdue.

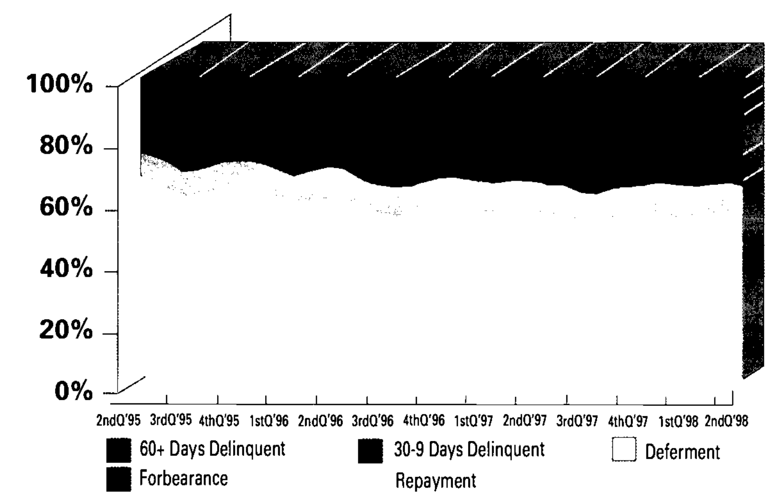
Based on the findings shown in the Charts III-1, III-2, III-3 and III-4, gross delinquency rates for both subsidized and unsubsidized Stafford borrowers have been following an uneven, downward course since mid-1995. This fact does not necessarily suggest that fewer borrowers are experiencing payment stress, because, over the same period, the percentage of borrowers — especially borrowers with unsubsidized Stafford loans — who are in active repayment has also been trending downward. Offsetting these declines is an increased reliance on forbearance.

Greater use of forbearance could be a sign that a growing number of borrowers are unable to meet their student loan payments and are trying to postpone them. Still, to some extent, the rising forbearance rate may reflect the efforts of USA Group's default prevention staff to help delinquent borrowers return to a satisfactory payment status. In other words, we may not be

Chart III-2

Repayment/Delinquency Status of Borrowers

Unsubsidized Stafford Loans – June 1995 through June 1998



NOTE: This chart reflects payment status for all Unsubsidized Stafford borrowers whose accounts are serviced by USA Group Loan Services and who are no longer in school or the six-month grace period.

***Source:** USA Group Loan Services, Inc./USA Group, Inc.*

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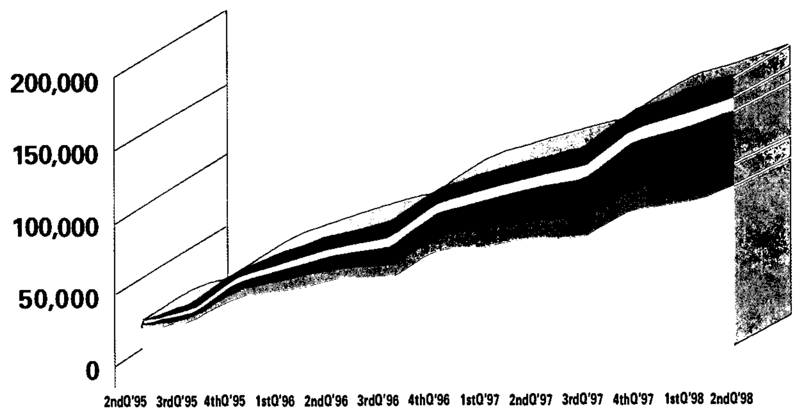
Chart III-3

Repayment/Delinquency Status of Borrowers

Unsubsidized Stafford Loans – June 1995 through June 1998

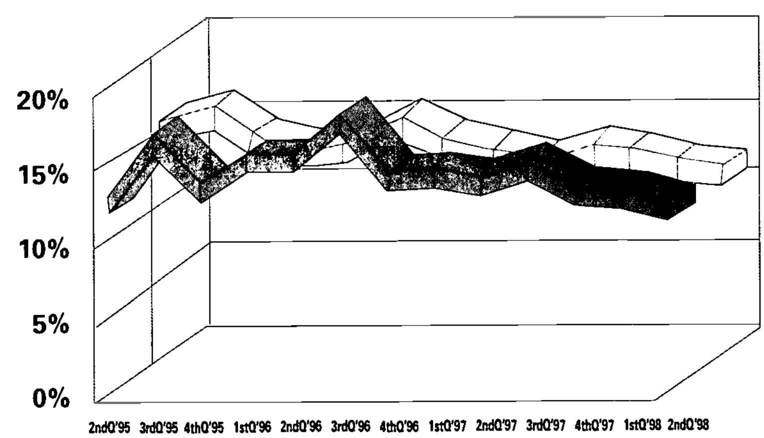


NOTE: This chart reflects payment status for all Unsubsidized Stafford borrowers whose accounts are serviced by USA Group Loan Services and who are no longer in school or the six-month grace period.
Source: USA Group Loan Services, Inc./USA Group, Inc.

Chart III-4

Delinquency Status of Borrowers

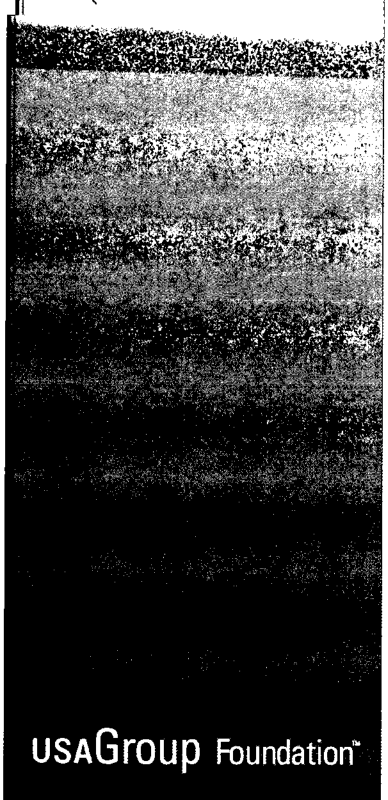
Percent of Stafford Borrowers Whose Payments Are At Least 30 Days Overdue



NOTE: Delinquency rates are for all Stafford borrowers whose accounts are serviced by USA Group Loan Services and who are no longer in school or the six-month grace period.
Source: USA Group Loan Services, Inc./USA Group, Inc.

