

LOST IN THE TRILLION

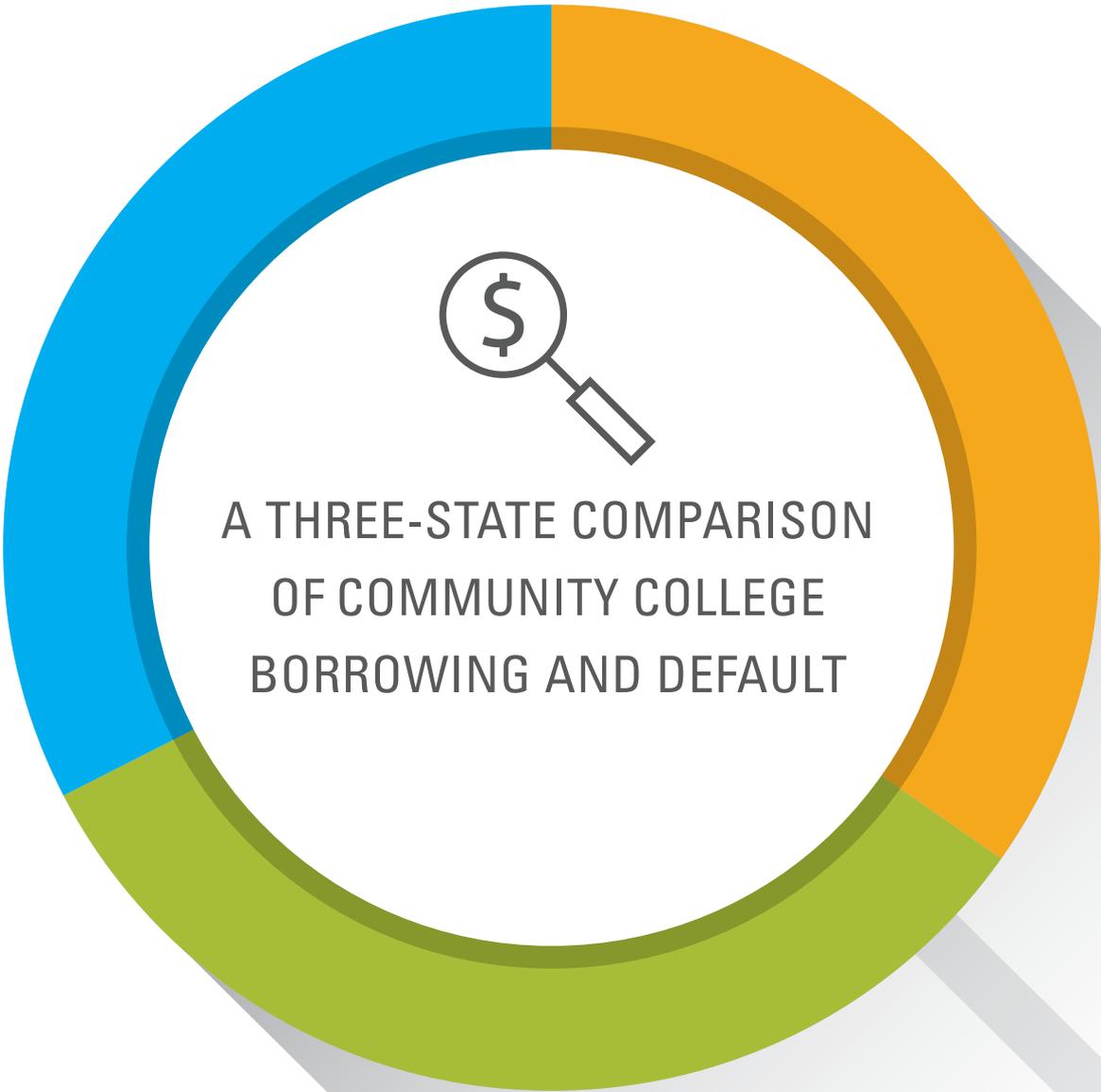


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The authors hope their work does justice to the generous support of time, guidance, and resources offered by the many individuals and organizations that have made this report possible.

ACCT is a non-profit educational organization of governing boards, representing more than 6,500 elected and appointed trustees who govern over 1,100 community, technical, and junior colleges in the United States and beyond. These community professionals, business officials, public policy leaders, and leading citizens offer their time and talent to serve on the governing boards of this century's most innovative higher education institutions and make decisions that affect more than 13 million students annually. For more about ACCT, visit www.acct.org.

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Executive Summary

As student debt burdens have increased over time, so has attention from media, the public, and policymakers concerned about the outcomes of student loan borrowers. Borrowers who default experience severe, long-lasting repercussions that impact their access to credit and postsecondary education, factors that can lock a defaulter into their current economic situation. Default therefore impacts not just individuals, but the potential growth of communities, states, and thus, our nation.

