

JASON DELISLE AND ALEXANDER HOLT

Why Student Loans Are Different

Findings From Six Focus Groups
of Student Loan Borrowers

About the Authors



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Lumina Foundation is an independent, private foundation committed to increasing the proportion of Americans with high-quality degrees, certificates and other credentials to 60 percent by 2025. Lumina's outcomes-based approach focuses on helping to design and build an accessible, responsive and accountable higher education system while fostering a national sense of urgency for action to achieve Goal 2025. For more information on Lumina, visit: www.luminafoundation.org. The views expressed in this report are those of its authors and do not necessarily represent the views of Lumina Foundation, its officers or employees.

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INTRODUCTION

For all the attention student loans have received in the media and from policymakers in recent years, there is still remarkably little information on why and how borrowers struggle to repay them. Rising college prices and debt levels explain some of the troubles borrowers have with their loans, as does a slow economic recovery that has caused unemployment and underemployment. Low-quality schools peddling dubious credentials surely contribute as well.

Other trends and facts, however, suggest that those explanations are incomplete. Borrowers who have severely delinquent loans tend to have low loan balances and low monthly payments.¹ In fact, borrowers are more likely to be late on a \$50 monthly payment than on a \$250 monthly payment.² A recent analysis shows that student loan burdens as a share of household budgets are no higher today than in the past two decades, suggesting that a rise in college prices and a weak economy cannot fully account for why the share of defaulted federal student loans is on the rise and remains at the highest point in decades.³ The fact that the number of borrowers using benefits to reduce or postpone payments has been rising steadily and now sits at a record high is also inexplicably out of sync with an improving economy.⁴ These somewhat contradictory explanations suggest that the causes and consequences of student loan struggles are not one-dimensional and do not fit easily into a single narrative.

How Borrowers See It

To seek a broader explanation of student loan struggles, New America's Education Policy Program commissioned a series of six focus groups that met between June and October 2014. Groups met in Philadelphia, Boston, Phoenix, San Francisco, Chicago, and Atlanta and included a total of 59 student loan borrowers.

The nonpartisan public opinion research firm FDR Group conducted the research, and New America provided guidance about recent developments in student loan policy, the mechanics of the federal student loan program, and key policy issues that the researchers should explore. New America staff attended each group

and analyzed the recordings and transcripts for each session. FDR Group had complete freedom in designing and conducting the focus groups and in formulating its report. That report includes further details of how the research was conducted and can be accessed at edcentral.org/studentloansaredifferent.

Participants were selected based on a range of characteristics regarding their self-reported repayment histories, but all indicated they had at some point struggled to repay their student loans.⁵ (The screener used to select participants is included in the report that appears at the end of this paper.) The FDR Group's report describes the characteristics of the groups:

Each focus group was demographically diverse, including a mix of both men and women; people in their 20s to 50s in age; both middle class and those with lower incomes; seeking or holding 2-year degrees, 4-year degrees, and certificates. The study explicitly excluded people who had attended graduate or professional school (e.g., medical or law school). Student loan debt ranged from "less than \$10,000" to as much as "\$30,000 to 60,000," although most debt loads fell on the lower end of this range. Participants had attended a diverse set of institutions of higher education, including those that are for-profit, private non-profit, and public. Ethnic background was approximately 40/60 African American or Hispanic to White, with some Asian American participants as well.

Further details of FDR Group's methodology are available in its report. A general breakdown of the characteristics of the focus groups is presented on page 31 of this paper, though readers should be careful not to over-interpret this information.

Many participants in the focus groups struggled to repay their student loans due to unemployment or unexpected family responsibilities, or other financial shocks. Several also commented that they felt misled or even deceived by schools promising high job placement rates and potential earnings for graduates. When those outcomes

did not materialize for them, focus group participants often said they were then unable or unwilling to repay their student loans. These familiar and often traumatic experiences are an important aspect of why borrowers struggle to repay their loans, and are detailed in FDR Group's accompanying report, which states:

The research suggests that the cause of so many struggling to repay student loans these days is a combination of uninformed borrowing – mostly due to ignorance, youth, naïveté, and a weak job market – and a messy system that is difficult to understand and tricky to navigate.

FDR Group provides a broad and objective look at struggling borrowers, and New America has produced this paper to supplement its report. Our paper spotlights specific explanations and details that participants provided about their borrowing and repayment experiences that may be surprising to the federal policy community. If our findings could be boiled down into one theme, it would be this: Student loans are very different from other forms of credit, like auto loans and home mortgages, and those differences influence how borrowers approach taking on and repaying that debt. The views and information participants provided are largely absent from discussions about student loan policy, even among experts and those in the higher education industry. We discuss these below and have done our best to categorize them into themes, although many are interrelated and overlapping.

Each section includes relevant quotes from the participants. There are often multiple quotes from a session in the same city, as the moderator focused on a particular issue during some sessions more than others. In these cases, no two quotes are from the same participant in any one section of the paper. The report uses a variety of icons of silhouetted individuals. These icons are randomly assigned and are not meant to match or represent any characteristics of the quoted borrowers. In total we include quotes from 38 of the participants, with quotes from at least six different participants in each city.

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SURPRISING MONTHLY PAYMENTS



Phoenix

I was shocked. Because what happened was that you take out these loans and you don't realize that this interest is building up as you're going to school, and it took me five years to finish, and when I finished this big amount appeared and I thought, holy crap what happened? I didn't take out that much. But after the interest I had this great gigantic bill.

Many participants expected that their monthly payments would be much lower than what they were required to pay when their loans came due. But it makes sense that borrowers were confused and surprised by their monthly payments because it is extremely difficult for a student, a lender, or a school to know a student's monthly payment when he borrows to attend college.

This makes student loans quite different from other types of loans, such as auto loans or home mortgages. An auto loan's most prominently advertised feature is what a borrower will pay per month, and the same is true for a mortgage. Payment begins shortly after the loan is issued and the amount owed per month generally never changes over the life of the loan.

Federal student loans are different. Borrowers make multiple decisions about how long they will attend school and how much they will borrow for both tuition and living expenses. Many will make those decisions incrementally, one semester at a time. Additionally, some borrowers can take out a larger amount each additional year that they continue to enroll in classes. Financial aid packages and tuition almost always change from one year to the next, so a student may need to borrow more or less.

Federal student loans also include an origination fee that increases the initial balance, along with interest that accrues while the student is in school.⁶ Although certain federal student loans do not accrue interest during in-school periods, the vast majority of borrowers have at least some federal loans that do. Because borrowers need not make payments while in school and in the first six months after leaving, their loan balances are always higher than what they borrowed, but they will not know by how much until they leave school. A borrower could also opt to postpone payments after leaving school for months or years through forbearance. That will increase her balance as interest accrues, making it even more difficult to know in advance what she will owe monthly. Complicating matters further, when she begins repaying, she can choose among many repayment plans that each require a different monthly payment. That is a lot of information and uncertainty for even the most attentive student to process and translate into a future monthly payment.

