RESEARCH REPORT

Student Loan Default Patterns

What Different Paths through Default Can Tell Us about Equitably Supporting Borrowers

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Student Loan Default Patterns

Racial inequities in higher education and the labor market have led to disparate outcomes in student loan borrowing and repayment by race, with Black borrowers holding more student debt and being more likely to default on it compared with white borrowers. Student loan default, which helps perpetuate the racial wealth gap by disproportionately hindering Black borrowers' access to credit, follows different pathways for different borrowers. Some exit default quickly while others remain in default for years or default multiple times. Examining the characteristics and circumstances of these different types of defaulters is critical to supporting borrowers most at risk of default and helping them recover when they enter default. In this report, I use 2010–21 data from one of the three major credit bureaus to describe student loan default patterns, the associations between these patterns and other financial circumstances, and context for how circumstances differ by race. I focus on borrowers who default multiple times and find that these borrowers are substantially more likely to hold utility and medical collections debt than other defaulters, have lower credit scores on average, and struggle to recover financially after entering default. Further, I find that medical and utility collections debt are stronger predictors of a borrower's default pattern in predominantly white neighborhoods than in predominantly Black neighborhoods.

These findings provide evidence of the long-lasting financial hardships long-term and persistent defaulters experience. Policymakers could consider forgiving student loans for these borrowers to support marginal financial improvement. These findings also suggest that credit reporting practices and loan rehabilitation eligibility requirements may exacerbate financial struggles for borrowers who cannot stay current on their loans after curing a default, and these practices may be more likely to harm Black borrowers. Lastly, these findings indicate that many borrowers have cured their defaults during the student loan payment pause, and after payments resume, these borrowers may be particularly vulnerable to the financial harm caused by new delinquencies and defaults.

Racial Disparities in Student Loan Debt and Default

Racial disparities and inequities exist throughout the student loan system, from loan disbursement to repayment, delinquency, and default. Seventy-three percent of Black undergraduate students who were enrolled in the 2015–16 academic year borrowed to pay for their education.[1] For all other racial and ethnic groups, this number was less than 60 percent. According to the Survey of Consumer Finances, 30 percent of Black households held student loans in 2019, compared with 20 percent of

white households.[2] This gap has been consistent for almost two decades, but more recently, a gap has emerged in the amount of student debt held, with Black households holding $7,000 more than white households at the median.[3] Evidence also shows that a larger share of Black college graduates with student loan debt is enrolled in income-driven repayment (IDR) than their white peers—meaning their monthly payments are calculated as a share of their income—but this gap closes among those without degrees (Miller 2019).

Interest accrual and graduate school borrowing may amplify the gap in student debt among graduates (Scott-Clayton and Li 2016; Webber and Burns 2022), but when it comes to student loan default, borrowers without degrees are most at risk. Eighteen percent of borrowers who entered college in the 2011–12 academic year defaulted on their loans within six years, but among borrowers who did not graduate, 41 percent defaulted (Miller 2019). Among Black borrowers, these shares are 32 percent and 55 percent. Borrowers are also more likely to default if they attended a for-profit college, a sector that enrolls a disproportionate number of Black students and therefore contributes to these disparities.[4]

Labor market factors also provide valuable context for the increased risk of student loan default among Black borrowers. Black workers face a substantial earnings gap when they have the same level of education as their white counterparts, and the gap has widened, particularly for those with a college education (Daly, Hobijn, and Pedtke 2017). Income volatility also tends to be more common in Black households, which makes it more difficult to pay down student loans.[5] Given that Black students often need to borrow more for their education but face labor market discrimination and income volatility, it is unsurprising they would be more likely to struggle with their student loan payments, especially because they do not have the same level of inherited wealth to use as a safety net.[6]

Student Loan Default and the Racial Wealth Gap

Although student loan debt in general can hinder one's ability to build wealth, defaulting on these loans can be particularly burdensome because of its impact on a borrower's credit score and their ability to secure credit in the future.

Though noncompleters are most at risk of default, Black bachelor's degree graduates also default at a substantially higher rate than their white counterparts (Scott-Clayton 2018), which may contribute to the near-zero expected wealth premium for families headed by a Black bachelor's degree recipient (Emmons, Kent, and Ricketts 2019). Further, increased student loan debt, even if not in default, is associated with a decreased likelihood of owning a home and using it to accumulate wealth.[7]

Parent PLUS loans also play a role. These loans are generally not eligible for IDR,[8] which makes it more difficult for low-income borrowers to pay down their debt, and Black parents are more likely than white parents to take out loans for their child's education that they may struggle to repay (Baum, Blagg, and Fishman 2019; Geiman and Taylor 2022). If these borrowers are eligible for Social Security benefits, student loan default can also hinder access to that additional source of income (Geiman and Taylor 2022).

Given the disproportionate impact of student loan debt and default on Black borrowers, addressing the needs of defaulted borrowers and those most at risk of default can help narrow the racial wealth gap.

Borrowers who default on their student loans tend to look different from the average student loan borrower. Blagg (2018) shows that borrowers who default are more likely than borrowers who do not default to be from neighborhoods that have lower incomes, have more residents of color, and have fewer adults with bachelor's degrees. Further, borrowers who default are more likely to have held medical, utility, bank, and retail collections debt before entering student loan repayment. Borrowers who default on their loans are also more likely to be older and to have received a Pell grant (Miller 2017).

Student Loan Default Patterns

Although the typical student loan borrower may look different from the typical borrower who defaults, borrowers who default on their student loans are not a uniform group, as they experience varying paths into and out of default. Some borrowers exit default quickly, others stay in default for several years, and others default multiple times (Blagg 2018). According to the Office of Federal Student Aid, 90,000 to 100,000 borrowers defaulted for at least a second time each year from 2015 to 2017.[9]

Defaulting more than once can be particularly detrimental to a borrower's credit record. Borrowers can exit default through loan rehabilitation, consolidation, or repaying the loan in full. Loan rehabilitation, which requires nine voluntary payments, in contrast with consolidation, removes the default from the borrower's credit history, but borrowers can rehabilitate a federal student loan only once.[10] So if a borrower redefaults on the same loan after rehabilitation, the default will stay on their credit record even if remedied, which could hinder the borrower's ability to secure credit in the future.

These types of defaulters may experience different circumstances and need different types of supports and protections. Given the unique impact multiple defaults can have on a borrower's credit

record, it is important to learn more about this group and how policymakers can address their needs. Little research focuses on borrowers who default multiple times. The rest of this report examines the characteristics of these borrowers and how they compare with student loan holders who have never defaulted, those who have one short-term default, and those who have one long-term default.

Using Credit Bureau Data to Examine Default Patterns

I use data from one of the three major credit bureaus that include a random 2 percent sample of Americans with credit records. Data are collected in August each year from 2010 to 2021, and I retain only individuals who have credit records in every year. In addition to credit scores and information on other types of debt, these data include the amount of student debt a borrower holds, the status of that debt, and the number of student loan delinquencies in the previous 24 months.