Greater use of forbearance could be a sign that a growing number of borrowers **are unable to meet their student loan payments** and are trying to postpone them.

Fewer than 59 percent of borrowers with **unsubsidized Staffords** are in repayment, compared with about 65 percent of their subsidized Stafford counterparts.



seeing an increase in distressed borrowers but an increase in distressed borrowers who are being successfully counseled.

Structural reasons may help explain the apparent shift of unsubsidized Stafford borrowers from active repayment status to forbearance. Unsubsidized Stafford loans are relatively new, and many of the first customers, especially those who attended graduate or professional school, have just recently begun to enter repayment. Moreover, program changes have eliminated a number of deferment categories, including one that permitted medical students to defer their loan payments during their medical residency, which can last up to five years; many of these borrowers must now use forbearance to delay the repayment of their loans.

Borrowers with unsubsidized Stafford loans, which are not need-based, are more likely to be in forbearance than the subsidized Stafford group. Indeed, nearly one of five post-grace, unsubsidized Stafford borrowers was in forbearance at the end of September 1997. In contrast, only 14 percent of borrowers with subsidized Stafford loans were in forbearance. As a result, fewer than 59 percent of borrowers with unsubsidized Staffords are in repayment, compared with about 65 percent of their subsidized Stafford counterparts.

It should be noted that the unsubsidized Stafford program did not exist prior to July 1994. The increase in forbearance among unsubsidized borrowers coincides with the rapid increase in Stafford indebtedness during the middle of this decade. Although the available data are not sufficient to determine whether these borrowers are truly experiencing payment stress, it can be argued that many recent borrowers are using forbearance as a debt-management tool.

Conclusions and Recommendations

USA Group's indebtedness research clearly shows that students are going deeper into debt to finance their postsecondary education. Graduate students have shown the greatest willingness to borrow under the Stafford loan program.

Indebtedness is also rising for students attending community colleges and other two-year institutions and proprietary schools.

A marked slowdown in the growth rate of Stafford indebtedness may reflect the presence of annual and aggregate borrowing limits for undergraduates and graduate students and/or an increased use in other credit sources, including institutional loans, private bank loans and credit cards. Because Stafford limits are not expected to increase in the next few years, the pace of borrrowing may continue to slow. Other forces at work, including Pell Grant increases, the introduction of education tax credits, and the widening availability of private loans, may curb growth in demand for federal loans. Conversely, lower interest rates for new Stafford loans and restoration of the interest deduction for student debt may prompt some students to borrow even more. By continuing to monitor changes in average Stafford indebtedness, USA Group can assist the research community in gauging the impact of Stafford loan limits and other factors affecting student borrowing trends.

The concentration of heavily indebted borrowers is growing. At present, nearly three out of 10 graduate students can expect to leave school with at least $25,000 in Stafford loans. The average debt burden for this group is pushing $60,000.

Higher indebtedness means bigger monthly payments to lenders. Although the vast majority of Stafford borrowers who have recently entered repayment are continuing to rely on the standard, 10-year repayment plan, the percentage seeking to reduce their monthly payments by selecting graduated or income-sensitive repayment terms has shown a marked increase during the past year.

Also noteworthy is the fact that 18 percent of borrowers who recently arranged consolidation loans selected reduced-payment plans, compared with 9 percent of nonconsolidated Stafford borrowers. This is a significant difference, especially in light of the fact that the primary reason to consolidate is to reduce the monthly payment burden by extending the repayment period. When borrowers consolidate their loans, they are making a conscious decision to accept a substantial increase in interest expense as a trade-off for more discretionary income now. Interest expenses will be even greater for those choosing graduated or income-sensitive repayment. Further increases in the selection rate for graduated repayment among consolidation borrowers could serve as an indicator of payment stress.

The growing ranks of heavily indebted borrowers, especially among graduate students, underscores a need for more targeted loan counseling services and materials. Many existing consumer brochures and counseling programs are geared to the needs of undergraduate borrowers. But money management issues are likely to be considerably more complex for graduate students who leave school owing house-size Stafford debts. In addition, given the growing reliance on unsubsidized Stafford loans, today's borrowers would be well served by more information on how to minimize the interest accrual on these debts.

A reduction in delinquency rates at first appears to offer evidence that borrowers are not having trouble paying their loans despite the increase in indebtedness. Yet, the percentage of borrowers in active repayment has also drifted downward since mid-1995. A closer look at USA Group's portfolio of post-grace Stafford borrowers reveals that the decline in the delinquency and repayment rates has been offset primarily by an increase in the use of forbearance. This trend may reflect a growing incidence of payment stress among borrowers and thus warrants continued monitoring.

Given the size and geographic reach of USA Group Loan Services, it may be possible to develop regional delinquency rates. Future research projects may also attempt to develop delinquency rates by type of institution last attended by the borrower.

Other possible payment stress indicators include the percentage of borrowers who request deferment or forbearance — especially for economic hardship — in the early years of their repayment periods. Such a measure would provide valuable information about the ability of borrower cohorts to meet their student loan payments. Because of the complex rules governing eligibility for deferment and forbearance, care must be taken to establish a consistent mechanism for reporting requests for deferment and forbearance. At this writing, the USA Group Foundation is sponsoring research on the use and outcomes of forbearance. The study is based on a large sample of borrowers whose accounts are serviced by USA Group Loan Services.

The growing ranks of heavily indebted borrowers, **especially among graduate students,** underscores a need for more targeted loan counseling services and materials.

Endnotes

1. "Student Loan Default Rates Continue Downward Trend," U.S. Department of Education, November 12, 1997; "National Student Loan Default Rate at Lowest Point Ever," U.S. Department of Education, January 9, 1997; "Credit Management/Debt Collection," Financial Management Status Report, U.S. Department of Education, October 1996.