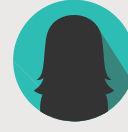
Finally, someone borrowing for a car or a home has a sense of whether she can afford it, because she has to start paying it back right away and she knows her current income. This is not the case for a student loan. First, many students have no income while attending school, and they do not know what jobs they will have upon graduating. Second, even if a student has a job while attending school, she will likely assume that she will have a better job with a higher income upon completing her degree. The borrower therefore grapples with two unknowns that she would not encounter with other loan types: the ultimate monthly payment on the loan and the future income that she will use to pay it.

Of course, there is always room for borrowers to improve how well they track what they owe, and for financial aid offices and loan servicing companies to assist them in those efforts. But it would be difficult to craft a policy or a tool that could accurately predict and calculate a future loan payment given the nature of borrowing to pay for college and the variables involved.



Phoenix

I was paying like \$260. [PROBE: What did you kind of think it would be?] Like \$70, fewer than \$100 is where I thought it would be.



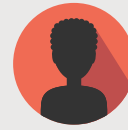
Atlanta

Each year was a different amount. You might qualify for \$7,000 but your class may only cost \$5,000. Now do you want the \$2,000 for your return, you know what I'm saying, to help you along with your books and stuff or do you want it? Some of that I took and I put into a different type of account, like an IRA or something like that....Sometimes I didn't take it. So my [loan] amount could have been way more than what it is now.



Boston

I didn't know my bill was going to be \$270 when I first came out of school. The highest bill I had coming out of college was my phone bill, that maybe was a hundred bucks. So when you have a \$270 bill, and I think, "Well, I can't pay this, I can't do that, this is a \$270 bill,"—one of the highest bills I'm going to have on my table for at least another 20–30 years, and knowing that if I lower this bill it's going to affect me or if I go into forbearance it's going to affect me.



Phoenix

It said sign here. My mom was with me, and she is smart, but as far as the economic thing, we weren't too fiscally smart on making a decision. I really wanted to go to school, so I was, let me just go ahead and sign that paper even though I don't know how high the interest rate is. I didn't know what I would be paying when I actually leave the school.



Atlanta

It was higher than what I expected....It was maybe \$300 or \$400....And immediately I called them. Like, "What are y'all doing? I can't afford that." So that's when I looked into deferments and everything because I was like, "This is crazy." [PROBE: From the very first get-go?] That very first bill.

POSTPONING REPAYMENT IS EASY



Atlanta

[My very first bill was] maybe like \$200. [PROBE: Was it reasonable to you? Was that affordable for you? Was it...] It was okay, but I deferred it for like two years.

Some of the earlier quotes about surprising monthly payment amounts describe how borrowers opted for benefits to postpone payment. Federal student loans are unlike other types of loans in that borrowers have options to postpone payments long after the loan has come due. Forbearance is the more commonly used option, although there are subtle distinctions between it and deferment (this paper refers to both options as “forbearance” for simplicity).⁷ Focus group participants refer to both options, but it is unclear which they were actually using and they may have used both.

Many focus group participants said that their loan servicer informed them about the availability of forbearance and they had little difficulty enrolling in it. Several even noted learning about the options from unexpected sources, such as mortgage brokers and the Internal Revenue Service.

Indeed, forbearance is the easiest and fastest way to bring a delinquent loan current and to suspend payments. Borrowers can enroll over the phone and servicers have broad discretion in granting forbearances.⁸ Enrollments in forbearance have reached record highs and now stand at 16 percent of loans in repayment versus 12.5 percent in 2006.⁹ That figure does not include deferments.¹⁰

While forbearance provided relief to struggling borrowers, focus group participants describe how it also

caused them to go deeper into debt, as interest usually accrues during a forbearance. They saw their loan balances, monthly payments, and length of repayment increase, often substantially.

Whether participants were aware of those effects ahead of time or not, this made many of them more reluctant to repay and exacerbated feelings that their education was not worth what they had to repay. The minimal hurdles for enrolling in forbearance also seem to enable borrowers to push student loans down on their list of bills to pay, an attitude we explore in a subsequent section.



Philadelphia

Mine was \$200 when I first graduated, then I had it on deferment and then I had it on forbearance. Now I'm paying \$462 a month



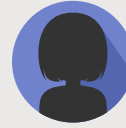
Philadelphia

Because they tack on the interest, that's how mine was. Mine was like \$140....I was just paying it as it came in. I did the forbearance, I did the deferment, then it ballooned to like \$288, it literally doubled.



Philadelphia

They're just piling up on the side. [PROBE: They have their own little section.] They do.



San Francisco

I like to honor my debts and here I am getting forbearance and getting hardship? I am kind of divided; one part of me feels like oh and then the other part of me is like eh, don't worry about it.



San Francisco

I went back 10 years later to get a second degree. Stuff happened, I didn't finish. I had taken out a \$10 grand loan and I went through a lot of crap: I went through forbearance, didn't pay and defaulted, started payments again, still paying on the interest. I am about to do forbearance again. I am just up to here in the interest, which has amounted to almost half of the loan itself... So when I finally got [the bill], I was blown away by the interest. I was like, "How did it get to this much, when [the loan] was this much?" Because I didn't see it for probably two years.



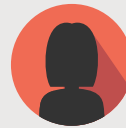
Boston

So I get the bills, I see them every month, but I don't have to pay them [while using the forbearance benefit], but I see the interest climbing, climbing, and climbing.



Boston

Friends are saying to me are you crazy? Leave the student loans alone, you can just pay that back anytime. Student loans won't bother anything.



Philadelphia

I think when I get it I'm just reminded what the hell am I doing, what happened? When I see the amount it just keeps going up. It's just a feeling of oh God maybe if I pay half of it. If I have time I might call, finagle this, finagle that. Defer this defer that, it's always constant battle between the bill and myself.

The Role of Delinquency and Default

Default under the federal loan program is defined as nine months without an on-time payment. The government reports late payments to credit bureaus which negatively affects a borrower's credit score. The federal government can seize tax refunds and garnish wages to try to recover defaulted loans. The government seizes over \$2 billion annually in federal income tax refunds to recover student loans in default.¹¹

We include delinquency and default in this discussion because borrowers described them as another way that their payments were postponed. Focus group participants explained that often years had lapsed before the government imposed consequences punitive enough that they began making payments on their loans. Some even expressed that, at the time, the penalties for default felt more manageable than making the required monthly payment. These experiences differ from the perception within the policy community that the consequences for defaulting on a federal student loan are swift, severe, impossible to evade, and always a borrower's worst option.



Philadelphia

There are no consequences to not paying your student loan except the credit report. And that's already screwed up from a while ago. So what is the consequence?



Boston

[T]hen there was long periods of time where I would stop because I switched jobs a lot, I was young, I had no idea what I was doing. So I went through every option that I could possibly do like deferment and default, all that kind of stuff.



Atlanta

My first bill was \$300 and I completely ignored it. I didn't pay attention to it. I was like, "Well, I didn't finish, so I'm not paying for it." I pushed it away and a couple of years later they called me and said, "Hey." I didn't realize how they have my number. They say, "You have a bill and we're going to garnish your wages." And I said, "Well, good luck with that because I don't have a job." So then they put me on this payment plan, which I've been paying for a very long time.



Phoenix

I feel like it is pointless in a way [avoiding default by using a repayment plan like Income-Based Repayment], because you are giving away money when you are paying it back....All you are doing is paying on interest, you are not paying the actual loan. Right now my mindset is let them keep taking it [my federal income tax refund in lieu of a loan payment] at the end of the year on my income tax.