Credit bureau data do not provide information on race, ethnicity, income, or educational attainment. The data do include individuals' home zip codes, however, so I link zip codes to American Community Survey data on zip codes' shares of residents by race and ethnicity, median incomes, and shares of adults with at least a bachelor's degree. Although imperfect, these zip code–level data add valuable context to my findings.

Because payments on most federal student loans were paused in March 2020,[11] most borrowers would be unable to default after this point. I group borrowers by their default patterns between 2010 and 2019. I sort borrowers into four groups: those who held student debt for at least one year and were never in default, those who defaulted once but appeared to cure the default within two years, those who defaulted once and appeared to stay in default for more than two years, and those who appeared to default multiple times. I then describe borrower characteristics and circumstances for each group, show associations between default patterns and other financial variables, and examine how borrowers in these groups were faring in 2021.

Findings

To find how many and which types of borrowers experience each pathway through default, I examine the distribution of default patterns, disaggregating the data by the predominant race or ethnicity of borrowers' zip codes. Of the 726,638 student loan borrowers in the sample, 73 percent never defaulted on their loans, 6 percent had a short-term default, 18 percent had a long-term default, and 3 percent

had multiple defaults (table 1). But in neighborhoods of color, the likelihood of a borrower being in each of the three default groups is substantially higher—48 percent of borrowers in predominantly Black neighborhoods (i.e., neighborhoods where at least 60 percent of residents are Black) had at least one default between 2010 and 2019, compared with just 23 percent of borrowers in predominantly white neighborhoods.

TABLE 1

Default Patterns Distribution, by Predominant Race or Ethnicity in a Neighborhood

Borrowers in neighborhoods of color are more likely to default

Predominant race or ethnicity in neighborhood	No default	Short-term default	Long-term default	Multiple defaults
Black	52%	10%	31%	6%
Nonwhite	62%	9%	25%	4%
White	77%	6%	15%	2%
Total	**73%**	**6%**	**18%**	**3%**

Source: Urban Institute analysis of credit bureau data and American Community Survey data from the National Historical Geographic Information System.

Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. A neighborhood has a predominant race or ethnicity if at least 60 percent of its residents are part of the named group. Neighborhood of residence is as of 2019. The table excludes individuals older than 70 in 2010. Because of data limitations, I cannot disaggregate by every race and ethnicity reported in the American Community Survey but acknowledge meaningful differences may exist among these groups.

About two-thirds of defaulters, regardless of neighborhood type, had a long-term default. These are borrowers who, between 2010 and 2019, had one default that lasted at least three years. Just over 20 percent of defaulters had one short-term default, and a little more than 10 percent had multiple defaults. Because the time frame is limited, this analysis likely underestimates the true share of borrowers who default multiple times, as a borrower with just one default during this period could have defaulted on the same loan before 2010, which these data do not capture.

Seventy-two percent of long-term defaulters were in default for at least five consecutive years, and 21 percent were in default for at least seven consecutive years. This group also borrowed less, at the median, than other borrowers who defaulted. The median long-term defaulter borrowed about $14,000, while the median short-term defaulter borrowed around $16,000.[12] Those who defaulted multiple times borrowed about $20,000, which is only $2,000 less than those who never defaulted.

One relevant question is whether borrowers who default on their loans reduce their balances after exiting default (or while still in default) and how this progress differs between the three groups. To answer this question, I look at how much student loan debt (in any status) borrowers had at the time of default and two, four, and six years later.[13] At the median, short-term defaulters reduce their balances

quickly, and long-term defaulters reduce their balances slowly over the first four years after entering default, before doing so substantially in the following two years (figure 1). The steep decline in the median debt amount between four and six years after a default could be a result of wage garnishment or tax offsets. These collections processes often begin years after a borrower first defaults (Delisle, Cooper, and Christensen 2018). Borrowers who experience multiple defaults see their balances remain high for several years after first entering default. Because wage garnishments and tax offsets take time to begin, borrowers who default multiple times may be avoiding these processes by not staying in default for as many consecutive years.

FIGURE 1

Median Student Debt Amount over Time, by Default Pattern

Borrowers who redefault do not reduce their total student loan debt balances over time
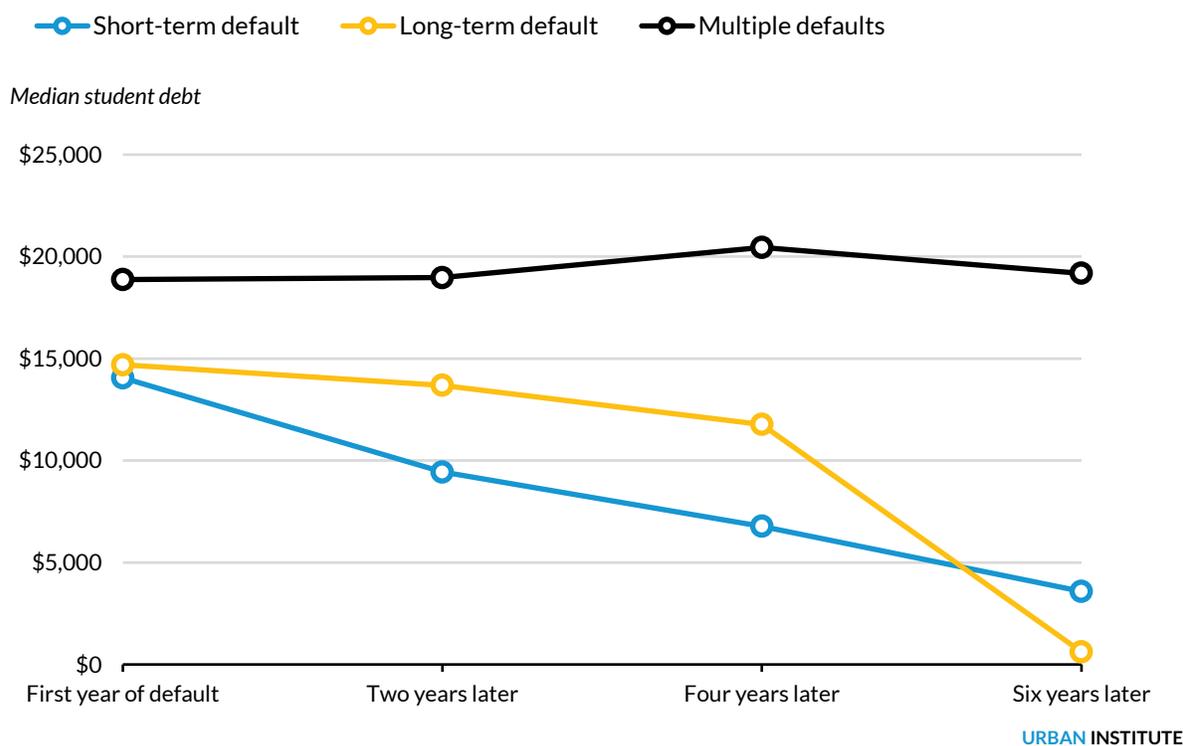
Source: Urban Institute analysis of credit bureau data.
Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. The figure excludes individuals who were older than 70 in 2010. Borrowers are excluded from a time interval if the interval occurred after 2019 (i.e., the calculation for two years after default excludes borrowers whose first default was after 2017). Median student debt includes debt in any status, and the calculation includes borrowers who have fully paid off their balances.