Although default rates have decreased in recent years, community colleges still struggle to keep their rates in check: 18.5 percent of borrowers from public two-year colleges default within three years compared to the national average rate of 11.3 percent. In 2015, ACCT published *A Closer Look at the Trillion*, a report that highlighted the borrowing and repayment trends of community college students in Iowa. In *Lost in the Trillion*, we build on this body of research by analyzing data from the community and technical college systems in Kentucky and Louisiana. We find similar trends in all three states with some notable differences, which may reflect how borrowers are responding to federal student loan repayment options. While some of these findings are heartening, it is still clear that federal student loan policies need to be improved in order to help borrowers – especially those with low incomes and low balances – repay their debt.

Key Findings

1. Defaults in Louisiana and Kentucky are concentrated among low-balance borrowers, just like in Iowa. More than 40 percent of defaulters in Kentucky (42.2 percent) and 55 percent of defaulters in Louisiana (55.3 percent) borrowed less than \$5,000 while enrolled in community college. These rates mirror default trends in Iowa, where low-balance borrowers made up 43.3 percent of all defaulters. Low-balance borrowers also had the highest default rates in all three states. This finding adds more evidence to a growing body of research that identifies low-debt borrowers as being the most vulnerable.

2. In Louisiana and Kentucky, more than twice as many borrowers in active repayment used income-driven plans. National trends show increased usage of income-driven repayment (IDR) plans, particularly for borrowers with high balances. We see a similar trend in our data, with about half of borrowers with balances over \$20,000 enrolled in IDR plans, compared with about one-fifth of borrowers with less than \$5,000 in debt. We also observe that between 85 and 90 percent of defaulters used a Standard repayment plan, indicating that individuals who are encountering repayment challenges are not using interventions such as IDR plans that are designed to help borrowers stay out of default.

3. Forbearance rates were higher in Kentucky and Louisiana than in Iowa. Non-defaulters in Kentucky and Louisiana used postponements at higher rates (86.8 and 91.2 percent, respectively) than their peers who defaulted (51.3 and 59.3 percent). However, postponement usage was higher for both groups than it was in Iowa, where nearly 60 percent of defaulters (58.5 percent) did not use a postponement while in repayment. Increased use of forbearance could indicate that borrowers are in touch with servicers, who are able to temporarily postpone borrowers' payments if they are suffering from financial challenges.

However, with at least 40 percent of defaulters not using a postponement in Louisiana and Kentucky, it is clear that work still needs to be done to connect borrowers with their servicers.

4. In Louisiana, low-balance borrowers had the lowest median incomes of all borrowing groups. Those with less than \$5,000 in debt had a median income of \$14,497 in 2014, almost \$10,000 less than the median income of the group who borrowed more than \$20,000. Furthermore, the median incomes of defaulters were lower than the median incomes of non-defaulters, with the exception of those who borrowed more than \$20,000, whose median income was about \$1,100 more than the group who borrowed less than \$5,000. Most notably, borrowers in the Standard plan had the lowest incomes in each group, and defaulters in a Standard plan had the lowest median income overall, even lower than borrowers who were enrolled in an IDR plan. The low income of the low-balance group, combined with a high usage rate of the Standard repayment plan, could contribute to the high default rate that we observe. Although IDR plans are intended to help lower-income borrowers afford their monthly payments, these data indicate that some borrowers remain in a Standard plan even though other options may present more affordable monthly payments.

We use these findings to provide federal policy recommendations centered around simplification and low-balance borrowers. Interventions meant to prevent default have resulted in additive policies that provide students with a complicated suite of options. Instead, we encourage policymakers to articulate their goals for the student loan system and to craft policy reforms that accomplish those goals. We believe that no student should default on their federal loans, and that policies can be shaped to not only prevent default, but to encourage repayment, for all student borrowers.



Introduction

In 2015, ACCT published *A Closer Look at the Trillion: Borrowing, Repayment, and Default in Iowa's Community Colleges*. This report provided unique insight into federal student loan repayment trends for a very specific group of borrowers – community college students in Iowa who entered repayment in the 2011 federal fiscal year. While this research mirrored national studies of federal data, community college systems in other states became interested in conducting similar analyses to see if their students encountered similar challenges. Leadership at the Louisiana Community and Technical College System (LCTCS) and Kentucky Community and Technical College System (KCTCS) signed on to share data with ACCT with the goal of examining the student loan repayment outcomes of their students.