 Atlanta

The student loan, there is no leverage that they have on us.

[PROBE: No?]

Outside of the credit report or, you know, they might call our references, but, like you said, if we don't pay our car, they'll come repossess it....And that's the leverage that they have on us. If we don't pay our credit card bill, they would increase the percentage and then it goes to the credit reporter. If we don't [pay] our house note or a mortgage, then we go into foreclosure, you know. The student loan is, their leverage is... they're not going to come get the degree because they don't want it.

[OTHER PARTICIPANT: We already got it.]

We already got it, so what's the other leverage other than "we'll just add, tack on the interest on them and then we'll constantly call them?"

No Late Fees or Penalty Interest Fees

Yet another way in which federal student loans are different from other debt: loan servicers generally do not charge a penalty for late payments, per instructions from the U.S. Department of Education, until the loans are in default. Interest continues to accrue, however, and the borrower's credit score suffers. Even when a late fee is assessed, some participants noticed that it was not as severe as for other types of debt. That contributed to the view that letting the loan go into delinquency status was a strategy for managing the debt.¹²



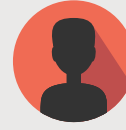
Phoenix

I lost my job and my dad was sick and everything came down at once. So I was late a few times, but even then I didn't really have any issues because I had something like 270 days to pay it back before there were any sort of fees or repercussions, so I got it in before that time frame.



Atlanta

If you miss a credit card payment then the next month your interest rate can shoot up from 12% to 18% or 20%. If you miss your student loan payment, you know, the, you know, mine is fixed at like 2.25%, so no matter what happens, even if I miss a payment, the, I mean interest is continuing to accrue but it's, the rate isn't going up. So there's, so it's definitely not as much pressure to make that payment.



Atlanta

Yeah, I mean really it was, the only real reason was because what are they going to do? I mean other than add more interest to it, I mean what are they really going to do?



Atlanta

If you don't make your credit card payment, you get a \$30 late fee, and if you don't make your student loan payment it just goes on the next month, and there's no—they don't even contact you.

Incentives to Re-Engage

In a similar vein, participants seemed to be responding to incentives to delay paying their loans, and said that it took significant consequences to motivate them to take action regarding their loans. A number of borrowers said they eventually called the loan servicing company and started paying once they had been threatened with wage garnishment. They also noted that years lapse between when they stop making payments and have their wages garnished.

Others wanted to apply for a mortgage or go back to school and decided it was worthwhile to put their loans in good standing. Some younger borrowers started paying when servicing or collection companies called their parents. It is important to note that these borrowers were in fact working and earning incomes, though not repaying their loans, which is why wage

garnishment came into the equation. For some, a bout of unemployment caused them to default, but when they became employed again, they did not resume making payments on the loan. They had assigned a low priority to their loan payments, a topic we discuss in the next section.



📍 San Francisco

[My monthly payment] was reasonable, and then after I lost my job I just couldn't afford it anymore, and I didn't even think, I know it sounds crazy, but I didn't even, I didn't contact them. I just was like I'll get a, I get it, you know, around to it when I get around to it.

And probably took a year almost, but I moved, too. I didn't stay at the same place so, and I didn't have the same phone number, and then I got around to it when my wages were garnished...I have to do something, and now that I'm, I had, the plan was, the way it worked was that you pay for nine months and then after that they stop garnishing your wages... So now I'm fine.



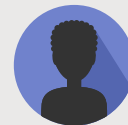
📍 San Francisco

I got that phone call, the wage garnishment phone call. I was like okay I'm going to start paying again. I'm going to start paying tomorrow. That was a threat and I started paying that month. [PROBE: So that worked?] Oh that worked!



📍 Chicago

If it ever got to wage garnishment, my boss would know, and I know for a fact like we don't hire people if they have any wage garnishment. They're not privy to like certain leadership opportunities and things as, because it looks like you have bad judgment, you know?



📍 Philadelphia

Well I applied for a second mortgage because of my student loans being so past due. Nobody told me, I found all this later. [The person at the mortgage company] helped consolidate my loans so he can give me a mortgage because he's not leaving without any money.



📍 Boston

[PROBE: So you just let them pile up, so then something must have happened?] Well I kept getting calls and all that mail. They called my parents and my dad called me freaking out, and that's when I started to use my lunch money and paid off the first payments. I would make a payment every few months, like every four months... I just kind of squeezed out whatever I had. I do photography on the side, so I sold some of those. I sold a \$2000 lens for cheap.



📍 Philadelphia

I didn't pay for, like, two years, and I was expecting a paycheck. And the office called me up and said, "We have to start garnishing your wages," and that's what really started making me pay my loans. And they only garnished them once and then I started paying back... But that's how I knew it was serious, when they garnished my wages.



📍 San Francisco

Well I was thinking about going back to finish my second degree and I couldn't [take out more federal student loans due to my loans being in default]. And now they told me that I could. [PROBE: So something changed?] Oh yeah now I have been paying.

LOW-PRIORITY PAYMENTS



Philadelphia

Get your regular bills done and then you can figure that out then if you can. Utilities too. [PROBE: Are you telling me that every other bill would come before this?] I always felt like they could never take my education away from me; they could take my car, they can evict me, they can shut off my electric, like sorry. It's not like I want it to be like that, but that's the way my mind would go.

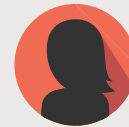
Focus group participants described assigning a low priority to their student loans relative to other things they needed or wanted to spend their money on each month. This may have led some to opt for forbearance when they were informed that they could easily suspend their monthly payments. For others, it played a role in their defaulting on the loan or in whether they thought taking steps to get their loans back in good standing was worth it.

These attitudes bring to light how student loans are different from other expenses in a family's budget. Many bills that people pay on a monthly basis are payments toward ownership of an asset (like a house or a car), which can be seized if the borrower fails to make payments, or towards an ongoing and vital service such as a phone or a utility, which a provider can shut off swiftly in response to late payments. Failure to pay these bills results in a loss, whereas paying a student loan might feel like a loss in the sense that the borrower gains nothing from the payment because she has already obtained the service (her education) and it cannot be taken away.

To be sure, those who default on their loans suffer consequences. But as was discussed in the earlier section, some participants expressed a feeling that

those consequences were better than the alternative of paying. The fact that it took years for the consequences to kick in also made that choice more palatable. While a ruined credit score is the most immediate penalty for late payment, its effect on borrowers was unclear because some of the participants who had defaulted said that they already had bad credit scores due to other unpaid debts. The incremental effect that unpaid student loans had on their credit scores did not seem to be of much concern.

Borrowers' negative or indifferent attitudes toward their loans are exacerbated when they see their balances rise due to interest accrual after using forbearance, or penalty fees are assessed after default, or their repayment terms stretch on for decades. This makes them feel as though they will not ever be able to repay the loan, fueling the desire to push the loans lower on their list of priorities. We devote a later section of this paper to that specific theme of hopelessness.



Atlanta

I mean I can get rid of the cable, but I mean, you know, you've got people in the house that like the cable, so... [PROBE: But I'm playing devil's advocate. I'm trying to push. I'm trying to get a sense of is it just so unaffordable or is it that you're not going to give up, you know, something that could be discretionary?] I just don't want to give up some things.