Default Patterns and Other Types of Debt

To learn more about each of these borrowers' circumstances and to understand the implications of differing default patterns, I look at the shares of borrowers with each default pattern who have other types of delinquent or defaulted debts that may indicate financial hardship. Utility and medical collections debt are the most common debt burdens for borrowers with a history of student loan default (table 2). And borrowers who have defaulted multiple times have the highest likelihood of holding these debts. Relative to the sample as a whole, borrowers in predominantly Black neighborhoods are substantially more likely to hold utility collections debt—nearly half of borrowers in predominantly Black neighborhoods who have defaulted multiple times held utility collections debt in 2019.

TABLE 2

Share of Borrowers Holding Other Types of Debt in 2019, by Default Pattern

Utility and medical collections debt are the most common debt burdens for borrowers who have defaulted

Debt type	No default	Short-term default	Long-term default	Multiple defaults
All neighborhoods				
Utility collections	7%	27%	36%	40%
Medical collections	11%	35%	41%	45%
Bank collections	5%	18%	21%	26%
Retail collections	3%	11%	12%	15%
Auto delinquency	4%	12%	11%	15%
Credit card delinquency	12%	24%	20%	24%
Predominantly Black neighborhoods				
Utility collections	20%	36%	45%	48%
Medical collections	21%	35%	39%	41%
Bank collections	13%	22%	22%	25%
Retail collections	8%	12%	12%	14%
Auto delinquency	10%	16%	14%	18%
Credit card delinquency	22%	26%	21%	25%

Source: Urban Institute analysis of credit bureau data and American Community Survey data from the National Historical Geographic Information System.

Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. A neighborhood has a predominant race or ethnicity if at least 60 percent of its residents are part of the named group. Neighborhood of residence is as of 2019. The table excludes individuals older than 70 in 2010.

Overall, borrowers living in communities of color are more likely to hold collections debt than those living in predominantly white neighborhoods. As of February 2022, 35 percent of Americans living in communities of color held at least one type of collections debt, compared with 22 percent in white communities.[14] Although collections debts and delinquencies by default pattern largely show this same trend, differences by race appear to vary substantially depending on the type of debt. Borrowers in

predominantly Black neighborhoods are more likely to hold utility collections debt in each of the four groups relative to all neighborhoods, but they are slightly less likely than those in all neighborhoods to hold medical collections debt if they are in the long-term or multiple-default groups and they are more likely than those in all neighborhoods to hold this debt if they are in the never-default group. Auto loan delinquencies appear to be a burden that is more common in Black neighborhoods regardless of default pattern, but bank and retail collections show a substantial disparity in only one or two of the groups.

To understand how utility and medical debts (i.e., the most common debts) relate to student loan default patterns as they are unfolding, I examine the share of defaulters holding utility and medical collections debt, beginning in their first year of student loan default. I find that borrowers with a short-term default were least likely to hold utility and medical collections debt in their first year of default and see a decreasing likelihood of holding these debts in each succeeding time interval (figure 2). Borrowers who stay in default for several years were more likely to hold these debts in their first year of default and continue to see an elevated likelihood relative to borrowers with short-term defaults over the next six years, indicating long-lasting financial hardship. This gap is particularly large with utility collections debt. Borrowers who redefault on their student loans show a similar trend. Among borrowers living in predominantly Black neighborhoods, these trends are similar (appendix figure A.1). But defaulters living in Black neighborhoods are substantially more likely than the average defaulter to hold utility collections debt at each time interval, regardless of default pattern.

FIGURE 2

Share of Defaulters Holding Utility and Medical Collections Debt over Time, by Default Pattern

Long-term and multiple defaulters are more likely to hold collections debt in the years after they first default
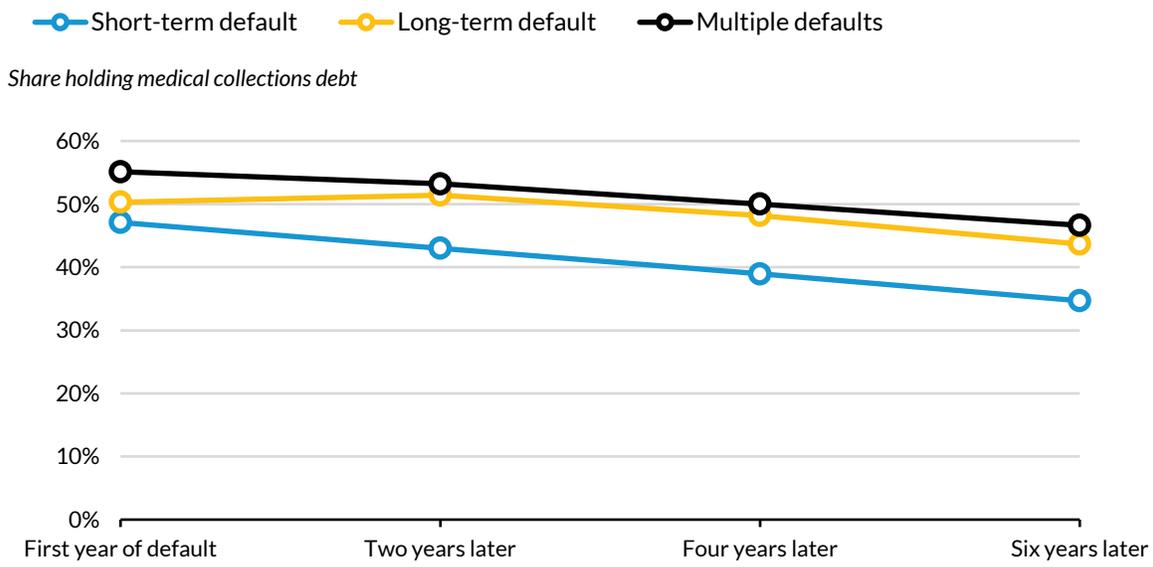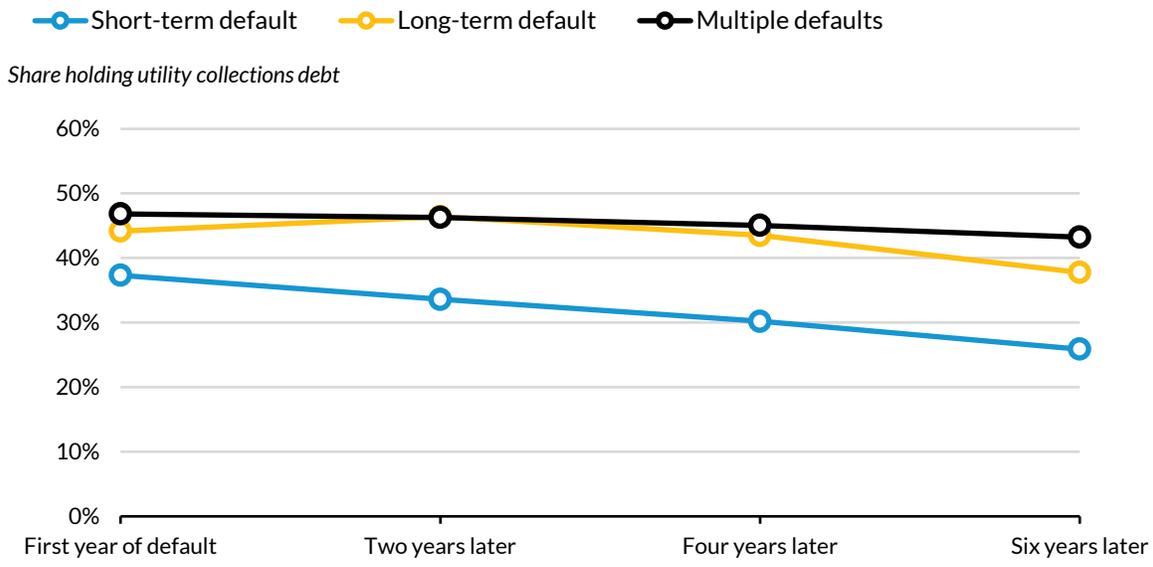
Share holding utility collections debt