This report presents our findings from Louisiana and Kentucky. We aligned our analyses with those from ACCT's study of Iowa borrowers, focusing on data acquired from the National Student Loan Data System (NSLDS) to ensure consistency in definitions and outcomes. While some patterns are similar across states, we observe differences – some significant – that may reflect how borrowers are responding to new federal student loan repayment policies. Louisiana also provided income data for its borrowing cohort, which allowed us to study the interaction between income and repayment. We use our observations to outline broad policy recommendations that can help ease the burden of student loan repayment for all federal student loan borrowers.

Understanding the Federal Student Loan Program

Federal student loan borrowers currently hold approximately \$1.3 trillion dollars in debt. This figure accounts for undergraduates, graduate students, and parents across all sectors of postsecondary education – about 42 million borrowers in all. Community college students account for a relatively small portion of this debt, as approximately 20 percent of students in public two-year colleges borrow federal loans each year.¹ They also borrow less, on average, than their peers at four-year public and for-profit institutions. However, these low loan balances do not guarantee students will repay their loans. Some borrowers fail to pay down their debt in spite of numerous repayment plan options designed to ease the burden of repayment.

Repayment Plans

The U.S. Department of Education currently offers 11 repayment plans for federal student loans.² These plans offer borrowers the ability to modify their monthly payments according to their budgets. Some plans allow borrowers to simply opt-in, while others require them to apply in order to qualify. In this report, we describe usage of the following plans, in which more than 90 percent of borrowers in each state are enrolled:

- **Standard:** This repayment plan is the default plan for all loan borrowers, regardless of amount borrowed, income, or loan type. Payments are set at a fixed amount for 10 years, with a minimum monthly payment of \$50. For borrowers with low balances, the repayment term is shortened due to the required minimum payment threshold.
- **Graduated:** This plan is available to all borrowers without an application and features a 10-year repayment term where fixed monthly payments increase every two years. Borrowers pay more interest than in a Standard plan, but payments start lower and therefore may be more manageable for those with low incomes. The Graduated repayment plan term may be extended beyond 10 years for those who borrow more than \$30,000.
- **Income Driven:** There are currently six income driven repayment (IDR) plans: Income Based Repayment (IBR), IBR for New Borrowers, Pay As You Earn (PAYE), Revised Pay As You Earn (REPAYE), Income Contingent Repayment (ICR), and Income Sensitive Repayment (ISR). Eligibility for each plan is based on the type of loan, the borrower's debt level, income, and when the loan was borrowed. Borrowers must re-certify their income each year in order to remain in an IDR plan.

The Rise of Income Driven Repayment Plans

As student debt loads have increased over the last decade, so have the repayment options available to federal loan borrowers. While ICR and ISR have been available since the 1990s, IBR was established in the College Cost Reduction and Access Act of 2007 to provide a more affordable, flexible option for borrowers with a high debt-to-income ratio. IBR was the first plan to allow for \$0 monthly payments, which are calculated as 15 percent of discretionary income.



The Obama administration revised IBR's specifications to calculate payments as 10 percent of discretionary income, but only allowed new borrowers to enroll. IBR for New Borrowers was followed by Pay As You Earn³ and Revised Pay As You Earn, and suddenly, new borrowers could be presented with as many as nine different plans when they entered repayment.⁴

IDR plans offer borrowers some relief from high monthly payments, but perhaps more importantly, they offer loan forgiveness to borrowers who make regular monthly payments. While the forgiveness period is 20 to 25 years for most plans, individuals who work in public service fields are eligible for relief after 10 years. While PSLF can be used by borrowers with any amount of debt, data from the U.S. Department of Education's Office of Federal Student Aid (FSA) from 2015 shows that for those who qualified for and made payments under PSLF, 29.7 percent borrowed more than \$100,000, whereas only 4.9 percent borrowed less than \$10,000.⁵

It has become increasingly apparent that high-balance borrowers are more likely to use IDR plans than their lower-balance peers. As of December 2016, 42.6 percent of loan dollars in repayment were enrolled in an IDR plan, compared to 29.9 percent enrolled in the Standard plan.⁶ However, twice as many borrowers (12.98 million) use a Standard plan versus an IDR plan (6.51 million). While the increased use of IDR plans may provide relief to high-balance borrowers, it has not served as a panacea for default for all students.