Philadelphia

I pay my mortgage and credit cards, and then I think about my student loans. I'm in like double jeopardy situations because I have so many kids.



Phoenix

I know if I ever had to not pay a bill, it would be my student loan, because I have to live. I have to pay for my house, I have to pay for electric, gas, and water. I have to have those things to sustain. My student loan I don't have to pay to sustain. So if I was ever in a position where I can't pay a bill, the student loan is going to go first. And I think that is probably how it is for most people because you have to live.



Atlanta

I could just throw money down to pay it and keep paying it. I'm never going to use it. It's like I've already used this or incurred it and got my degree. I can't get no more benefit from this money that I'm throwing away, but this credit card bill and this car that I'm paying and this house that I'm living in that I'm paying for, I'm still, it's continuous usage of it, so I think that's what prompts people to just forget about the student loans because while you already got the benefit, there's no other incentive to pay...I don't know if anyone here went as far as I did in default, so my credit did take a hit, but my credit was not what was important to me as far as other interesting things, like I'd rather pay my cell phone than pay my student loan.



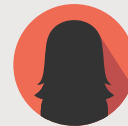
Atlanta

I just kind of have a laissez-faire attitude about my student loan.... Ten years from now I'm going to get hit with this huge bill and they're going to want all the money at once....But if I get my tax return money, I think about what I want to do with that money that's going to make me happy [not about paying the student loan].



Chicago

And in the middle of the chaos or a crisis it's like, "They can't take my education away from me. I already graduated." So what are you going to do? Shut it off like the lights? I understand it's still bad, but they can't take it away, so I'll just get to it. I'll pay it off, whatever, but right now...I don't know.



Chicago

I paid the other bills. [PROBE: And what was it about the student loan bill that you thought, "I can let this one wait"?] I don't know. I just didn't see it as, it just wasn't at the top of the list of priorities. I was like, "Okay, I need food. I need lights, you know. I need this." I don't really think I'll, I can wait for this.



📍 San Francisco

I feel guilty about not paying and the interest is so much, almost as much as the original loan. But it is like daily life and I think about paying the bills that are right here that I need to survive those are always priorities. Okay college loans have to wait, but I am torn... It is also me just holding out and waiting for that phone call that or the red letter coming in the mail that I waited till last minute.



📍 Atlanta

I could get rid of some things because a lot of it I don't use. Like I have Netflix. I have all these cable channels and I'm never at home to watch them. But when I am there, that's the whole point of having it. You want to be able to enjoy your surroundings, but I hate to give up Netflix and other things to really pay it.



📍 Boston

The mortgage is important, the car loans are important, this is important, the school loans are not important.

RESENTING THE LOAN



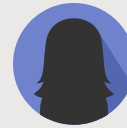
Atlanta

Anger. For so many years I wasn't in the field that I went to school for but yet I still have to pay you. And I say you, because I know they just gave me a loan, I signed the papers, they give me the loan, I get that, but there is anger there because I think, what part did I play in not doing what I had to do? There is so much confusion that came out more like in anger, in dread, in fear and just whatever it was about what am I going to do, how am I going to pay this?



Chicago

At one point I was unemployed, so that's when I was late and I started missing payments... it was kind of like I resented the student loan because I felt like it wasn't doing anything for me. And I didn't want to think about it. I was kind of like in denial about it, like I don't want to think about it because if I think about it too much, I'm going to be mad that I don't get the job... It hasn't gotten me anywhere, you know. [PROBE: It didn't do its part.] Yeah, sort of like, "What is that? I don't, why am I paying for that?" I mean I know there's other things in life that you pay for that you don't really get anything out of, but for some reason the student loan, I just resented [it]... I don't really care about it as much as other things.



Chicago

I mean it's not doing its part. It's kind of like an intangible thing from the get-go. You sign a piece of paper. You owe a bunch of guys some money.... go to school and then get out and never use anything that you did in school for anything. So it's like, "Yeah, I don't really care about that [bill]."



Boston

I called the people for the loan and said, "I don't think I should have to pay because I still didn't get the certificate," and they say, "that's something you're going to have to work out with the school." So I called the school and they told me that's something I have to work out with the loan company. [PROBE: So you didn't pay?] No. [PROBE: Have you paid anything?] Out of my pocket, no.

Many participants felt resentment toward their student loans, which was a closely related attitude to making student loan payments a low priority relative to other bills. Several explained that they felt as if they were not getting anything for the monthly payment or that their educations did not pay off but the loan was still due. Repaying the loans was like throwing good money after bad in their view. Participants also expressed resentment because they felt that schools had engaged in predatory recruitment or falsely promised job placement services and other post-school support.



Philadelphia

I've been back and forth with it. I don't know. I'm so mad at the school that I get to a point where I don't want to pay it.



Boston

It's hard for [us] because we didn't even finish. And they are asking for all this money and we're like screw you, I didn't even use it. It's tough, it makes you a little bit bitter about it, because I didn't get to do what I wanted to do.



Philadelphia

I just leave it alone. Cause I don't want to have to get an attitude back [from the loan servicing or collections company] so I just say thank you have a good day.



Chicago

I was pretty religious paying it off at the beginning, and then stuff changed in my life... I was able to afford a house, a new car, get married and all that stuff... [PROBE: If you had the money, why didn't you just pay off the loan? You said you had enough money for a house. You had a car. You had a good job. Why didn't you just...] Priorities, I guess, and like a little, like this business [that has] been talked about, a little resentment. It's like, "Why did I spend all this money on a degree at [the school I attended]?" It has nothing to do with my job.



San Francisco

I think if I could actually get rid of the loan there would be value, but right now I'm working retail, which I could do if I didn't have a degree. So what is the point?



Phoenix

I was going to go to [a for-profit technical school] to be a paralegal, and they were higher pressured than car salesmen. And then [a different for-profit technical school] - I went in there [with my boyfriend] and I swear they had both phone numbers and they blew up our phones for a good eight months.

What About Income-Based Repayment (IBR)?



Philadelphia

I don't understand how you are supposed to pay back in 20 years paying \$100 a month

Income-Based Repayment for federal student loans was designed to help struggling borrowers. One of the original goals of the focus group study was to solicit feedback about the plan from this very demographic. Unfortunately, the feedback participants provided offered limited insight. This study focused on how struggling borrowers approach and perceive repaying their student loans. Since most borrowers were neither enrolled in IBR nor had previously heard of the plan, only a small portion of time was devoted to this complex topic. IBR may need its own focus group study to generate more meaningful responses.

In IBR, borrowers pay either 10 or 15 percent of their discretionary income, they make no payments if their incomes are below 150 percent of the federal poverty guidelines, and any unpaid balances are forgiven after 10, 20, or 25 years of payments, depending on the borrower's circumstances. More specifics on the mechanics and formulas for these plans can be found at the U.S. Department of Education website and in a 2012 New America paper, *Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans*.¹³ The few focus group participants enrolled in IBR said that the benefits it provided made all the difference for them, making them feel as if their debts were manageable and that making lower monthly payments, but for longer, was a good trade-off. While they did mind that their loan balances were growing because their payments did not cover the accruing interest, they understood that the loan forgiveness benefit would alleviate much or all of it.