Share holding medical collections debt

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Source: Urban Institute analysis of credit bureau data.

Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. The figure excludes individuals who were older than 70 in 2010. Borrowers are excluded from a time interval if the interval occurred after 2019 (i.e., the calculation for two years after default excludes borrowers whose first default was after 2017).

This finding demonstrates a key distinction between borrowers who can exit default quickly without redefaulting and those who cannot. Borrowers with long-term and multiple defaults continue

to hold medical and utility debt at high rates after student loan default, indicating that their financial struggles likely last several years. More than half these defaulters hold medical collections debt in the first year of student loan default and two years after, and more than half in predominantly Black neighborhoods hold utility collections debt for four years after first entering student loan default. These other types of debt, particularly utility debt, are likely more of a priority than student loan debt because of the immediate consequences of falling behind on utility payments. Therefore, a borrower who cannot pay their utility costs is likely at high risk of defaulting on their student loans, as they are a lower priority.

Default Patterns and Credit Scores

Non–student loan collections debts are a common burden for borrowers who default on their student loans. To better understand how student loan default, in combination with these other debts, may affect a borrower's overall financial picture, I look at borrowers' 2019 credit scores by default pattern. The median credit score for borrowers who have not defaulted on their student loans is in a healthy range, but the median scores for borrowers with any default are all subprime scores (below 620), with the multiple-defaults group having the lowest median. Even the 75th percentile credit score for borrowers with multiple defaults is below 600 (table 3).

TABLE 3
Credit Score Distribution in 2019, by Default Pattern
Borrowers with multiple defaults have the lowest credit scores

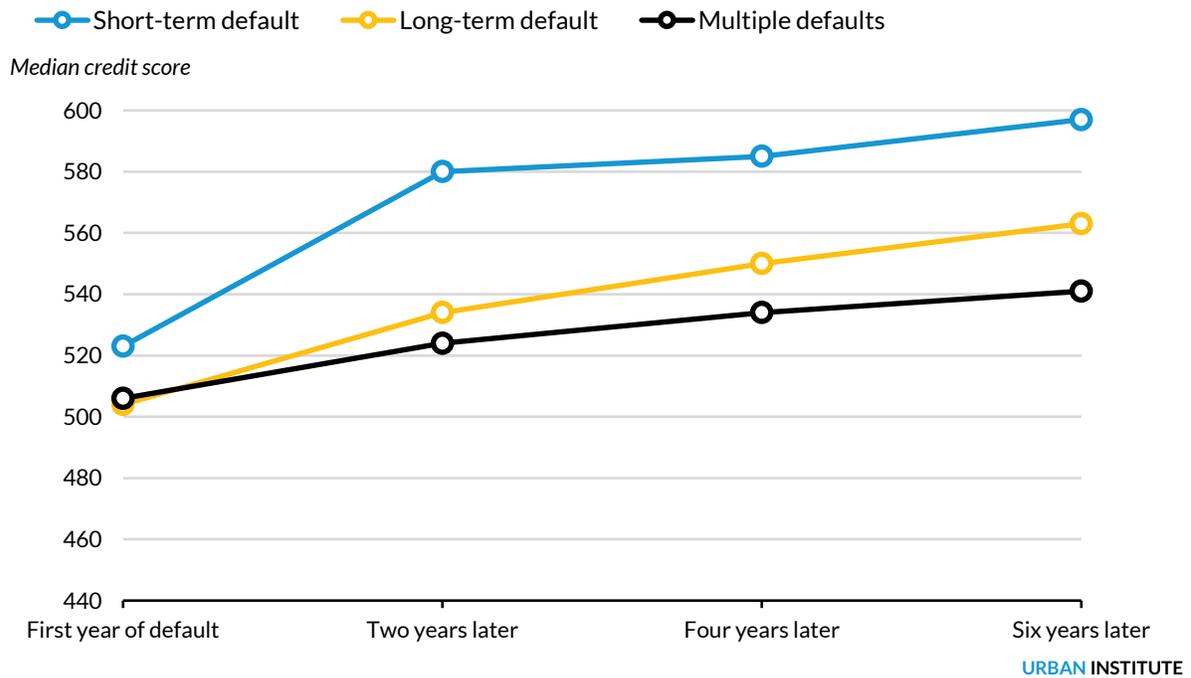|	No default	Short-term default	Long-term default	Multiple defaults
25th percentile	637	534	518	511
Median	721	591	557	546
75th percentile	781	655	618	592

Source: Urban Institute analysis of credit bureau data.
Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. Credit scores are Vantage 3.0 scores. The table excludes individuals older than 70 in 2010.

Like I show with utility and medical collections debt, I examine how these credit scores change, beginning in the first year of default. Borrowers who experience a short-term default enter default with slightly higher credit scores than those with other default patterns and can raise their credit scores by more than 70 points over the next six years, with most of that increase coming in the first two years (figure 3). This sharp increase suggests these short-term defaulters may have experienced a short-term financial struggle that they were able to resolve quickly. This is not to say, however, that they do not

need financial support; their credit scores, at the median, are still subprime several years after defaulting, even if the scores are higher than those of other defaulters. Borrowers who experience long-term and multiple defaults enter default with similar credit scores to one another. Both groups, at the median, see their credit scores rise over the following six years, but those in a long-term default see their scores rise almost twice as much as those who cure their default and then redefault (59 points versus 35 points). This slower growth rate could be because student loan delinquencies are reported during the time leading up to the second default, while borrowers who stay in default have no new delinquencies added to their credit record after the initial default. Borrowers who cure their defaults in an attempt to repay the loan but cannot stay in repayment see their credit scores penalized for doing so.