Default

Failure to repay a federal student loan results in default, which has severe, long-lasting repercussions for borrowers. In addition to a negative credit rating that may last for up to seven years, borrowers who default can no longer receive federal financial aid; lose

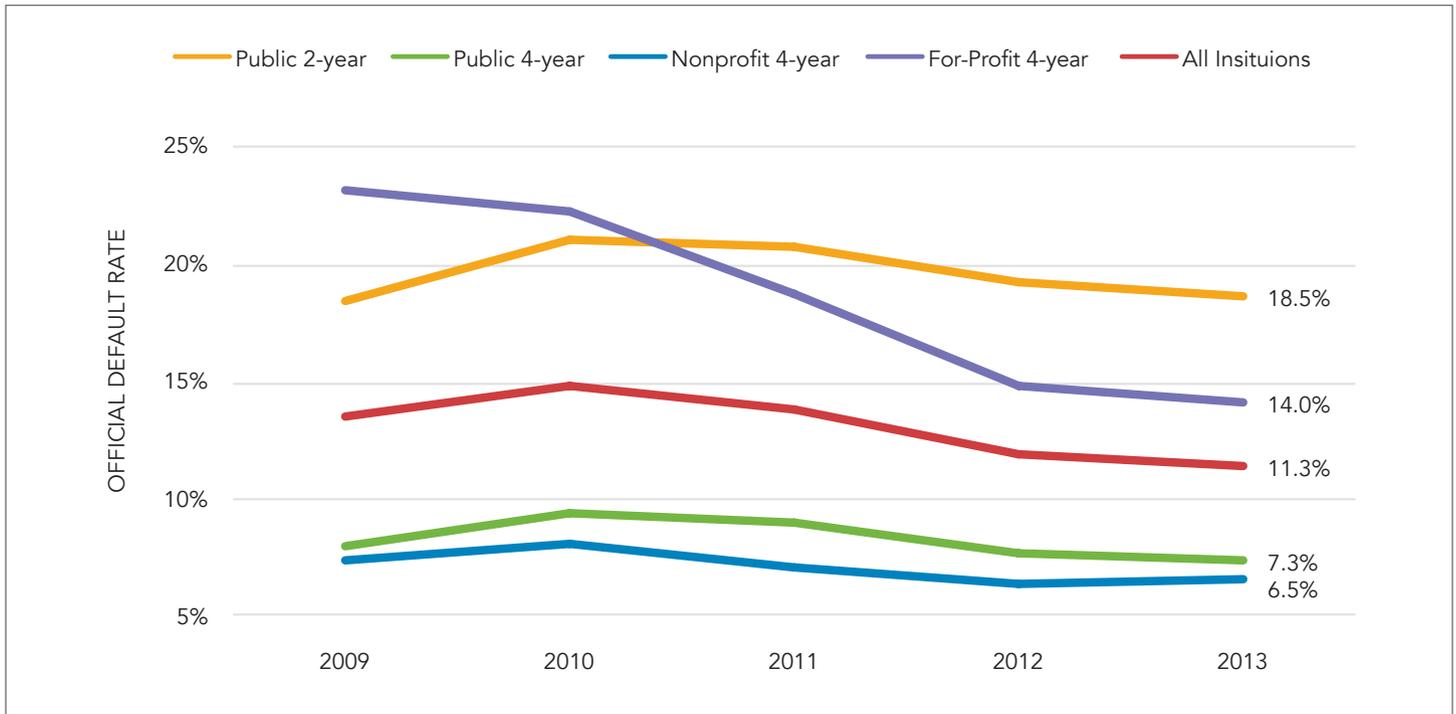
eligibility for IDR plans, deferments, and forbearances; may have their wages or tax refund garnished; and are charged collection fees. When borrowers suffer these consequences, they are limited in their access to credit and higher education, thus limiting their economic mobility. Default not only a strain on taxpayer dollars; it is a limiter of individual, community, and national economic prosperity.

Cohort Default Rates

Three-year cohort default rates (CDR) are currently used to hold institutions accountable to students' federal loan repayment outcomes. Rates are calculated for each federal fiscal year and represent the proportion of borrowers who default within three years of entering repayment. Although CDRs have decreased for all sectors since the recession, public two-year institutions currently have the highest average CDR in spite of a borrowing rate that hovers around 20 percent. While it is rare for an institution to lose eligibility for Title IV aid due to a high cohort default rate, many community colleges struggle to keep their rates below the mandated 30 percent threshold. Many factors contribute to this issue: the open access mission of community colleges allows any degree-seeking student access to loans; small cohorts of borrowers mean rates can fluctuate significantly with just a few more students defaulting in a year; low costs of attendance concentrate borrowers among the lowest-resourced students; and tight state funding precludes resources being devoted to counseling and outreach.

Default rates do not account for students' non-payment of principal due to enrollment in IDR plans. Other measures, such as repayment rates, are being explored as accountability mechanisms, but so far, the CDR is the only accountability measure that accounts for all borrowers at an institution.

Figure 1: Three-year Cohort Default Rates, by Sector



Source: U.S. Department of Education, Office of Federal Student Aid (2016).