2. Office of Postsecondary Education (OPE), U.S. Department of Education, *Federal Student Loan Programs Data Book for Fiscal Years 1994-1996*, pp. 25-28; FY1997 volume reports for Federal Family Education Loan Program and Federal Direct Loan Program. Data are available from the OPE Internet site at: www.ed.gov/offices/OPE/PPI/loanvol.html. Please note that the average balance for guaranteed loans issued under the FFELP has been steadily rising. The average amount for direct loans fell from FY1994 to FY1996; this decline may reflect the changing mix of Direct Lending schools and borrowers during the initial years of this program.

3. *National Postsecondary Student Aid Study 1995-96*, Methodology Report, National Center for Education Statistics, U.S. Department of Education, 1997.

4. See, for example: *National Student Loan Survey '97*, Nellie Mae, October, 1997; *Debt Burden: The Next Generation*, Final Report, U.S. Department of Education, September 1993; *The Characteristics of Student Borrowers in Repayment and the Impact of Educational Debt*, Joseph Boyd and Carol Wennerdahl, American Council on Education, 1993; *Student Borrowing: How Much Is Too Much?*, Fred J. Galloway and Terry Hartle, American Council on Education, 1994.

5. Susan P. Choy, Sonya Geis, and C. Dennis Carroll, *Early Labor Force Experiences and Debt Burden*, National Center for Education Statistics, U.S. Department of Education, July 1997. This report is based on data from the *Baccalaureate and Beyond Study*, which was derived from the 1992-93 NPSAS data set, and the *Beginning Postsecondary Student Longitudinal Study*, which was derived from the 1989-90 NPSAS survey.

6. *National Postsecondary Student Aid Study 1995-96*, Methodology Report, p. 1-1.

7. Jacqueline King, *Crisis or Convenience/ New Information on Undergraduate Borrowing*, American Council on Education, 1997; *New Information on Student Borrowing*, a policy brief published by the American Council on Education, October 1997.

8. American Association of Medical Colleges, "Medical Student Educational Loan Debt," available via the AAMC Internet site at: www.aamc.org/stuapps/finaid/medloans/debtman/debt.htm.

9. *Trends in Student Aid: 1987 to 1997*, The College Board, September 1997, p. 3.

10. Fact Sheet, National Student Loan Survey '97, Nellie Mae, October 1997, pp. 14-15.

11. *Credit Risk or Credit Worthy? College Students and Credit Cards*, The Education Resources Institute and the Institute for Higher Education Policy, June 1998, pp. 9-11.

12. Keith Greiner, "How Much Student Loan Debt is Too Much?," *Journal of Student Financial Aid*, Winter 1996, pp. 8-12.

13. Borrowers are only required to provide income data when they select the income-sensitive or income contingent repayment plan.

14. Lender clients include 12 secondary markets for student loans.

15. *Trends in Student Aid: 1987 to 1997*, p. 6.

16. *Trends in Student Aid: 1987 to 1997*, p. 6.

17. Patricia M. Scherschel and Paul E. Behymer, *Reality Bites: How Much Do Students Owe?*, USA Group, Fall 1997.

18. SLS loans are unsubsidized loans issued under the Supplementary Loans for Students program, which was discontinued in 1994. SLS loans were replaced by unsubsidized Stafford loans.

19. *Trends in Student Aid: 1987 to 1997*, p. 6.

20. FY1997 Loan Volume Updates, Office of Postsecondary Education, U.S. Department of Education.

21. *Student Loan Guide, 1998-99*, U.S. Department of Education; this guide is available via the following Internet address: www.ed.gov/prog_info/ SFA/StudentGuide.

22. Federal rules state that borrowers who turn 24 by December 31 of the award year are automatically classified as independent students. According to federal statistics for 1995, nearly half (49 percent) of the students (full-time and part-time) enrolled at community colleges and other two-year schools were 25 or older, compared with 38 percent for four-year schools. See Table 176, *Digest of Education Statistics 1997*, National Center for Education Statistics (NCES), U.S. Department of Education. Also, according to another recent NCES report, both dependent and independent undergraduates attending private, for-profit institutions in 1995-96 were much more likely to receive federal financial aid (grants and/or loans), than students attending public and private, not-for private schools. See Laura J. Horn and Jennifer Berktold, *Profile of Undergraduates in U.S. Postsecondary Education Institutions 1995-96*, NCES, May 1998, pp. 115-116.

23. *Federal Student Loan Programs Data Book*, FY1994-FY1996, pp. 29-34.

24. Laura Greene Knapp and Terry G. Seaks, "An Analysis of the Probability of Default on Federally Guaranteed Student Loans," *The Review of Economics and Statistics*, August 1992, p. 408.

25. Fact Sheet, National Student Loan Survey '97, Nellie Mae, October 1997, pp. 14-15.

26. *Operations Bulletin*, USA Group Loan Services, February 1998, pp. 2-3.

27. *Compilation of Title IV Reauthorization Recommendations*, an informal briefing document prepared by the Advisory Committee on Student Financial Assistance, July 1997.

28. *Trends in Student Aid*: 1987 to 1997, p. 6.

29. "Unemployment Rate – Civilian Labor Force," *Labor Force Statistics from the current Population Survey*, Bureau of Labor Statistics, U.S. Department of Labor. This data series is available from the BOL's Internet site at stats.bls.gov:80.

30. See the following news releases from the National Association of Colleges and Employers, based in Bethlehem, PA: "New Graduates Enjoy Healthy Increase in Starting Salaries," July 6, 1998, and Employers Forecast Outstanding Job Market for New College Grads," November 19, 1997.

31. See, for example, "Mortgage Delinquency Rates Down in Second Quarter," news release, Mortgage Bankers Association of America, Washington, D.C., September 9, 1998.

Data Limitations

At present, the USA Group study is restricted to subsidized and unsubsidized Stafford loan balances; the debt burden estimates do not include other types of guaranteed loans issued under the Federal Family Education Loan Program (FFELP).