Those not using IBR and those not familiar with it were confused, perplexed, and often suspicious of the option. A lot of the confusion is due to the income exemption built into the IBR formula. Under the most generous plan available to all recent borrowers, payments are equal to 10 percent of any income above \$17,505. Each additional family member (spouse and children) adds another \$6,090 to the size of the \$17,505 exemption. That is a great deal for low-income borrowers, if only they realized it. This table shows how much of a borrower's income he would pay at various income levels:

Adjusted Gross Income*	IBR Monthly Payment	% of Adjusted Gross Income
\$15,000	\$0	0%
\$20,000	\$21	1.3%
\$25,000	\$62	3.0%
\$30,000	\$104	4.2%
\$35,000	\$146	5.0%
\$40,000	\$187	5.6%

*Household size of 1

After the moderator explained how IBR worked, participants were asked for their reactions. They were very confused by the plan, asked a lot more questions, and then still were confused.

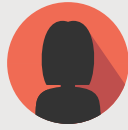
Over the course of the six focus groups, New America worked closely with FDR Group to modify the moderator's guide in order to communicate the plan as simply as possible. But because the benefits are opaque and hidden in a formula, explaining the plan proved extremely difficult. After the moderator explained how IBR worked, participants were asked for their reactions. They were very confused by the plan, asked a lot more questions, and then still were confused.

When participants voiced their opinions, there was a widespread belief they would owe 10 percent of their income, no matter how carefully the exemption was explained, and that it seemed too high. Eventually the focus group moderator dropped "10 percent" in favor of "an affordable percentage of your income." This phrase, however, was met with suspicion, as "affordable" means different things to different people. Dropping specifics to explain the plan only caused participants to want more details.

Participants had other concerns. Some thought that a plan with loan forgiveness sounded too good to be true, and that there must be a catch. Others thought the plan did not really provide benefits because interest could increase their loan balance, or that making payments for 20 years was too much time to make loan forgiveness a meaningful benefit, or that their incomes would rise later and they would resent having to pay an increasing student loan bill.

Few meaningful quotes came out of this discussion because participants were primarily confused. That a program elicits suspicion and confusion from the group of people it is intended to help is extremely troubling. Policymakers should consider what changes to the formula and advertising materials must be made to encourage struggling borrowers to enroll in the plan. Further focus group research is needed to test how different formulas and ways of pitching IBR may make struggling borrowers more likely to enroll in the plan.

HOPELESSNESS



Atlanta

My thing would be that if I actually saw the balance go down, I'd be way more motivated to pay it on time, but... the balance keeps going up. It's like, "What the heck?" I mean why even bother, you know?



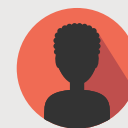
San Francisco

I do know that I have an obligation to pay but it is just so, so much money now.



Phoenix

I was young, and I didn't know what I was getting into, I didn't have any financial help from my family. I didn't realize that I was only paying all the interest up front. After a few years I didn't understand and went into a panic because I still owe what I started with. I had been paying every month. I didn't realize that you only pay that [interest] first... I have been paying off my student loans for 9 years and I haven't even paid half of them off yet...



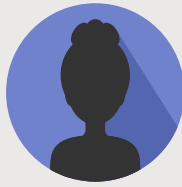
Atlanta

You're throwing money in a well.

Another common theme in the focus groups was that borrowers felt a sense of hopelessness in repaying their loans because they were repaying more or for much longer than they anticipated. These feelings were particularly pronounced for the borrowers who said their loan balances grew even though they were making monthly payments. The same was true for borrowers whose loan balances had grown because they used forbearance or because they had penalty fees added to the loan after defaulting.¹⁴ In some cases participants were using options to make interest-only payments or extend the terms on their loans beyond the standard 10-year plan to reduce monthly payments.¹⁵

A few participants had good things to say about extended loan terms. The lower monthly payments that the plans offered were what encouraged them to bring their loans back into good standing after they had defaulted.

However, the reaction was often the opposite. Many borrowers were discouraged after they opted for longer repayment terms. The prospect of paying for decades, even though the longer term lowers their monthly payments, did not appear to feel like a benefit. These effects are made worse when borrowers had also used forbearance and increased their loan balances or had missed many payments and had default penalties added to their loans. These penalties also intensified any resentment they felt toward the debt.



📍 Phoenix

I was up to my eye in payments that I almost took out a loan out of my retirement just to pay that off.... Just the interest, and I am paying back all this interest, and I keep paying it and I feel like nothing is getting paid off, so if I take a loan out on my retirement at least the repayment and the interest I would be paying myself back versus paying the lender.



📍 Atlanta

They're never-ending, and they keep adding interest no matter how much you pay....It's like paying a freaking mortgage from student loans. I mean it's crazy. It's like taking a second mortgage or something. Having a student loan is horrible....It's the worst thing ever. I'm glad to have my degree, but it's the worst thing.



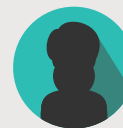
📍 Atlanta

I would have wanted to know that they didn't go away forever, that they would be there forever, that there was no forgiveness for it.



📍 Chicago

It doesn't. It doesn't go away.



📍 Chicago

Once it got so far I just felt like it was hopeless, like there's no way to get out.

IT IS SURPRISINGLY EASY TO GET A FEDERAL STUDENT LOAN



Philadelphia

[PROBE: Would you say it was too easy for you to get a loan?] [Group: Yes!] [PROBE: Anybody think differently?] No 'cause all I have to do is go sit down. You sit down, they pull it up, and you sign it. It's coming and now we owe debt.

A key feature of the U.S. higher education system is that nearly anyone attending an accredited institution has access to federal student loans. Eligibility criteria are minimal by design. For example, borrowers are eligible regardless of their credit histories (or lack thereof) or the type of school they attend or the type of program they pursue.¹⁶ These features are central to the loan program's purpose: they help ensure that all students, regardless of financial situation, have access to credit for their educations and that the terms on the loans are better than those available in the private market.

Participants in the focus groups hinted at their support for that purpose, saying that access to federal student loans is important and that they generally did not like the idea of restricting it. Yet they were quick to contradict themselves, saying that the process of taking out student loans was too easy. It did not force them to think through the implications of their decision, and they thought it odd that they could qualify so easily for a loan to purchase an education that had too little economic value to justify the tuition or the debt. Thus, there was also significant support for making it harder to get a federal student loan.

Some participants remembered that they completed counseling as a condition of receiving the loans and leaving school, which the federal loan program requires,

but that did not change their view that the loans were too easy to take out. A section later in this paper discusses how borrowers felt about the quality and availability of information regarding their student loans.



San Francisco

It was so easy for me to go and get that loan. That was my first loan. Now I really regret... that I didn't pay attention. Because it was so easy for me to get it, I didn't really look into hey, here's free money.



Chicago

It wasn't something that was a thought-out process.



Philadelphia

They didn't really advise you per se, they just said school's going to cost this much. I'm like okay I want to go, I don't have \$40,000, but she said sign here and they'll give it.