Low-Balance Borrowers and Default

Multiple studies, including *A Closer Look at the Trillion*, have found that low-balance borrowers (defined as those with \$5,000 or less in debt) have higher default rates than other groups.⁷ Non-completion is often associated with default, and low-balance borrowers have been shown to host a high concentration of non-completers. In fact, a July 2016 report from the White House Council of Economic Advisers found that 16 percent of low-balance borrowers completed a credential, versus 65 percent of borrowers with more than \$20,000 in debt.⁸ While completion must be a priority for all institutions, the presence of such high

default rates on such small loans calls into question the utility of current options in easing the burden of repayment for low-balance borrowers. This report compares the repayment characteristics of community college borrowers in Kentucky and Louisiana to the results we presented from Iowa. While we do not focus exclusively on low-balance borrowers, we find that many community college students are concentrated in this group across these three states. Their path to repayment – or default – can give insight into how well current options are providing appropriate repayment alternatives for borrowers with low debt loads.

Interpreting the Data

The data we received from the Kentucky Community and Technical College System (KCTCS) and Louisiana Community and Technical College System (LCTCS) are similar to those we received from Iowa, but the differences between the datasets are important. All states provided us with reports from the National Student Loan Data System (NSLDS) for cohorts corresponding to a given federal fiscal year (FY) and follow borrowers for approximately 52 months. While we studied the FY2011 cohort from Iowa, we studied the FY2013 cohorts from Louisiana and Kentucky, and these two years have the potential to yield significant differences in repayment trends.

The FY2011 cohort went into repayment between October 1, 2010 and September 30, 2011, shortly after the end of Great Recession. Community colleges saw a significant increase in enrollment during the recession, with enrollment increases skewed toward adults seeking shorter-term credentials and job training. While the student population in FY2013 still could have enrolled during the recession, it is likely a more conventional mix of traditional college students seeking an associate degree or transfer, as well as adult learners. The different makeup of the FY2011 and FY2013 cohorts could lead to differences in repayment behavior and outcomes and should be noted by the reader.

FY2011 was also a time of transition for the federal student loan program. Shortly before the FY2011 cohort period began, the Department of Education transitioned to a model that had the federal government act as the lender and servicer of federal student loans, as opposed to the banks and guaranty agencies of the past. This transition to 100 percent Direct Lending meant the on-boarding of new loan servicers, the authorities responsible for processing federal loan payments. Even if students borrowed before this transition, many had their federal loans sold to the federal government, a policy that was created to ensure students still had access to loans during the 2008 financial crisis. The shuffling of student loan accounts among servicers may have created instability in the repayment process that could have made making payments more challenging.

Students' repayment options also changed between the FY2011 and FY2013 cohorts. Although IBR existed, PAYE

and REPAYE had not yet been created. Borrowers in the FY2013 repayment cohort, who entered repayment between October 1, 2012 and September 30, 2013, are less likely to have been affected by these policy changes. PAYE was created during their cohort year, and REPAYE became available shortly after the cohort tracking period ended and was in effect for a year before we received the data.

Iowa's colleges also provided several student characteristics to ACCT, including completion status, Pell Grant recipient status, and dependency status. These factors provided valuable context to our study, and similar fields were provided to ACCT by KCTCS. However, LCTCS was unable to provide most of this information due to an overhaul of its information technology system. As a result, this report provides few analyses by student characteristics, instead focusing on the interaction between borrowing traits and repayment outcomes.

Another factor missing from this report is data on student loan servicer default rates. We were not able to access consistent information across all states that would have yielded reliable servicer-level default rates. It is notable, however, that the servicing environment has changed significantly since the FY2011 cohort default rate period ended. Most students in these cohorts borrowed for the first time after the Direct Loan transition, which means most loans were serviced by the same entity from origination to repayment. The servicer-level information published in *A Closer Look at the Trillion* was notable in that it captured discrepancies in servicer performance during the DL transition, and we could not expect similar results in FY2013. Unfortunately, data limitations precluded us from investigating these data, but we encourage other researchers to pursue this area of study.

We were fortunate to receive Louisiana income data in addition to data from the National Student Loan Data System. LCTCS worked with the State Department of Labor to retrieve individual-level earnings data for calendar years 2012-2015, which allowed us to examine the interaction between repayment trends and post-enrollment income. While there are notable limitations to the information in state unemployment insurance systems, these data provide insight into the earnings of borrowers that we could not expound upon in our earlier analyses.

Comparing Iowa, Kentucky, and Louisiana

Although community colleges share a similar mission, they are reflections of the communities and states that they serve. They are typically the largest sector and serve a diverse array of students with a variety of educational goals. Figure 2 illustrates some of the characteristics of the community colleges in Iowa, Kentucky, and Louisiana, in order to provide context for the results in this report.