The focus on Stafford loans reflects, in part, the complexities of determining cumulative debt burdens of SLS (and PLUS) borrowers. Stafford loans issued under the Federal Direct Loan Program (FDLP) are not included. USA Group Loan Services does not compile any information regarding Perkins loans, which are administered by schools. USA Group Loan Services does administer private loan programs, but these loans are not included in the survey.

At this time, the study cannot provide breakdowns for borrowers attending public institutions vs. those attending private schools. Nor can it differentiate between borrowers who completed their degree or certificate programs and those who did not. An analysis of these factors is planned for a later phase of this project. The study cannot take into account education loans not serviced by USA Group Loan Services. Estimates for cumulative Stafford borrowing by graduate students may be understated to the extent that these borrowers repaid any of their undergraduate debts before entering graduate school.

Because the USA Group study is based on virtually its entire loan servicing portfolio, the results are not subject to sampling error, at least as they pertain to USA Group's customer base. Thus, the results should prove useful in identifying ways to better meet borrowers' loan counseling needs. Although the USA Group portfolio may not perfectly represent the entire universe of student loans, the study may provide a useful proxy for a national estimate of post-school debt burdens and suggest a framework for monitoring the ability of Stafford borrowers to repay their education debts.

Methodology/Database Design

Care has been taken to establish reliable data and eliminate inconsistent data. Preliminary statistical compilations conducted in mid-1997 indicated that a small but significant percentage of graduate students were wrongly classified as undergraduates. The misclassification had the effect of increasing both average undergraduate indebtedness and average graduate debt loads. The skewing of the latter reflects the migration of lower-balance graduate debts into the undergraduate ranks.

Because the number of borrowers in question was proportionately small, steps were taken to "scrub," or remove, the records of wrongly coded students from the database. The scrubbing method was designed to ensure the comparability of the annual borrower cohorts. This process, however, necessarily reduced the size of the 1995, 1996, and 1997 borrower cohorts by approximately 3 to 6 percent.

As a result of the data "scrubbing," pre-1998 estimates of the average indebtedness for undergraduate and graduate borrowers have been revised downward from the preliminary estimates released in mid- 1997. The revisions also reduced the percentages of undergraduate borrowers classified as owing $25,000 or more. The distribution of borrowers owing less than $25,000 was also revised, but to a much lesser extent.

In addition, the study no longer reports average indebtedness data for consolidation loans by type of repayment plan because of the complexity in capturing this information. Inconsistency in results from year to year suggest that the 1997 data reported last year were invalid. In addition, loan balance amounts can actually grow during the first 180 days after consolidation loans are booked because borrowers may add unconsolidated loans during this period. A more effective means of estimating consolidation balances is being explored.

About the Author

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About USA Group, Inc.

A nonprofit holding company headquartered in Indianapolis, USA Group is one of the nation's largest financial and information services companies serving education. Through its affiliates, USA Group guarantees or otherwise administers more than $9 billion in student loans annually and currently services, on behalf of 150 lenders, a multi-billion-dollar portfolio of education loans to more than one million borrowers. USA Group affiliates also offer a wide range of financial and management consulting services designed to help students and families navigate the financial aid process.

For Your Information

USA Group welcomes readers' comments and questions about this report. Additional copies of this paper are available upon request. Please contact or address any correspondence to:

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Appendix

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Table I.1: Average Cumulative Stafford Borrowing by Graduate Students

The average cumulative Stafford principal balance for graduate borrowers who left school in the first half of 1998 is estimated to be about $21,700, and more than 25% owe $25,000 or more.	**Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Repayment Period**				**Average Stafford Loan Balance upon Entering Post-School Grace Period**			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	**100%**	**100%**	**100%**	**100%**	**$21,698**	**$19,568**	**$15,934**	**$11,256**
% Change in Average Balance from Previous Year:					**+10.9%**	**+22.8%**	**+41.6%**	**—**
Borrowers Who Owe:								
Less than $5,000	19.4%	22.1%	23.7%	28.4%	$ 2,816	$ 2,700	$ 2,737	$ 2,698
$5,000 - $9,999	22.3%	22.4%	24.2%	29.0%	$ 6,994	$ 7,110	$ 7,119	$ 7,141
$10,000 - $14,999	13.5%	14.4%	15.3%	18.1%	$12,035	$12,072	$12,225	$12,123
$15,000 - $19,999	14.1%	13.1%	13.2%	10.7%	$17,372	$17,416	$17,276	$16,976
$20,000 - $24,999	4.6%	4.4%	4.8%	3.9%	$22,229	$22,282	$22,352	$22,360
$25,000 or more	26.2%	23.6%	18.8%	9.9%	$55,435	$52,419	$44,284	$35,646

NOTE: Accrued (but-not-yet-capitalized) interest is not included. Accrued interest will be added to principal balance at start of repayment. Loan balances include Stafford loans used to fund undergraduate studies. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table I.2: Average Cumulative Stafford Borrowing by Undergraduate Students

The average cumulative Stafford principal balance for undergraduate borrowers who left school in the first half of 1998 is estimated to be nearly $9,500, and more than one third owe less than $5,000.	Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Repayment Period				Average Stafford Loan Balance upon Entering Post-School Grace Period			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	100%	100%	100%	100%	**$9,484**	**$9,448**	**$9,115**	**$8,473**
% **Change in Average Balance from Previous Year:**					+0.4%	+3.7%	+7.6%	—
Borrowers Who Owe:								
Less than $5,000	35.7%	34.0%	32.9%	35.6%	$ 2,662	$ 2,713	$ 2,714	$ 2,650
$5,000 - $9,999	27.2%	29.0%	31.1%	30.9%	$ 6,875	$ 6,891	$ 6,954	$ 7,013
$10,000 - $14,999	15.6%	16.2%	17.6%	17.8%	$12,077	$12,116	$12,109	$12,108
$15,000 - $19,999	11.9%	11.5%	10.6%	9.8%	$17,165	$17,155	$17,080	$16,847
$20,000 - $24,999	3.9%	4.0%	3.4%	2.9%	$22,090	$22,151	$22,140	$22,098
$25,000 or more	5.7%	5.3%	4.3%	3.0%	$32,807	$32,392	$31,215	$31,025

NOTE: Accrued (but-not--yet-capitalized) interest is not included. Accrued interest will be added to principal balance at start of repayment. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table I.3: Average Cumulative Stafford Borrowing by Students Attending Two-Year Colleges

The average cumulative Stafford principal balance for borrowers who left community college or two-year or three-year schools during the first half of 1998 is estimated to be about $4,400. Two-thirds owe less than $5,000.

	Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Reporting Period				Average Stafford Loan Balance upon Entering Post-School Grace Period			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	**100%**	**100%**	**100%**	**100%**	**$4,374**	**$4,251**	**$3,924**	**$3,532**
% Change in Average Balance from Previous Year:					**+2.9%**	**+8.3%**	**+11.1%**	**—**
Borrowers Who Owe:								
Less than $5,000	66.9%	67.4%	71.6%	74.9%	$ 2,452	$ 2,476	$ 2,433	$ 2,377
$5,000 - $9,999	26.0%	26.5%	23.6%	22.8%	$ 6,624	$ 6,692	$ 6,629	$ 6,553
$10,000 - $14,999	5.1%	4.9%	4.2%	2.3%	$12,150	$12,126	$12,136	$11,028
$15,000 - $19,999	1.4%	1.0%	0.5%	Less than 0.1%	$17,165	$16,691	$16,625	—
$20,000 - $24,999	0.5%	0.2%	0.1%	0%	$22,007	$22,121	$21,487	—
$25,000 or more	0.1%	Less than 0.1%	Less than 0.1%	0%	$28,743	—	—	—

NOTE: Accrued (but-not-yet-capitalized) interest is not included. Accrued interest will be added to principal balance at start of repayment. Data include students attending three-year schools. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table I.4: Average Cumulative Stafford Borrowing by Proprietary School Students

The average cumulative Stafford principal balance for borrowers who left proprietary school during the first half of 1998 is estimated to be about $7,700. More than 42% owe less than $5,000.	Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Reporting Period				Average Stafford Loan Balance upon Entering Post-School Grace Period			
	1/1/98 thru 6/30/98	1/1/97 thru 6/30/97	1/1/96 thru 6/30/96	1/1/95 thru 6/30/95	1/1/98 thru 6/30/98	1/1/97 thru 6/30/97	1/1/96 thru 6/30/96	1/1/95 thru 6/30/95
All Borrowers	100%	100%	100%	100%	$7,710	$7,122	$6,444	$4,981
	% Change in Average Balance from Previous Year:				+8.3%	+10.5%	+29.4%	—
Borrowers Who Owe:								
Less than $5,000	42.4%	43.6%	47.2%	57.7%	$ 2,613	$ 2,642	$ 2,692	$ 2,666
$5,000 - $9,999	30.1%	32.7%	32.3%	34.1%	$ 7,262	$ 7,151	$ 7,127	$ 6,962
$10,000 - $14,999	15.4%	14.2%	15.6%	6.4%	$12,491	$12,550	$12,543	$11,353
$15,000 - $19,999	8.1%	6.6%	3.5%	1.4%	$17,469	$17,376	$17,105	$17,041
$20,000 - $24,999	2.2%	1.9%	1.0%	0.4%	$22,295	$21,935	$21,565	$21,726
$25,000 or more	1.8%	0.9%	0.3%	0.1%	$32,765	$30,207	$29,036	$39,460

NOTE: Accrued (but-not-yet-capitalized) interest is not included. Accrued interest will be added to principal balance at start of repayment. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table II.1: Average Cumulative Total Stafford Loan Balances for Graduate Students

The average total Stafford loan balance, including principal and accrued interest, for graduate borrowers who left school in the first half of 1998 is about $22,900. More than one-fourth borrow $25,000 or more; still, 41% owe less than $10,000.	**Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Reporting Period**				**Average Stafford Loan Balance upon Entering Post-School Grace Period**			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	**100%**	**100%**	**100%**	**100%**	**$22,938**	**$20,457**	**$16,357**	**$11,359**
% Change in Average Balance from Previous Year:					**+12.1%**	**+25.1%**	**+44.0%**	**—**
Borrowers Who Owe:								
Less than $5,000	19.0%	21.8%	23.5%	28.3%	$ 2,854	$ 2,722	$ 2,754	$ 2,708
$5,000 - $9,999	22.0%	21.8%	23.9%	28.9%	$ 7,055	$ 7,143	$ 7,172	$ 7,181
$10,000 - $14,999	13.3%	14.3%	15.2%	18.0%	$12,121	$12,140	$12,310	$12,164
$15,000 - $19,999	13.2%	12.8%	13.3%	10.9%	$17,589	$17,584	$17,482	$17,077
$20,000-$24,999	5.5%	5.0%	4.9%	3.9%	$22,018	$22,147	$22,334	$22,414
$25,000 or more	27.0%	24.1%	19.3%	10.0%	$58,134	$54,646	$45,242	$35,836

NOTE: Accrued interest is included but will not be capitalized until the beginning of the borrower's repayment period. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table II.2: Average Cumulative Total Stafford Loan Balances for Undergraduate Students

The average total Stafford loan balance, including principal and accrued interest, for undergraduate borrowers who left school in the first half of 1998, is about $9,800, but one-third owe less than $5,000.	**Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Reporting Period**				**Average Stafford Loan Balance upon Entering Post-School Grace Period**			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	**100%**	**100%**	**100%**	**100%**	**$9,830**	**$9,723**	**$9,302**	**$8,551**
% Change in Average Balance from Previous Year:					+1.1%	+4.5%	+8.8%	—
Borrowers Who Owe:								
Less than $5,000	35.3%	33.7%	32.6%	35.4%	$ 2,713	$ 2,752	$ 2,733	$ 2,658
$5,000 - $9,999	26.9%	28.6%	30.8%	30.8%	$ 6,950	$ 6,949	$ 6,993	$ 7,037
$10,000 - $14,999	15.3%	16.2%	17.5%	17.9%	$12,130	$12,175	$12,143	$12,146
$15,000 - $19,999	11.8%	11.5%	11.0%	9.9%	$17,269	$17,271	$17,185	$16,899
$20,000 - $24,999	4.4%	4.3%	3.5%	2.9%	$22,095	$22,104	$22,198	$22,120
$25,000 or more	6.3%	5.8%	4.6%	3.0%	$33,733	$33,114	$31,921	$31,203