San Francisco

I graduated high school and went right to college, and I didn't know what I wanted to do. I didn't even know what it was like to have a phone bill. I was like "No, Dad, it'll be fine; I'm going to take out this \$15,000 loan, I'll pay it back no problem." I [had] never paid anything. I didn't know what that meant. I couldn't even comprehend \$15,000.



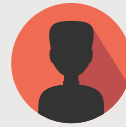
Chicago

It should be just as hard as it is to get a loan for a car...They want to make sure that you can pay this loan back just to get a car, so why is it this easy for someone who has no credit, no job, no way of paying this money back right now to do that?



Boston

For me they had a check mark for whatever you can't pay through scholarship or grant, do you want this to go to a loan? And I just checked yes. It was so easy, it was just one check mark.



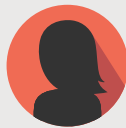
Chicago

At that point, the money wasn't real.



Philadelphia

I have family plus loans [federal Parent PLUS loans¹⁷]. They all come tap me and all I know is "sign Mom, I need you to sign."



Boston

I have a cousin that just went through the whole process to be an LNA (licensed nursing assistant), and she's got a felony charge on her record for stealing pills from a pharmacy. Nobody in their right mind is going to hire this girl to work in a hospital or pharmacy, but yet they still let her into the program and they took her money.



 Boston

When you take out a car loan or a mortgage, these banks take more into consideration of who this person is and who they're giving their money out to. For students, they're giving out the money without actually giving it to them, and these students don't know how much they're going to have to pay back or how much the interest is or how it will be afterwards.

Because I've seen the advisors' student loan line, and seen about 800 people lined up, but the car loan, there's like four people there. [Do] these people realize whom they are giving their money to and [do] they take into consideration are they really going to pay it back? I feel as though the student loan companies—especially the financial aid—is just taking advantage of these kids walking in here asking for student loans.

Refund Checks

Refund checks elicited a particularly strong reaction among participants. A student receives a refund check as part of his federal student loan when he borrows more than the tuition he owes in a given semester. For example, if tuition is \$2,000 and he borrows \$5,000, he receives the difference as a check made out to him. The extra funds are to cover his living expenses like rent, food, and transportation while he attends school.

Undergraduate borrowers are subject to varying loan limits in the federal program that range from as little as \$5,500 for a first-year dependent student to as much as \$12,500 per year for a third-year independent student.¹⁸ Refund checks come into play because, within those limits, students may borrow up to the “cost of attendance” as determined by the school they attend. Since the refund is actually part of the loan, borrowers are expected to pay it back later, but many focus group participants did not seem to fully make that connection at the time.

Participants felt that these checks epitomized how easy it was to take out a federal student loan and the bad incentives that entailed, with some commenting that it seemed as if the “money wasn’t real.” They noted that refund checks were particularly problematic for young and naive students, enabling them to take on debt that they would later decide was not worth it or that they would struggle to repay.



Chicago

Because I was so bent on living on my own and not living at home, I took out extra for my apartment, for my computer, for my car note, all these extra loans for personal things, and my financial advisor, he actually encouraged me. He was like, “Well, you could just take out the loan, but you’re qualified for this extra amount that you could use for these personal things.” I was like, “Wow.” I don’t know if he got a kickback....You get those refund checks...at the time it was like free money.



Philadelphia

Refund checks? I’m 23, if you give me a refund check, I’m going shopping. I don’t understand what that means, you just gave me free money. And no one’s stopping me cause it comes to me.



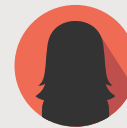
Chicago

I went to Russia for a month with my best friend. It was a pretty great experience; I don’t think I would give that back. [PROBE: And you wouldn’t have done that if you didn’t have the student loan?] No I wouldn’t have had \$2,000.



San Francisco

I traveled with it too. I wasn’t even thinking of school when they said “here you could have 10 grand.”



Chicago

When you’re 19, it’s like, “Wow, I just got \$600,” or whatever it was.



📍 Philadelphia

I think back at the school; basically all they said was this is where you sign. They kind of hook you in, because whatever money's left, you're getting a check and you think, oh, I'll get a little bit of money.



📍 Phoenix

Nobody asked me or questioned me. I had friends encourage me to take out more money to buy a car because the interest was so low for student loans versus car loans and that was right before I graduated. Maybe it was smart maybe it was stupid, I don't know.



📍 San Francisco

The last one I got, I went for it, because they were offering a lot more, like \$6,000. I was like I am going for this, and get every last penny.

[PROBE: How come?]

Because I had a feeling that I was going to need that \$6,000 and I did.

[PROBE: Not necessarily for tuition?]

No. I was in my next to last semester. I graduated in the fall and it must have been my last semester and I was like I am getting every last penny, because I just had a feeling. And I am glad I did because I needed it.

THE LIMITS OF MORE INFORMATION



Philadelphia

I came in an early freshman class; I started six weeks before the semester started. So they gave us courses on loans, how much we were going to have. I didn't pay attention to the class at all. I was 17 when I started college, it was all about a party for me, and not being at my mom's house.

Many will see these findings as an endorsement for providing students and borrowers with more and better information about their loans and the expected payoff of attending certain schools or pursuing certain credentials. Indeed, when the focus group participants were asked to offer solutions, “more information” was almost always their first suggestion.¹⁹

One borrower suggested that schools should make it clear exactly how much a student would owe per month, but as was discussed earlier, options and benefits built into the federal loan program make that difficult and fraught, as does the nature of borrowing for school one semester at a time. At best the number would be a projection based on many variables and the school would need to err on the side of under- or over-estimating the number, both of which entail negative consequences. And even if a reliable future monthly payment could be projected, the information is still incomplete because the student's future income is uncertain.

Participants seemed also to want schools or counselors to emphasize and warn about potential negative outcomes from borrowing, or even discourage taking on debt. Of course, schools are set up to do the opposite, as is the federal student loan program. Encouraging people to pursue a postsecondary education is their *raison*

d'être. Students would no doubt be confused if schools and the federal loan program simultaneously touted the benefits of higher education and student loans while warning that these may also have a lower-than expected payoff and are inherently risky. Education advocates and policymakers would likely oppose such an approach.

Certainly some information could be useful. For instance, students felt duped by some schools pushing false or distorted job placement rates or they felt cheated that a school promised to help place them in a job but ultimately did not. It could help students if they knew the average debt of someone graduating from their program, or the average income three years after graduating.

But while students certainly could use more information (especially on the value of a given program), those efforts cannot remove all of the risk in pursuing a higher education and financing it with debt.

A student loan finances an investment, and there is no guarantee the investment is worthwhile, or that a given program at a certain school is a good fit for a particular individual. How much of this risk is placed on the borrower versus the school and the taxpayer is an open policy discussion, but there are limits to how much information can mitigate risk and uncertainty. Information can only warn people of risk, not shield them from it.

Ultimately, participants acknowledged that more or better information may not have prevented them from making the decisions that they did or facing the outcomes they experienced. For some, they blamed bad decisions on being young, naive, or indifferent to the consequences of taking on student loans. Others said that information about the loans was not relevant to them or did not seem important because they had already made the decision to attend school. For these participants, taking out loans was not a decision unto itself, but part of going to school. Once they made the decision to attend school—and maybe they were several semesters in already—information about loans seemed unimportant because they had already decided to take them.