Iowa’s community colleges serve the largest number of students and charge the highest tuition and fees of all three states. They also have the highest borrowing rate at 35.1 percent, but that rate has decreased since we published *A Closer Look at the Trillion*, where we noted a borrowing rate of 45 percent in 2012-13. The national average for student loan borrowing at public two-year colleges hovers around 20 percent, but that figure includes states such as California, which hosts a borrowing rate of less than 3 percent, which skews national rates lower. It is therefore important to study community colleges by state, as their characteristics can vary significantly.

It is noteworthy that a larger proportion of students in Kentucky and Louisiana receive a Pell Grant when compared with Iowa, which corresponds to the poverty rates in each state. While Iowa’s poverty rate ranked 12th lowest in the nation (12.2 percent) in 2016, Kentucky was

47th (18.5 percent) and Louisiana was 49th (19.6 percent).⁹ Following this trend, the incomes of students who enrolled in community colleges and received federal student aid are lower in Kentucky and Louisiana. Kentucky, which has the lowest median income, also has the highest default rate, although we cannot be sure these factors are related. We delve more into income information from the Louisiana cohort on page 22.

Of particular relevance to this report is participation in the federal student loan program. Colleges can opt out of the program and still offer students Pell Grants, and nine percent of community college students do not have access to federal student loans for this reason.¹⁰ While all community colleges in Iowa and Kentucky participate in the loan program, only five LCTCS institutions participated as of the close of the FY2013 cohort year. Many of Louisiana’s technical colleges opted out due to concerns over high cohort default rates and the associated sanctions. In recent years, more LCTCS colleges have started to participate in the federal student loan program, in part because the Louisiana legislature has significantly disinvested from higher education, making colleges increasingly reliant on tuition revenue. As a result of more colleges participating in the loan program, we will likely see a larger cohort of borrowers in Louisiana in the future.

Figure 2: Institutional Characteristics of Community Colleges in this Report, by State

Service	Iowa	Kentucky	Louisiana
Number of Community Colleges	16	16	13
Number Participating in the Loan Program	16	16	7 (5 in 2012)
Enrollment, Fall 2014	93,563	86,559	63,907
Median Cost of Attendance, 2014-15	\$16,440	\$14,449	\$17,381
Median Tuition and Fees	\$4,472	\$3,624	\$3,590
Borrowing Rate, 2014-15	35.5%	30.5%	30.1%
Pell Rate, 2014-15	32.7%	48.3%	48.5%
FY2013 Cohort Default Rate	18.5%	26.2%	19.9%
Median Income of Community College Students who Received Federal Financial Aid, 10 Years After Initial Enrollment	\$31,450	\$25,500	\$28,500

Note: CDRs, Pell receipt rates, and borrowing rates were derived by summing the numerators and denominators across all institutions in each state and calculating a new rate.

Source: All student characteristics are derived from the Integrated Postsecondary Education Data System (IPEDS). Cohort Default Rates are derived from the Office of Federal Student Aid’s data. Median earnings are from the 2012-2013 College Scorecard cohort.



Figure 3 provides basic information on the cohorts across all three states. It is important to reiterate that these data follow students beyond the close of the three-year cohort default rate period, which is why default rates are higher in our data than are reported by the Office of Federal Student Aid. We observe that Louisiana has a much smaller cohort compared to Iowa and Kentucky due to several colleges not participating in the loan program, and that its default rate also decreased the least between the close of the CDR period and the collection of data for this report.

Figure 3: Borrowing and Default Data in this Report, by State

Servicer	Iowa	Kentucky	Louisiana
Cohort Year	FY2011	FY2013	FY2013
Students	27,675	25,799	11,111
Median Debt	\$6,125	\$7,084	\$5,250
Defaulters	7,680	8,842	2,789
Median Debt	\$5,500	\$6,190	\$4,750
Default Rate	27.7%	34.3%	25.1%

Source: National Student Loan Data System (NSLDS).

In each state, the median debt for borrowers in the cohort was higher than that of those who defaulted. This indicates that defaulters carry smaller debt loads than non-defaulters, an issue that we noted in *A Closer Look at the Trillion* and one that we continue to explore on page 16.

Borrowing and Repayment in Three States

When ACCT released *A Closer Look at the Trillion* in 2015, one of the most common questions we received was, “Are the findings in this report representative of other states?” While we could not answer that question precisely given the wide variation in funding and governance in community colleges across states, we hypothesized that our findings were relatively generalizable to states that shared characteristics with Iowa. In this section, we begin to see that patterns in borrowing and repayment are, in some cases, very similar in Louisiana and Kentucky and that differences that appear may be more a result of comparing different cohort years rather than different states. Although we do not claim that the findings in this report echo the state of federal student loan repayment and default for community college borrowers in every state, it does clarify that the issues we observed in Iowa are not confined to that state alone.