FIGURE 3

Median Credit Score over Time, by Default Pattern

Borrowers who default multiple times struggle to raise their credit scores after entering default

Source: Urban Institute analysis of credit bureau data.
Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. Credit scores are Vantage 3.0 scores. The figure excludes individuals who were older than 70 in 2010. Borrowers are excluded from a time interval if the interval occurred after 2019 (i.e., the calculation for two years after default excludes borrowers whose first default was after 2017).

## Differences in Predictors of Default Patterns by Race

Because Black borrowers are more likely to default on their student loans and are more likely to experience long-term and multiple defaults, it is important to understand how their financial circumstances upon entering default relate to their default patterns and how they may differ from white borrowers' circumstances. To do this, I use descriptive regressions, controlling for borrowers' age and their home zip codes' income and education levels, to find associations between holding medical or utility collections debt in the first year of default and the ensuing default pattern.

Student loan borrowers living in predominantly Black neighborhoods are more likely to hold other types of collections debt, but I find that these other types of debt have weaker associations with default patterns than for borrowers in predominantly white neighborhoods. For example, borrowers in predominantly white neighborhoods see a 15 percent increase in the likelihood of multiple defaults if they hold utility collections debt in their first year of default, but for borrowers in predominantly Black neighborhoods, the estimated increase is only 4 percent and is not statistically significant (figure 4). This trend of utility and medical collections debt being a stronger link to default patterns in predominantly white neighborhoods is also true for borrowers who experience short-term and long-term defaults (appendix tables A.1 and A.2).

FIGURE 4

Percentage Change in Likelihood of Multiple Defaults Based on Holding Other Collections Debt, by Predominant Race or Ethnicity of Neighborhood

Utility and medical collections debt are stronger predictors of default patterns in white neighborhoods
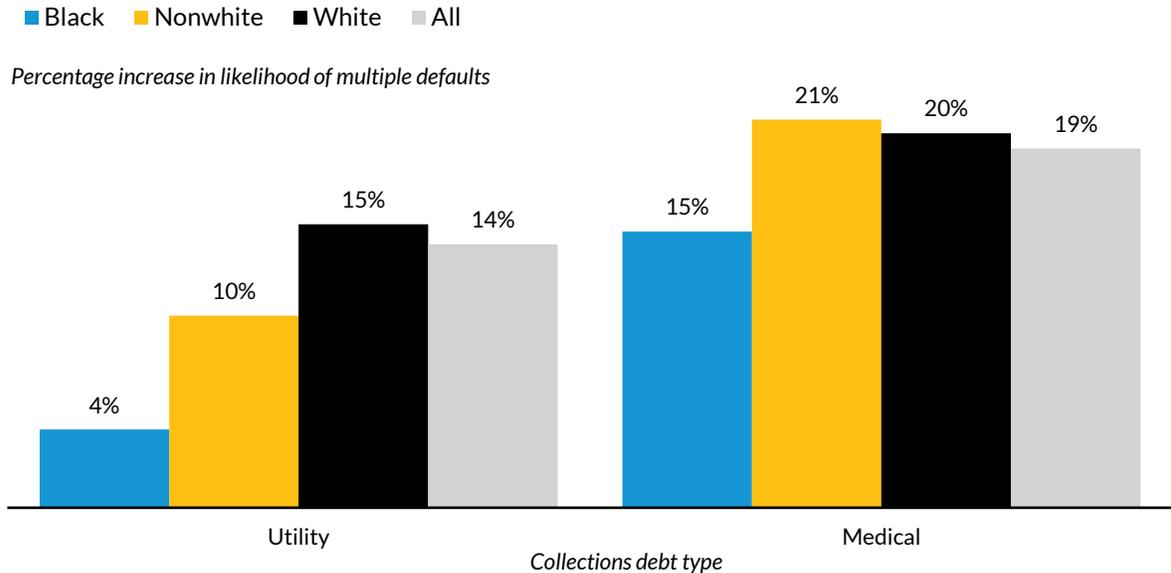
■ Black ■ Nonwhite ■ White ■ All

Percentage increase in likelihood of multiple defaults

Collections debt type

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Source: Urban Institute analysis of credit bureau data and American Community Survey data from the National Historical Geographic Information System.

Notes: The relationship between utility collections debt and likelihood of multiple defaults in Black neighborhoods is not a statistically significant estimate. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. This analysis controls for individuals' age, median household income in one's home zip code, and the share of adults with at least a bachelor's degree in one's home zip code. A neighborhood has a predominant race or ethnicity if at least 60 percent of its residents are part of the named group. The figure excludes individuals who were older than 70 in 2010. Because of data limitations, I cannot disaggregate by every race and ethnicity reported in the American Community Survey but acknowledge meaningful differences may exist among these groups.

The weaker relationship between other types of debt and default patterns for student loan borrowers in predominantly Black neighborhoods suggests there are unobserved factors that help explain default patterns among these borrowers, which is unsurprising, given that borrowers in predominantly Black neighborhoods who never default hold these debts at higher rates than those in the overall sample who never default. These factors could include the labor market discrimination and pay inequality Black workers face, in addition to higher levels of income volatility and less inherited wealth relative to white families. When these factors are at play, it becomes more difficult to consistently afford and budget for student loan payments, regardless of other debts. In contrast, white borrowers, on average, may need a larger financial shock, such as large medical bills, to determine their likelihood of multiple defaults because they are more likely to have income stability and inherited wealth that can be used as a safety net. Additionally, gender could help determine default patterns

through labor market discrimination and disproportionate borrowing. Women hold more student loan debt than men while facing wage gaps in the labor market (Jackson and Williams 2022). Black women, in particular, are more likely than any other group to borrow for their education but see some of the lowest earnings after they leave school.[15]

How Borrower Circumstances Changed between 2019 and 2021

During the COVID-19 pandemic, most payments on federal student loans have been paused, meaning most borrowers have been unable to default. It is important to understand how borrowers who have defaulted have fared more than a year into the pause because their circumstances may reveal the types of supports they need as payments restart in 2023.

Many borrowers whose loan payments were paused also received pandemic relief benefits, including stimulus checks and American Rescue Plan funds to help with utility costs. During this time, student loan borrowers saw their credit scores improve.[16] Borrowers in repayment right before the pause also saw an increased likelihood of taking on a mortgage, while those in default right before the pause did not appear to experience the same level of homebuying (Blagg and Cohn 2022).

An analysis of student loan statuses, credit scores, and utility and medical collections debt suggests that borrowers who have defaulted were generally in a better financial place in 2021 relative to 2019. A large share of borrowers with long-term or multiple defaults who were still in default in 2019 no longer had defaulted student loans in 2021, and the share of these borrowers with loans in repayment increased substantially (figure 5). If eligible for loan rehabilitation, borrowers could have cured their defaults using $0 payments during the pause, so this finding alone is not necessarily evidence that these borrowers were no longer struggling financially.