NOTE: Accrued interest is included but will not be capitalized until the beginning of the borrower's repayment period. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table II.3: Average Cumulative Total Stafford Borrowing by Students Attending Two-Year Colleges

The average total Stafford loan balance, including principal and accrued interest, for borrowers who left community colleges, two-year schools, or three-year schools during the first half of 1998 is estimated to be about $4,500. Nearly two-thirds of these borrowers owe less than $5,000.	Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Reporting Period				Average Stafford Loan Balance upon Entering Post-School Grace Period			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	**100%**	**100%**	**100%**	**100%**	**$4,525**	**$4,358**	**$4,004**	**$3,565**
% Change in Average Balance from Previous Year:					+3.8%	+8.8%	+12.3%	—
Borrowers Who Owe:								
Less than $5,000	66.2%	66.9%	71.2%	74.6%	$ 2,482	$ 2,500	$ 2,452	$ 2,387
$5,000 - $9,999	26.0%	26.5%	23.7%	22.9%	$ 6,723	$ 6,760	$ 6,701	$ 6,589
$10,000 - $14,999	5.3%	5.0%	4.4%	2.4%	$12,304	$12,199	$12,276	$11,136
$15,000 - $19,999	1.6%	1.2%	0.7%	Less than 0.1%	$17,187	$16,796	$16,650	—
$20,000 - $24,999	0.6%	0.2%	0.1%	0%	$21,991	$21,659	$21,313	—
$25,000 or more	0.3%	0.1%	Less than 0.1%	0%	$28,800	$26,791	—	—

NOTE: The accrued interest is included but will not be capitalized until the beginning of the borrower's repayment period. Data include students attending three-year schools. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table II.4: Average Cumulative Total Stafford Loan Balances for Proprietary School Students

The average total Stafford loan balance, including principal and accrued interest, for proprietary school borrowers who left school during the first half of 1998 is estimated to be nearly $8,000. More than 70% of these borrowers owe less than $10,000.	**Distribution of Borrowers Entering Six-Month, Post-School Grace Period During Reporting Period**				**Average Stafford Loan Balance upon Entering Post-School Grace Period**			
	1/1/98 thru 6/30/98	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**	**1/1/98 thru 6/30/98**	**1/1/97 thru 6/30/97**	**1/1/96 thru 6/30/96**	**1/1/95 thru 6/30/95**
All Borrowers	100%	100%	100%	100%	$7,997	$7,364	$6,624	$5,037
% Change in Average Balance from Previous Year:					+8.6%	+11.2%	+31.5%	—
Borrowers Who Owe:								
Less than $5,000	41.7%	42.8%	46.5%	57.0%	$ 2,619	$ 2,640	$ 2,698	$ 2,661
$5,000 - $9,999	29.4%	32.2%	31.9%	34.4%	$ 7,267	$ 7,169	$ 7,157	$ 6,963
$10,000 - $14,999	15.7%	14.5%	15.0%	6.7%	$12,562	$12,639	$12,539	$11,383
$15,000 - $19,999	7.5%	6.6%	4.9%	1.4%	$17,342	$17,354	$16,761	$17,022
$20,000 - $24,999	3.5%	2.8%	1.2%	0.4%	$21,645	$21,753	$21,813	$21,639
$25,000 or more	2.3%	1.2%	0.3%	0.1%	$33,016	$30,427	$29,641	$38,285

NOTE: The accrued interest is included but will be not capitalized until the beginning of the borrower's repayment period. Percentages may not add to 100 due to rounding.

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table III.1: Minimum Annual Income Levels Needed to Support Indebtedness of Graduate Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $22,938 under the standard 10-year repayment plan would be $278. The borrower would need an annual income of $41,700 to meet the 8% debt-to-income ratio.	All Graduate Students Entering Post-Secondary Grace Period	Graduate Students Who Leave School Owing:					
		Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or More
First Half of 1998							
Average Post-School Debt Burden	$22,938	$2,854	$ 7,055	$12,121	$17,589	$22,018	$ 58,134
Monthly Payment Amount	$ 278	$ 50	$ 86	$ 147	$ 213	$ 267	$ 705
Annual Income Needed to Meet 8% Rule	$41,700	$7,500	$12,900	$22,050	$31,950	$40,050	$105,750
First Half of 1997							
Average Post-School Debt Burden	$20,457	$2,722	$ 7,143	$12,140	$17,584	$22,147	$54,646
Monthly Payment Amount	$ 248	$ 50	$ 87	$ 147	$ 213	$ 269	$ 663
Annual Income Needed to Meet 8% Rule	$37,200	$7,500	$13,050	$22,050	$31,950	$40,350	$99,450
First Half of 1996							
Average Post-School Debt Burden	$16,357	$2,754	$ 7,172	$12,310	$17,482	$22,334	$45,242
Monthly Payment Amount	$ 198	$ 50	$ 87	$ 149	$ 212	$ 271	$ 549
Annual Income Needed to Meet 8% Rule	$29,700	$7,500	$13,050	$22,350	$31,800	$40,650	$82,350
First Half of 1995							
Average Post-School Debt Burden	$11,359	$2,708	$ 7,181	$12,164	$17,077	$22,414	$35,836
Monthly Payment Amount	$ 138	$ 50	$ 87	$ 148	$ 207	$ 272	$ 435
Annual Income Needed to Meet 8% Rule	$20,700	$7,500	$13,050	$22,200	$31,050	$40,800	$65,250

NOTE: Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50; thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: *USA Group Loan Services/USA Group, Inc.*

Table III.2: Minimum Annual Income Levels Needed to Support Indebtedness of Undergraduate Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $9,830 under the standard 10-year repayment plan would be $119. The borrower would need an annual income of $17,850 to meet the 8% debt-to-income ratio.