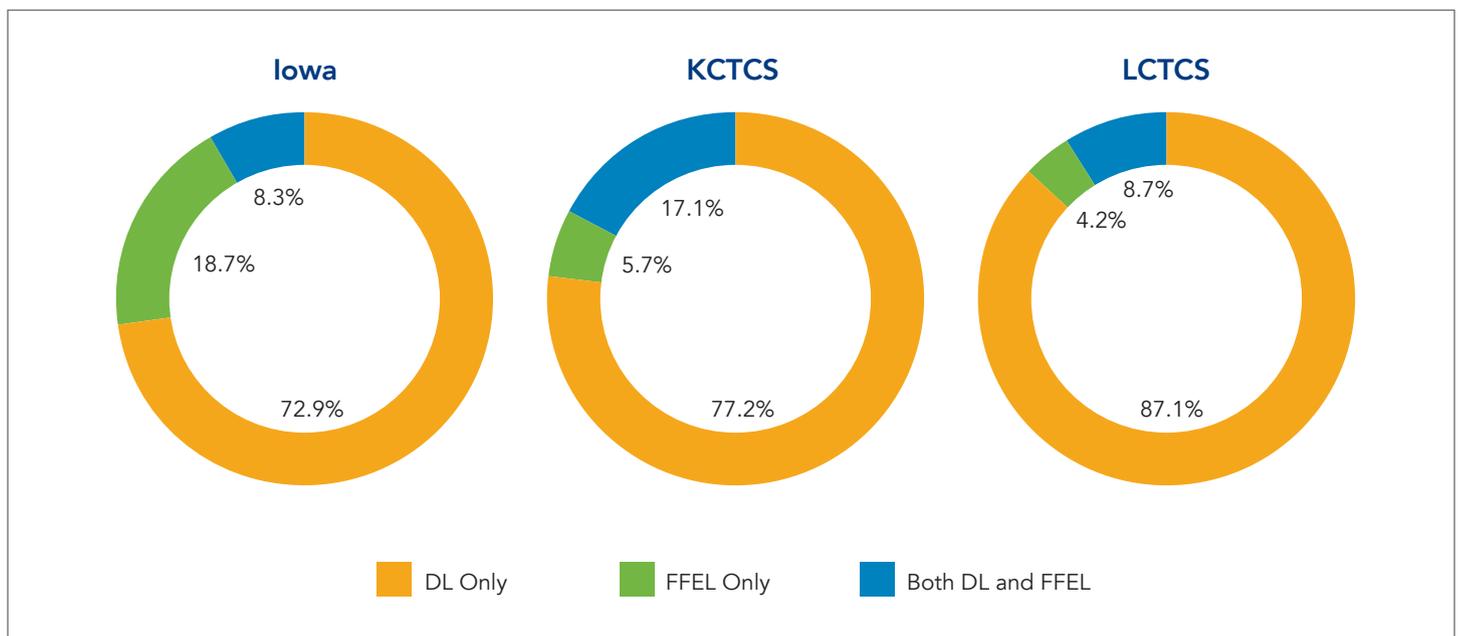
Loan Program

Until the 2010 academic year, institutions could participate in one of two loan programs: the Federal

Family Educational Loan Program (FFELP) or the Direct Loan (DL) Program. Under DL, colleges act as the primary conduit for originating and disbursing federal student loans, and federally contracted servicers manage repayment, whereas FFEL loans were administered and serviced by guaranty agencies and their servicers. The FFEL program was discontinued as a cost-saving measure by the Healthcare and Education Reconciliation Act of 2010, and since that time, all new loans have been made under the DL program.

While the broad terms of FFEL and DL loans are similar, borrowers with FFEL loans cannot benefit from many programs that can relieve the burden of federal student loan repayment. They are eligible for only two income driven repayment plans and cannot have their debt forgiven under Public Service Loan Forgiveness. However, borrowers may consolidate their FFEL debt into a Direct Loan, which makes them eligible for the repayment plans and forgiveness programs open to DL borrowers.

Figure 4: Loan Program from which Community College Students Borrowed, by State



Source: National Student Loan Data System.