Share of Borrowers in Collections and Repayment in 2019 and 2021, by Default Pattern

Borrowers with long-term or multiple defaults were less likely to be in collections in 2021 than in 2019 and were more likely to be in repayment
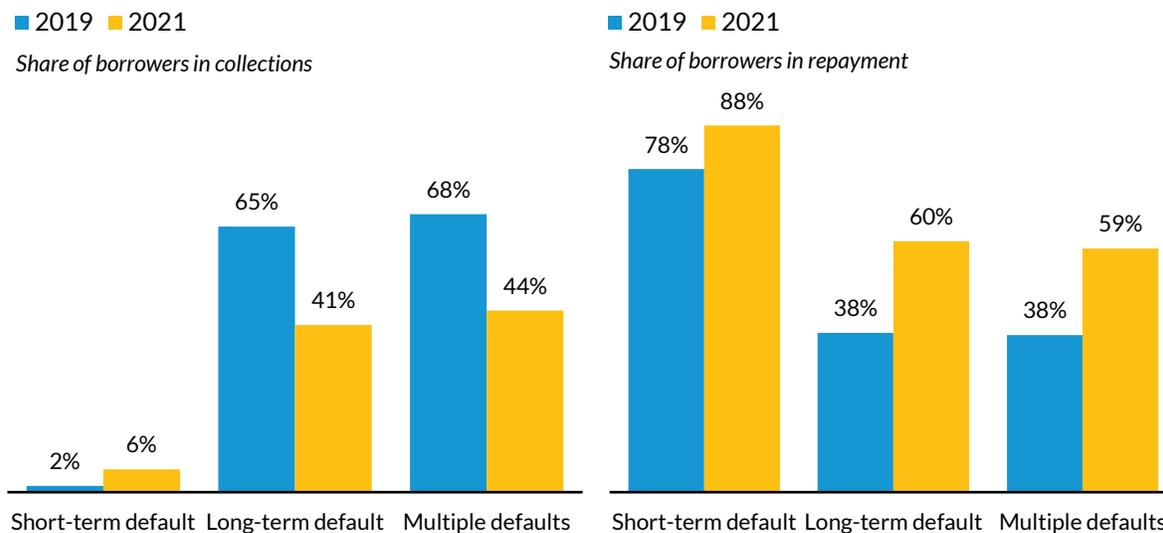
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Source: Urban Institute analysis of credit bureau data.
Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. The figure excludes individuals older than 70 in 2010.

Additionally, all four groups of student loan holders had higher median credit scores in 2021 than in 2019, and a smaller share of each group held utility and medical collections debt in 2021. These trends persist regardless of zip code predominant race or ethnicity. The student loan pause may have been a factor in these improvements, but decreased use of health care services during the pandemic and American Rescue Plan funds for utility costs could have played a role (Karpman, Martinchek, and Braga 2022).[17]

Policy Considerations

Policymakers have several options to support borrowers who experience long-term and multiple defaults. These options would provide targeted relief to borrowers struggling to manage their student loans, help prevent more borrowers from defaulting, and reduce the long-term financial harm related to student loan default. Importantly, because Black borrowers are more than twice as likely as white

borrowers to default on their student loans, these borrower supports would improve racial equity in the student loan system.

Although the Biden administration plans to forgive $10,000 in student loan debt for most borrowers (and $20,000 for most Pell grant recipients), more than half of student loan borrowers will still hold student debt and many borrowers in default will need to apply for loan forgiveness.[18] For this group, though it may take less time to fully repay their student loans, immediate monthly finances may not change substantially. Further, absent other policy changes to make student loan repayment more lenient or college significantly more affordable, borrowers will continue to default on their student loans, and many will experience long-term and multiple defaults.

Helping Borrowers Recover after Default

Relative to short-term and long-term defaulters, borrowers who default multiple times do not see their credit scores rise at the same rate after first entering default. One possible reason is that before redefaulting on their student loan, a borrower has additional delinquencies added to their credit record. Blagg (2018) shows that it is common for credit scores to drop in the year before default, possibly because of these delinquencies. These credit impacts create incentives for borrowers who are in default to stay in default rather than to cure their default and attempt to repay the loan, which would risk another substantial credit score drop if they cannot stay current on the loan. But if they stay in default, in line with these incentives, they may be more likely to have their wages or tax refunds garnished. Policymakers and credit reporting agencies could consider whether borrowers with multiple defaults are a greater credit risk than those with one long-term default. If the risk is lower, policymakers and credit reporting agencies could change how these delinquencies affect credit so that borrowers in default can repay their loans without this risk of additional harm to their credit score.

Another possible factor in the unequal credit score recovery is eligibility for loan rehabilitation. Because loan rehabilitation, which erases the default from a borrower's credit record, can be used only once, borrowers cannot erase a second default. Borrowers who cannot ultimately repay are being penalized for putting their loan back into repayment and attempting to keep up with their debt, compared with borrowers who stay in default longer and can build up their credit more quickly. Offering loan rehabilitation multiple times would help borrowers repay their debt with less risk of further permanent credit score damage.

As part of the Biden administration's Fresh Start initiative, any borrower who used loan rehabilitation during the payment pause will be able to use the option again if they redefault (FSA

2022). Making this change permanent, outside the context of the payment pause, would give more borrowers the chance to improve their credit when they cure defaults in the future.

Improving Finances through Relief of Other Debts

Borrowers who defaulted multiple times or who stayed in default for several years were still likely to have utility and medical collections debt in the years after they first entered default, not just in the year of their first default. But borrowers who were able to quickly cure their defaults were less likely to have these types of debt in the first year of default, and the likelihood decreased over the next six years. Long-term and multiple defaulters continue to struggle with other debts long after they default on their student loans. Providing targeted assistance to individuals who struggle to pay their utility and medical bills could support the most vulnerable student loan holders without withholding benefits from people who never went to college and also struggle with these bills. Because these data do not provide a complete financial picture, it is unclear whether this targeted assistance would help prevent or resolve a student loan default, but it may contribute to a marginal improvement in struggling borrowers' finances.

Because borrowers in predominantly Black neighborhoods are most likely to default on their loans and are most likely to experience long-lasting financial hardships related to long-term or multiple defaults, it is important to offer supports that will make an impact on this group. A focus on utility costs, in particular, could be most helpful for communities of color, as borrowers in predominantly Black neighborhoods are likely to hold utility collections debt.