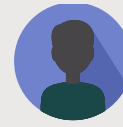
Philadelphia

Now? Sure. But when I was younger I don't think I would have done anything different. But if they explained it to me now I'd be like, "Oh wow!"

But being young and going there's not much you could have told me to keep me out of there. You know what I mean? I would have signed up, I would have signed the papers and even if I had parents that had been through this before or had experienced, would I have listened when they said... this is what it's like in the real world?...

And the reality of it is that I really could have just closed my ears to it if somebody told me, but I don't remember anyone breaking it down to me and saying, "when you sign this paper, this is what it really means: you're going to be paying this much, and if you miss a payment this much, and if you miss more than this payment then your interest is going to look like this, and if you go into default this is what could happen."

When I went in for a meeting, I didn't really know what that stuff meant either. I mean, I'm not ignorant, I just said okay and signed the paper.



Boston

[What] they need to do before they give you the loan is break down the numbers and say, "well, you know you need this much money and you take out a loan, but six months after you graduate you have to pay [\$]300 a month." They actually have to say that, and then ask, "do you think that is possible?" And for any of us \$300 a month I think we would have said no.



Boston

You can advise people. I had great advice, I had great support, I had older siblings and stuff, and I still mismanaged and abused and made stupid decisions. But still having that support system and the right guides, it doesn't matter, it can fall completely on the individual.



Atlanta

So maybe not back then. I mean I was so young. I was like fresh out of high school. I don't know if I really would have thought twice but maybe.



Chicago

I don't know how you could make sure that kids are mature enough to understand what they're signing. I don't know what kind of a test you could take, but I think there should be one in place, like something they should have to do.



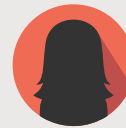
Boston

I didn't know that if I didn't finish, even though I went with intentions on finishing, that they still wanted their money. I mean now that I'm sitting here thinking about it, it makes sense that they want their money. It does make sense whether you finish or not it's just not fair. I only had 1000 hours, eight months of going to school full time, and they are so quick to give out [the loans]. But I guess it's not their responsibility, I wish I could go back and do things differently.



Philadelphia

I wanted to change my career and... I love to learn too. And if they let me work in it I was going to be the best, cause I'm really passionate about it. So what if I had to pay 40 grand and [\$]200, [\$]300 [per month], I still would have signed up, because I liked it.



Philadelphia

To me I wish somebody was more educating when I was going to take out a loan. I think about the people out there who sold these homes to people who didn't have money, they were both wrong, but I feel like the person who was pushing them to get it was more wrong. Sign here on the dotted line, people who are saying sign here on the dotted line should be more educating on here's what could happen if you don't pay, here's what could happen if you don't get a job.



Chicago

I also think that I assumed that I'd be making a lot more money, and that it wouldn't be, that it would never come to that, like even, like you could be, you could read all that and just gloss over it and say, "Well, that... with my four-year degree, this is never going to be a problem for me," you know?

CONCLUSION

The limitations of existing data on federal student loans have left the policy community with an incomplete picture of how borrowers interact with the student loan program and what drives decision making and behavior. Data are largely limited to a borrower's repayment status and her other types of debt, and in some cases include her income and educational attainment. Analyses therefore focus on correlations within this information and theories fill in the blanks.

While focus group research has its own limitations, the findings in this report help to broaden our understanding of borrower behavior and attitudes. Throughout the discussion of various aspects of the student loan system, the focus group participants emphasized that they perceive and interact with student loans in a fundamentally different way than other forms of debt and financial obligations.

To a certain extent, the very design of the student loan program encourages this. Certainly, the majority of borrowers in the system repay on time, and the government expects a certain level of personal responsibility from its citizens, but it is telling that many of these borrowers pay their other bills. The flexibility and leniency the system provides encourages borrowers to make student loans a low priority, fueling rising loan balances, delinquency, default, and resentment.

Surprising loan balances and monthly payments seem to stem from the nature of borrowing to pay for an education. Borrowers have to make payments for many years, long after they feel that they are using the service or asset they financed, making the debt seem more like dead weight than something worthwhile.

Many of these borrowers either did not finish school or have jobs unrelated to their degrees despite the promises made to them by schools, fueling the idea that the loans are of little value and not worth paying back. With that context, of course many borrowers thought it was too easy to qualify for a federal student loan.

Couple that resentment with a federal loan system where postponing, delaying, and procrastinating are very nearly encouraged, and it is unsurprising that so many borrowers are late, delinquent, or enrolling in forbearance. This aspect of the repayment process (the ease with which borrowers can postpone payments) was designed with the best of intentions: the assumption is that people only postpone payments because they absolutely cannot pay. But these benefits become a vicious bait-and-switch for many borrowers. Although it is easy to procrastinate, eventually the time comes to repay, but the loan balance and monthly payment have grown larger, as have the resentful feelings towards it.

Other loans and financial obligations have value right now, in the present, and the consequences for not paying are swift and severe, like higher interest rates, late fees, discontinuation of service, or repossession of an asset. Not with federal student loans. In every part of the process—from taking out the loan, to delaying payment, to ignoring payment, to default—borrowers have a fundamentally different relationship to their federal student loans than any other financial products they encounter.

The solution is not to admonish borrowers for laziness or irresponsibility, but to reexamine what makes federal student loans different, and what processes and incentives can be put in place to correct for those differences. These run the gamut, and difficult tradeoffs are present. Informing students more about the risk of the loans they take on, for instance, could discourage at-risk students from attending in the first place. Cutting off federal student loans for certain types of under-performing schools could reduce access to higher education.

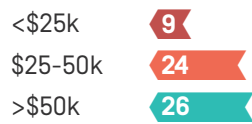
These focus groups are the beginning, not the end, to a new type of research of how borrowers interact with the federal student loan system, less based on correlation and more based on behavior and psychology. All the financial data in the world cannot tell us why a borrower is not repaying. Only the borrower can tell us that.

WHO WE INTERVIEWED

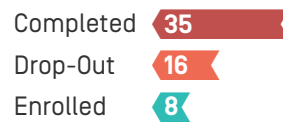
Participants in the Following Cities:



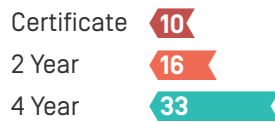
Current Income



Student Outcome



Type of Degree



Type of Institution



Endnotes

1 The average balance for a federal student loan that is severely delinquent is \$15,900. Figure reflects Direct Loans only. FSA student loan portfolio delinquency status at <https://studentaid.ed.gov/sites/default/files/fsawg/datacenter/library/DLPortfoliobyDelinquencyStatus.xls>.

2 Beth Akers, How Much is Too Much? Evidence on Financial Well-Being and Student Loan Debt (Washington, DC: American Enterprise Institute, May 2014).

3 Beth Akers and Matthew M. Chingos, Is a Student Loan Crisis on the Horizon? (Washington, DC: Brookings Institution, June 24, 2014).

4 Jason Delisle, “The Hidden Student-Debt Bomb,” Wall Street Journal, December 30, 2014.

5 Participants were not screened based on whether they had private or federal student loans; however, more than 90 percent of outstanding loans are federal and, based on the remarks of participants, there was no indication that the sample varied significantly from this makeup.