	All Undergraduate Students Entering Post-Secondary Grace Period	Undergraduate Students Who Leave School Owing: Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or More
First Half of 1998							
Average Post-School Debt Burden	$ 9,830	$2,713	$ 6,950	$12,130	$17,269	$22,095	$33,733
Monthly Payment Amount	$ 119	$ 50	$ 84	$ 147	$ 210	$ 268	$ 409
Annual Income Needed to Meet 8% Rule	$17,850	$7,500	$12,600	$22,050	$31,500	$40,200	$61,350
First Half of 1997							
Average Post-School Debt Burden	$ 9,723	$2,752	$ 6,949	$12,175	$17,271	$22,104	$33,114
Monthly Payment Amount	$ 118	$ 50	$ 84	$ 148	$ 210	$ 268	$ 402
Annual Income Needed to Meet 8% Rule	$17,700	$7,500	$12,600	$22,200	$31,500	$40,200	$60,300
First Half of 1996							
Average Post-School Debt Burden	$ 9,302	$2,733	$ 6,993	$12,143	$17,185	$22,198	$31,921
Monthly Payment Amount	$ 113	$ 50	$ 85	$ 147	$ 209	$ 269	$ 387
Annual Income Needed to Meet 8% Rule	$16,950	$7,500	$12,750	$22,050	$31,350	$40,350	$58,050
First Half of 1995							
Average Post-School Debt Burden	$ 8,551	$2,658	$ 7,037	$12,146	$16,889	$22,120	$31,203
Monthly Payment Amount	$ 104	$ 50	$ 85	$ 147	$ 205	$ 268	$ 379
Annual Income Needed to Meet 8% Rule	$15,600	$7,500	$12,750	$22,050	$30,750	$40,200	$56,850

NOTE: Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50; thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: *USA Group Loan Services/USA Group, Inc.*

Table III.3: Minimum Annual Income Levels Needed to Support Indebtedness of Two-Year School Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $4,525 under the standard 10-year repayment plan would be $55. The borrower would need an annual income of $8,250 to meet the 8% debt-to-income ratio.	All Two-Year/ Three-Year Students Entering Post-Secondary Grace Period	Two-Year School Students Who Leave School Owing:					
		Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or More
First Half of 1998							
Average Post-School Debt Burden	$4,525	$2,482	$ 6,723	$12,304	$17,187	$21,991	$28,800
Monthly Payment Amount	$ 55	$ 50	$ 82	$ 149	$ 209	$ 267	$ 349
Annual Income Needed to Meet 8% Rule	$8,250	$7,500	$12,300	$22,350	$31,350	$40,050	$52,350
First Half of 1997							
Average Post-School Debt Burden	$4,358	$2,500	$ 6,760	$12,199	$16,796	$21,659	$26,791
Monthly Payment Amount	$ 53	$ 50	$ 82	$ 148	$ 204	$ 263	$ 325
Annual Income Needed to Meet 8% Rule	$7,950	$7,500	$12,300	$22,200	$30,600	$39,450	$48,750
First Half of 1996							
Average Post-School Debt Burden	$4,004	$2,452	$ 6,701	$12,276	$16,650	$21,313	—
Monthly Payment Amount	$ 50	$ 50	$ 81	$ 149	$ 202	$ 259	—
Annual Income Needed to Meet 8% Rule	$7,500	$7,500	$12,150	$22,350	$30,300	$38,850	—
First Half of 1995							
Average Post-School Debt Burden	$3,565	$2,387	$ 6,589	$11,136	—	—	—
Monthly Payment Amount	$ 50	$ 50	$ 80	$ 135	—	—	—
Annual Income Needed to Meet 8% Rule	$7,500	$7,500	$12,000	$20,250	—	—	—

NOTE: Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50; thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: *USA Group Loan Services/USA Group, Inc.*

Table III.4: Minimum Annual Income Levels Needed to Support Indebtedness of Proprietary School Students/Standard Repayment

Lenders recommend that student loan payments should not exceed 8% of the borrower's monthly income. Assuming an interest rate of 8%, the monthly payment for an average Stafford loan balance of $7,997 under the standard 10-year repayment plan would be $97. The borrower would need an annual income of $14,550 to meet the 8% debt-to-income ratio.

	All Proprietary School Students Entering Post-Secondary Grace Period	Proprietary School Students Who Leave School Owing:					
		Less than $5,000	$5,000 to $9,999	$10,000 to $14,999	$15,000 to $19,999	$20,000 to $24,999	$25,000 or More
First Half of 1998							
Average Post-School Debt Burden	$ 7,997	$2,619	$ 7,267	$12,562	$17,342	$21,645	$33,016
Monthly Payment Amount	$ 97	$ 50	$ 88	$ 152	$ 210	$ 263	$ 401
Annual Income Needed to Meet 8% Rule	$14,550	$7,500	$13,200	$22,800	$31,500	$39,450	$61,500
First Half of 1997							
Average Post-School Debt Burden	$ 7,364	$2,640	$ 7,169	$12,639	$17,354	$21,753	$30,427
Monthly Payment Amount	$ 89	$ 50	$ 87	$ 153	$ 211	$ 264	$ 369
Annual Income Needed to Meet 8% Rule	$13,350	$7,500	$13,050	$22,950	$31,650	$39,600	$55,350
First Half of 1996							
Average Post-School Debt Burden	$ 6,624	$2,698	$ 7,157	$12,539	$16,761	$21,813	$29,641
Monthly Payment Amount	$ 80	$ 50	$ 87	$ 152	$ 203	$ 265	$ 360
Annual Income Needed to Meet 8% Rule	$12,000	$7,500	$13,050	$22,800	$30,450	$39,750	$54,000
First Half of 1995							
Average Post-School Debt Burden	$ 5,037	$2,6661	$ 6,963	$11,383	$17,022	$21,639	$38,285
Monthly Payment Amount	$ 61	$ 50	$ 84	$ 138	$ 207	$ 263	$ 465
Annual Income Needed to Meet 8% Rule	$ 9,150	$7,500	$12,600	$20,700	$31,050	$39,450	$69,750

NOTE: Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%. Stafford borrowers are required to make minimum monthly installments of $50; thus, small-dollar loan balances (less than $4,200) will be repaid in less than 10 years. Numbers are rounded to whole dollars.