Enrolling Borrowers in Income-Driven Repayment When Payments Resume

Many borrowers who had student loans in default before the payment pause, particularly those with long-term or multiple defaults, have put their loans back into repayment. During the pause, borrowers who had not used loan rehabilitation before were eligible to rehabilitate their loans with $0 payments, making it easier than normal to go through the process. And with the Biden administration's Fresh Start initiative, any borrower who defaulted before the payment pause will be able to return to repayment in good standing (FSA 2022). If borrowers whose finances have not improved since being in default used these opportunities to cure their defaults, they may be particularly vulnerable to delinquency and default after payments resume. And if they cannot keep up with their payments, they may experience the negative credit impacts associated with more recent delinquencies and defaults on their credit records. These borrowers will have to make payment arrangements with their servicer when payments restart. Policymakers could consider providing guidance to servicers to ensure borrowers who would

benefit from IDR have sufficient information about their repayment options and limited administrative burden to ensure that their monthly payments are affordable. Servicers could also notify borrowers who may be eligible for the Biden administration's new proposed IDR plan when it becomes available, as it would allow most borrowers to make lower monthly payments than any of the current IDR options.[19]

Forgiving Student Loans for Long-Term and Persistent Defaulters
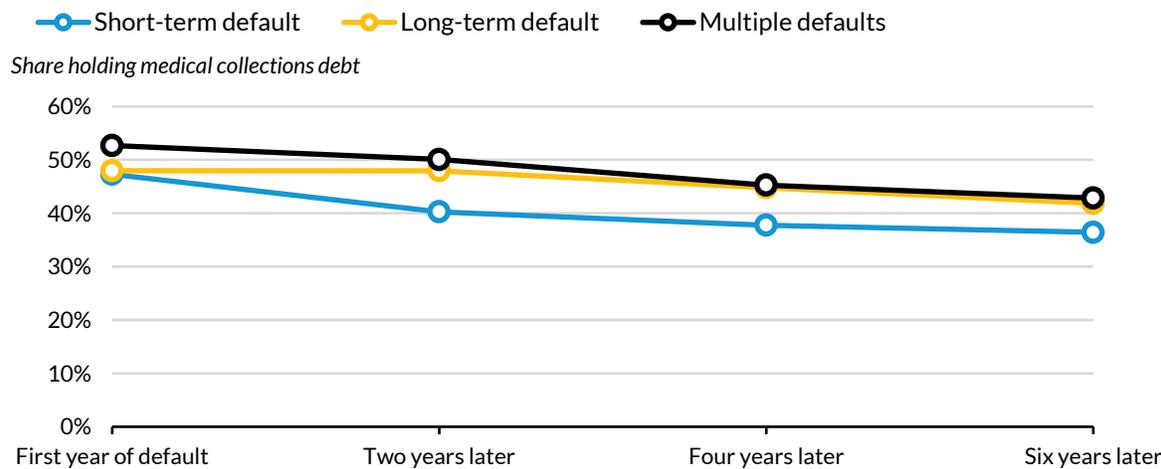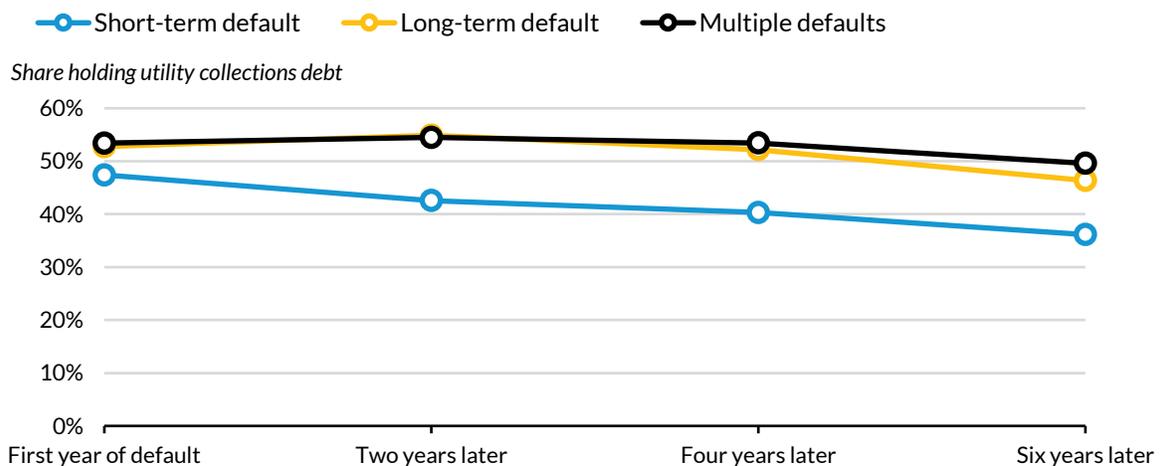
Policymakers could consider forgiving student loans for borrowers who have experienced long-term or multiple defaults. Blagg (2020) suggests allowing loan forgiveness for borrowers who have faced long-term hardships. These long-term and persistent defaulters have struggled for many years to keep up with their student loan payments, and many of them have also had utility or medical collections debt for a long time and have experienced the harm to their credit scores and overall financial lives associated with such burdens. Although forgiving their student debt would not be an immediate cure for their finances, it could help them turn their attention to more pressing bills without having to worry about their defaulted student loans and the possibility of their wages being garnished by collections agencies.

Appendix

Share of Defaulters in Predominantly Black Neighborhoods Holding Utility and Medical Collections Debt over Time, by Default Pattern

Defaulters in predominantly Black neighborhoods show similar trends to other defaulters but have substantially higher rates of holding utility collections debt

—○— Short-term default   —○— Long-term default   —●— Multiple defaults

Share holding utility collections debt

—○— Short-term default   —○— Long-term default   —●— Multiple defaults

Share holding medical collections debt

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Source: Urban Institute analysis of credit bureau data and American Community Survey data from the National Historical Geographic Information System.

Notes: Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. A neighborhood has a predominant race or ethnicity if at least 60 percent of its residents are part of the named group. Neighborhood of residence is as of 2019. The figure excludes individuals who were older than 70 in 2010. Borrowers are excluded from a time interval if the interval occurred after 2019 (i.e., the calculation for two years after default excludes borrowers whose first default was after 2017).

Regression Results: Relationships between Utility Collections Debt and Default Pattern

Utility collections debt has a stronger association with default patterns in white neighborhoods

	Short-Term Default		Long-Term Default		Multiple Defaults	
	PBNs	PWNs	PBNs	PWNs	PBNs	PWNs
Utility collections	-0.0416**	-0.0732**	0.0371**	0.0595**	0.0045	0.0137**
	(0.0084)	(0.0034)	(0.0091)	(0.0036)	(0.0058)	(0.0022)
Age	0.0123**	0.0025**	-0.0047	0.0029**	-0.0077**	-0.0054**
	(0.0022)	(0.0010)	(0.0024)	(0.0010)	(0.0015)	(0.0006)
Age-squared	-0.0001**	-0.0000*	0.0001*	-0.0000	0.0001**	0.0000**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Household income	0.0000	0.0000*	-0.0000	0.0000	-0.0000	-0.0000**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Share BA	0.0506	0.0238	-0.0889	-0.0285	0.0383	0.0047
	(0.0516)	(0.0159)	(0.0555)	(0.0167)	(0.0350)	(0.0097)
Constant	0.0130	0.2679**	0.6857**	0.4897**	0.3014**	0.2425**
	(0.0450)	(0.0194)	(0.0494)	(0.0207)	(0.0324)	(0.0123)
Observations	11,711	76,963	11,711	76,963	11,711	76,963
R-squared	0.0068	0.0067	0.0036	0.0045	0.0111	0.0076

Source: Urban Institute analysis of credit bureau data and American Community Survey data from the National Historical Geographic Information System.