6 The weighted average interest rate on outstanding student loans is about 5.5 percent. Beth Akers and Matthew M. Chingos, Is a Student Loan Crisis on the Horizon? (Washington, DC: Brookings Institution, June 24, 2014).

7 The U.S. Department of Education website has a comparison of the two benefits. See: U.S. Department of Education, “Deferment and Forbearance,” Office of Federal Student Aid, accessed February 5, 2015, <https://studentaid.ed.gov/repay-loans/deferment-forbearance>.

8 34 C.F.R. 682.211(a)(1)(2)(i), Forbearance. Most forbearances are “discretionary”, meaning the lender has the discretion to put the borrower’s loan into forbearance. This can be done through a written or oral agreement, meaning that many borrowers request forbearance, after learning about it from the loan servicer, over the phone. No additional paperwork is needed from the borrower since it is granted at the servicer’s discretion. Any time a borrower requests forbearance over the phone, the servicer must document the terms and reason for the forbearance in the borrower’s file and must send the borrower written notice containing the terms of the forbearance. The

servicer must also provide a notice that explains the effect of interest accrual and capitalization, along with periodic notices during the forbearance that provide information on the interest that has accrued to date. Under Department of Education regulations, the servicer can grant forbearances for up to a year at a time, although many servicers generally grant them in shorter increments (monthly, quarterly, semi-annually), and most loans have a 3-year cumulative limit on the use of forbearance. Based on author’s correspondence with the Student Loan Servicing Alliance, February 2015.

9 Jason Delisle, “Was there A Student Loan Crisis in 2006?” EdCentral blog, October 1, 2014; and Jason Delisle, “The Hidden Student-Debt Bomb,” Wall Street Journal, December 30, 2014.

10 Borrowers defer their loans automatically if they leave school and then re-enroll. They can also defer their loans for economic hardship, military deployment, and other reasons. The U.S. Department of Education does not report what share of deferments in the student loan portfolio are attributable to in-school deferments or other reasons.

11 Charles Jeszeck, “Older Americans: Inability to Repay Student Loans May Affect Financial Security of a Small Percentage of Retirees,” Testimony before the Special Committee on Aging, U.S. Senate, Government Accountability Office, September 10, 2014.

12 In the Direct Loan program, servicers may assess a late fee of no more than 6 cents for every dollar due, according to the Mastery Promissory note. However, in practice, servicers have been instructed by the Department of Education’s Office of Federal Student Aid to not assess any late fees. Older federal student loans made under the now defunct Federal Education Family Loan Program can and often do assess late fees. This program ceased to make loans as of July 2010 and all subsequent loans have been made under the Direct Loan program, under which late fees are not assessed. To date, the majority of outstanding loans are those made under the Direct Loan program. Based on authors’ correspondence with the Student Loan Servicing Alliance, February 2015.

13 U.S. Department of Education, “Income Driven Plans,” Office of Federal Student Aid, accessed February 5, 2015, <https://studentaid.ed.gov/repay-loans/understand/plans/income-driven>; and Jason Delisle and Alex Holt, Safety Net or Windfall? Examining Changes to Income-Based Repayment for Federal Student Loans (Washington, DC: New America, October 2012), <http://>

edmoney.newamerica.net/sites/newamerica.net/files/policydocs/NAF_Income_Based_Repayment.pdf.

14 When a borrower defaults on a federal student loan, the Department of Education enlists the help of private collection agencies to recover the loan. For a Direct Loan, borrowers are transferred to the Debt Management and Collections System. The borrower's loan remains there for another 60 days while the borrower is informed of the default, after which the loan is transferred to a private collection agency. Collection agencies work on commission, and they may charge up to 25 percent of the outstanding balance (principal and interest); however, the full fee is rarely applied, and can often be significantly lower (for instance, 20 percent of payments for nine months and then the remaining fee is waived). The typical way a borrower exits default and returns his loan to good standing is to either consolidate the loan and begin immediately repaying or to "rehabilitate" the loan for nine months on a "reasonable and affordable" monthly payment. This payment can be negotiated, but borrowers may also enroll in an income-based repayment plan. For those who chose the rehabilitation option, the default disappears from their credit reports once the loans become current. When the loans are rehabilitated, borrowers are again able to enroll in a variety of repayment plans as well as enter deferment and forbearance. A borrower is only able to rehabilitate a defaulted loan once.

Dwight Vigna, "Default Collection," U.S. Department of Education, Office of Federal Student Aid (presentation, Student Loan Servicing Summit, December 2014), <http://fsaconferences.ed.gov/conferences/library/2014/servicing/2014ServicingSummitDefaultCollection.ppt>.

15 Borrowers need not meet any hardship or means tests to access these benefits. All borrowers can request a graduated repayment where payments start low and may cover interest only and then rise years later. If they have at least a \$7,500 balance they can request to extend the repayment term on the loan from the automatic 10-year repayment plan (the "standard plan") to anywhere from 12 to 30 years, depending on the size of the balance through the consolidation benefit or the "extended" repayment plan. They can also combine the two benefits—graduated payments and extended terms—to dramatically reduce their monthly payments in the early years of repayment. For instance, a borrower with a \$29,000 federal student loan balance (the average amount for someone who took out loans and received a bachelor's degree) would pay \$322 per month for 10 years under the standard plan, and pay \$9,635 in interest over the life of the loan. If he opted to use the consolidation plan, he would pay \$207 per month for 20 years, and

pay \$20,863 in interest over that time. If he chose to use graduated repayment with the consolidation plan, his monthly payments for the first two years would be \$145 per month, with the monthly payment increasing every two years. By his 20th and final year of repayment, his payment would be \$322 per month, and he would pay \$25,572 in interest over the life of the loan.

16 Having an outstanding federal student loan in default makes a borrower ineligible for additional federal student loans. Once the loan is returned to good standing, the borrower can access more federal student loans within the loan program's other guidelines.

17 Parents of students who are determined to be dependent for federal financial aid purposes are eligible to apply for federal Parent PLUS loans. If approved, parents can borrow up to the full cost of school attendance, minus any grant and scholarship aid. They are not subject to the strict loan limits that their children face. Cost of attendance includes tuition and a cost of living calculation. Parent borrowers with an adverse credit history (such as 90+ day delinquency over a certain threshold, default, tax lien, foreclosure, etc.) are rejected for the loan. However, they can appeal that decision to the Department of Education or obtain an outside "endorser" who does not have an adverse credit history. CFR 682.200(c). Since taking out a Parent PLUS loan is not based on a parent's ability to pay, even those in extremely difficult financial situations can obtain the loan. The Department of Education will impose slightly looser credit requirements starting in March 2015. "What are the New Rules for PLUS Loan Credit Checks?" Student Loan Borrower Assistance, January 27, 2015; and Rachel Fishman, *The Parent Trap: Parent PLUS Loans and Intergenerational Borrowing* (Washington, DC: New America, January 2014).

18 U.S. Department of Education, "Subsidized and Unsubsidized Loans," Office of Federal Student Aid, accessed February 5, 2015, <https://studentaid.ed.gov/types/loans/subsidized-unsubsidized>.

19 Lowering the interest rate was another very popular suggestion.



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