Source: *USA Group Loan Services/USA Group, Inc.*

Table IV: Repayment Plan Selection Rates for Stafford & Consolidation Borrowers

The standard level-payment option clearly remains the repayment method of choice for Stafford borrowers who started making payments on their loans in the 12 months ending June 30, 1998. However, the percentage of borrowers entering repayment who select graduated repayment rose nearly 28% during the past year.

Four-fifths of the borrowers who consolidated their loans in the 12 months that ended June 30, 1998, selected the level-repayment plan.

Percentage of Borrowers Selecting Option	Level Repayment		Graduated Repayment		Income-Sensitive Repayment	
	1998	1997	1998	1997	1998	1997
Stafford Borrowers	91.01%	93.07%	8.53%	6.68%	0.45%	0.25%
Consolidation	81.46%	83.39%	18.03%	16.23%	0.51%	0.37%

Source: *USA Group Loan Services, Inc./USA Group, Inc.*

Table V:
Debt-to-Income Ratios/Comparative Analysis – 1998 Indebtedness

Depending on individual circumstances, different borrowers will experience monthly payment stress at debt-to-income ratios that are higher or lower than the standard 8% cited by lenders. In general, modest income borrowers are likely to experience stress at lower debt-to-income ratios, while higher-income borrowers will be able to tolerate higher debt-burden ratios. Although minimum income requirements decline as the debt-burden ratio rises, borrowers should realize that they must allocate more of their discretionary income toward student loan payments and will have less money available for other consumer expenditures, including rent, food, and transportation. This table shows the minimum annual income needed to meet each of five debt-to-income ratios, ranging from 5% to 15%, for the typical Stafford debt burdens facing borrowers entering repayment in the second half of 1998.

Borrower Category	Average Balance	Monthly Payment	Annual Income Needed to Support Debt/Income Ratio of:				
			5%	8%	10%	12%	15%
Undergraduate Students:							
All Borrowers	$9,830	$119	$28,624	$17,890	$14,312	$11,927	$9,541
Borrowers Who Owe:							
Less than $5,000	$2,713	$50	$12,000	$7,500	$6,000	$5,000	$4,000
$5,000 to $9,999	$6,950	$84	$20,160	$12,600	$10,080	$8,400	$6,720
$10,000 to $14,999	$12,130	$147	$35,280	$22,050	$17,640	$14,700	$11,760
$15,000 to $19,999	$17,269	$210	$50,400	$31,500	$25,200	$21,000	$16,800
$20,000 to $24,999	$22,095	$268	$64,320	$40,200	$32,160	$26,800	$21,440
$25,000 or more	$33,733	$409	$98,160	$61,350	$49,080	$40,900	$32,720
Graduate Students:							
All Borrowers	$22,938	$278	$66,720	$41,700	$33,360	$27,800	$22,240
Borrowers Who Owe:							
Less than $5,000	$2,854	$50	$12,000	$7,500	$6,000	$5,000	$4,000
$5,000 to $9,999	$7,055	$86	$20,640	$12,900	$10,320	$8,600	$6,880
$10,000 to $14,999	$12,121	$147	$35,280	$22,050	$17,640	$14,700	$11,760
$15,000 to $19,999	$17,589	$213	$51,120	$31,950	$25,560	$21,300	$17,040
$20,000 to $24,999	$22,018	$267	$64,080	$40,050	$32,040	$26,700	$21,360
$25,000 or more	$58,134	$705	$169,200	$105,750	$84,600	$70,500	$56,400
Community College Students:							
All Borrowers	$4,525	$55	$13,200	$8,250	$6,600	$5,500	$4,400
Borrowers Who Owe:							
Less than $5,000	$2,482	$50	$12,000	$7,500	$6,000	$5,000	$4,000
$5,000 to $9,999	$6,723	$82	$19,680	$12,300	$9,840	$8,200	$6,560
$10,000 to $14,999	$12,304	$149	$35,760	$22,350	$17,880	$14,900	$11,920
$15,000 to $19,999	$17,187	$209	$50,160	$31,350	$25,080	$20,900	$16,720
$20,000 to $24,999	$21,991	$267	$64,080	$40,050	$32,040	$26,700	$21,360
$25,000 or more	$28,800	$349	$83,760	$52,350	$41,880	$34,900	$27,920
Proprietary School Students:							
All Borrowers	$7,997	$97	$23,280	$14,550	$11,640	$9,700	$7,760
Borrowers Who Owe:							
Less than $5,000	$2,619	$50	$12,000	$7,500	$6,000	$5,000	$4,000
$5,000 to $9,999	$7,267	$88	$21,120	$13,200	$10,560	$8,800	$7,040
$10,000 to $14,999	$12,562	$152	$36,480	$22,800	$18,240	$15,200	$12,160
$15,000 to $19,999	$17,342	$210	$50,400	$31,500	$25,200	$21,000	$16,800
$20,000 to $24,999	$21,645	$263	$63,120	$39,450	$31,560	$26,300	$21,040
$25,000 or more	$33,016	$401	$96,240	$60,150	$48,120	$40,100	$32,080

Notes: The initial loan amounts include principal and accrued interest. The monthly payment is based on the standard payment plan, which has a maximum payback period of 10 years. Stafford loans charge a variable interest rate that is adjusted annually, subject to a maximum rate of 8.25%. For calculation purposes, the interest rate is assumed to hold constant at 8%, and monthly payments are rounded to the nearest whole dollar. Stafford borrowers are required to make minimum monthly payments of $50; thus low-dollar loan balances (less than $4,200) will be repaid in less than 10 years.

Source: USA Group Loan Services, Inc./USA Group, Inc.

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