Notes: PBNs = predominantly Black neighborhoods; PWNs = predominantly white neighborhoods. Robust standard errors are in parentheses. Household income is measured as a zip code–level median. Share BA = share of adults in one's zip code with at least a bachelor's degree. Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. A neighborhood has a predominant race or ethnicity if at least 60 percent of its residents are part of the named group. Neighborhood of residence is as of 2019. The table excludes individuals who were older than 70 in 2010.

** $p < 0.01$; * $p < 0.05$.

Regression Results: Relationships between Medical Collections Debt and Default Pattern

Medical collections debt has a stronger association with default patterns in white neighborhoods

	Short-Term Default		Long-Term Default		Multiple Defaults	
	PBNs	PWNs	PBNs	PWNs	PBNs	PWNs
Medical collections	-0.0096	-0.0409**	-0.0063	0.0228**	0.0159**	0.0181**
	(0.0084)	(0.0034)	(0.0091)	(0.0036)	(0.0057)	(0.0021)
Age	0.0121**	0.0021*	-0.0044	0.0034**	-0.0077**	-0.0055**
	(0.0022)	(0.0010)	(0.0024)	(0.0010)	(0.0015)	(0.0006)
Age-squared	-0.0001**	-0.0000	0.0001*	-0.0000	0.0001**	0.0000**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Household income	0.0000	0.0000**	-0.0000	0.0000	-0.0000	-0.0000**
	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)	(0.0000)
Share BA	0.0492	0.0157	-0.0886	-0.0248	0.0394	0.0091
	(0.0516)	(0.0159)	(0.0555)	(0.0168)	(0.0350)	(0.0097)
Constant	-0.0052	0.2605**	0.7091**	0.4990**	0.2961**	0.2405**
	(0.0449)	(0.0195)	(0.0493)	(0.0208)	(0.0323)	(0.0123)
Observations	11,711	76,963	11,711	76,963	11,711	76,963
R-squared	0.0048	0.0028	0.0022	0.0016	0.0117	0.0080

Source: Urban Institute analysis of credit bureau data and American Community Survey data from the National Historical Geographic Information System.

Notes: PBNs = predominantly Black neighborhoods; PWNs = predominantly white neighborhoods. Robust standard errors are in parentheses. Household income is measured as a zip code–level median. Share BA = share of adults in one's zip code with at least a bachelor's degree. Short-term default is defined as two years or less. Long-term default is defined as at least three years. To have multiple defaults, a borrower must appear to have held student loans in each year between defaults. A neighborhood has a predominant race or ethnicity if at least 60 percent of its residents are part of the named group. Neighborhood of residence is as of 2019. The table excludes individuals who were older than 70 in 2010.

** $p < 0.01$; * $p < 0.05$.

Notes

1   Urban Institute analysis of the 2016 National Postsecondary Student Aid Study and PowerStats table gscihq.

2   "Education Installment Loans by Race or Ethnicity," Board of Governors of the Federal Reserve System, November 4, 2021, https://www.federalreserve.gov/econres/scf/dataviz/scf/chart/#series:Education_Installment_Loans;demographic:racecl4;population:1,2,3,4;units:have.

3   "Education Installment Loans by Race or Ethnicity," Board of Governors of the Federal Reserve System.

4   Adam Looney, David Wessel, and Kadija Yilla, "Who Owes All That Student Debt? And Who'd Benefit If It Were Forgiven?" Brookings Institution, January 28, 2020, https://www.brookings.edu/policy2020/votervital/who-owes-all-that-student-debt-and-whod-benefit-if-it-were-forgiven/.

5   Sarah Sattelmeyer and Jon Remedios, "Race and Financial Security Play Central Roles in Student Loan Repayment," Pew Charitable Trusts, December 15, 2020, https://www.pewtrusts.org/en/research-and-analysis/articles/2020/12/15/race-and-financial-security-play-central-roles-in-student-loan-repayment.

6   Kriston McIntosh, Emily Moss, Ryan Nunn, and Jay Shambaugh, "Examining the Black-White Wealth Gap," *Up Front* (blog), Brookings Institution, February 27, 2020, https://www.brookings.edu/blog/up-front/2020/02/27/examining-the-black-white-wealth-gap/.

7   Jung Hyun Choi, Jun Zhu, and Laurie Goodman, "The State of Millennial Homeownership," *Urban Wire* (blog), Urban Institute, July 11, 2018, https://www.urban.org/urban-wire/state-millennial-homeownership.

8   Parent PLUS loans can be consolidated and repaid through the Income-Contingent Repayment plan, but the terms of this plan are considerably less generous than those of the IDR plans available to student borrowers. For more information, see "Parent PLUS Loans," US Department of Education, Office of Federal Student Aid, accessed October 27, 2022, https://studentaid.gov/understand-aid/types/loans/plus/parent.

9   "Default Rates," US Department of Education, Office of Federal Student Aid, accessed October 24, 2022, https://studentaid.gov/data-center/student/default.

10 "Getting Out of Default," US Department of Education, Office of Federal Student Aid, accessed October 24, 2022, https://studentaid.gov/manage-loans/default/get-out.

11 "COVID-19 Emergency Relief and Federal Student Aid," US Department of Education, Office of Federal Student Aid, accessed October 24, 2022, https://studentaid.gov/announcements-events/covid-19.

12 To determine how much debt a borrower took on, I use the highest amount of credit on their student debt observed between 2010 and 2019. I cannot observe this amount for borrowers who were never in repayment during these years, so I exclude them from the calculation.

13 Because figure 1 includes student loan debt in any status, which is necessary to see how balances change in the years after default, borrowers often have lower balances in collections relative to their total balance because they may have more than one loan. The median amount of student loan debt in a defaulted status in the first year of default is less than $10,000 for all three groups and is lowest for borrowers who go on to redefault. Given that the total balance in the first year of default for borrowers with multiple defaults is higher than for other defaulters, this group is likely managing more than one student loan.

14 Alexander Carther, Kassandra Martinchek, Breno Braga, Signe-Mary McKernan, Caleb Quakenbush, and Emily Peiffer, "Debt in America: An Interactive Map," Urban Institute, last updated June 23, 2022, https://apps.urban.org/features/debt-interactive-map/?type=overall&variable=totcoll.

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17 Lauren Christopher, "FY2021 Supplemental LIHEAP Funding Release under the American Rescue Plan Act of 2021," letter to states, tribes, and territories, May 4, 2021, https://www.acf.hhs.gov/ocs/policy-guidance/liheap-dcl-2021-05-supplemental-funding-release-fy-21.

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