The incidence of borrowers with only FFEL loans was less in Kentucky and Louisiana than it was in Iowa, even though the community colleges in these states participated in the FFEL program prior to 2010. This could indicate that most students in Kentucky and Louisiana borrowed after the transition to 100 percent Direct Lending, that students consolidated their FFEL debt into a Direct Loan, or both. Indeed, in both states, at least three-quarters of borrowers took out their first loans after the transition to Direct Lending, and about 20 percent of FFEL Stafford loans were consolidated, versus only seven percent of Direct Stafford Loans. The proportion is flipped in Iowa: Nearly 75 percent of borrowers took out their first loan prior to the 2010 school year.

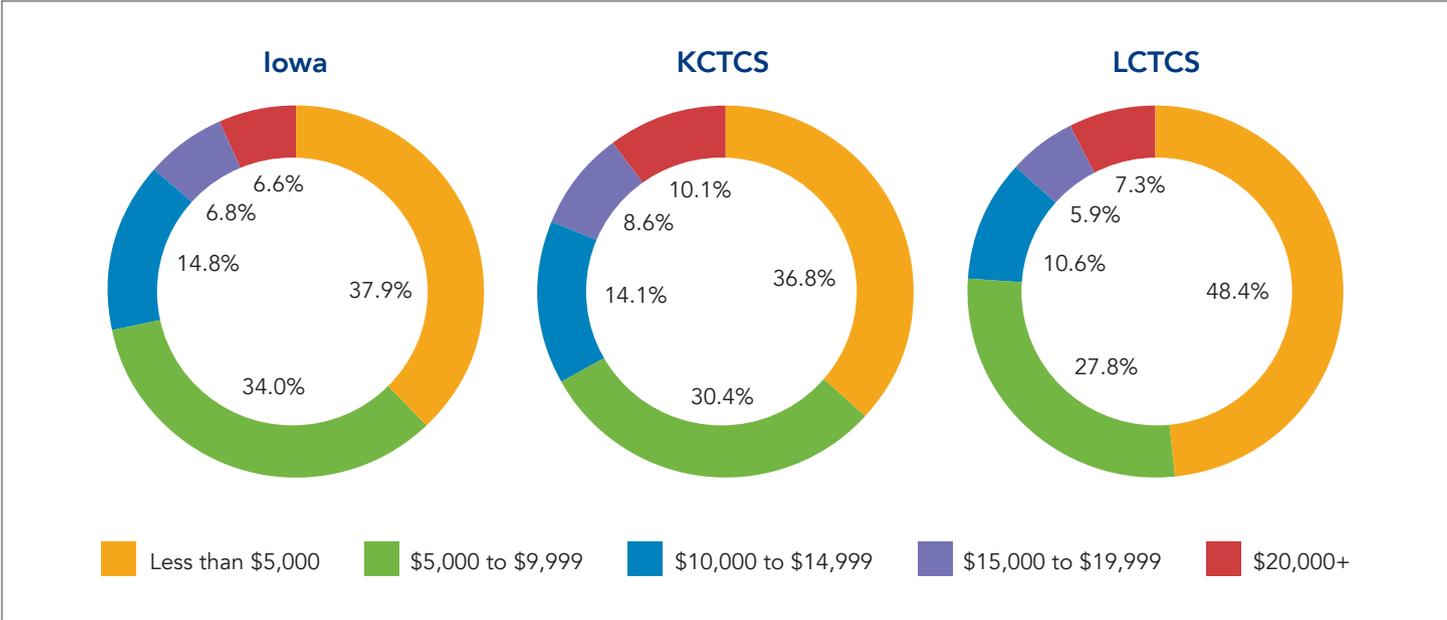
The decline of borrowers actively repaying loans under FFEL program rules could mean fewer defaults, as they are eligible for a larger number of income-driven repayment (IDR) plans, which could offer relief from unaffordable monthly payments. However, in order to avoid default, borrowers must be in touch with their servicers and successfully navigate the process of applying for an IDR plan.

Amount Borrowed

One of the primary takeaways from *A Closer Look at the Trillion* was the high proportion of low-balance borrowers and the high rate of default within that group. In Louisiana and Kentucky, we similarly see that a significant majority of students borrowed less than \$10,000 while enrolled in community college.

Kentucky shares a similar distribution of borrowers and debt to Iowa, with 36.8 percent of borrowers in the low-balance category and 30.4 percent borrowing between \$5,000 and \$10,000. Overall, almost 70 percent of the KCTCS students borrowed less than \$10,000. Just over 10 percent of Kentucky’s students borrowed \$20,000 or more in federal loans, the highest of the three states. Conversely, Louisiana has the largest proportion of low-balance borrowers, with nearly 50 percent of students borrowing less than \$5,000. The similarities across these states in spite of their differences provides evidence that the borrowing population at community colleges skews toward those with low balances.

Figure 5: Amount Borrowed by Community College Students, by State



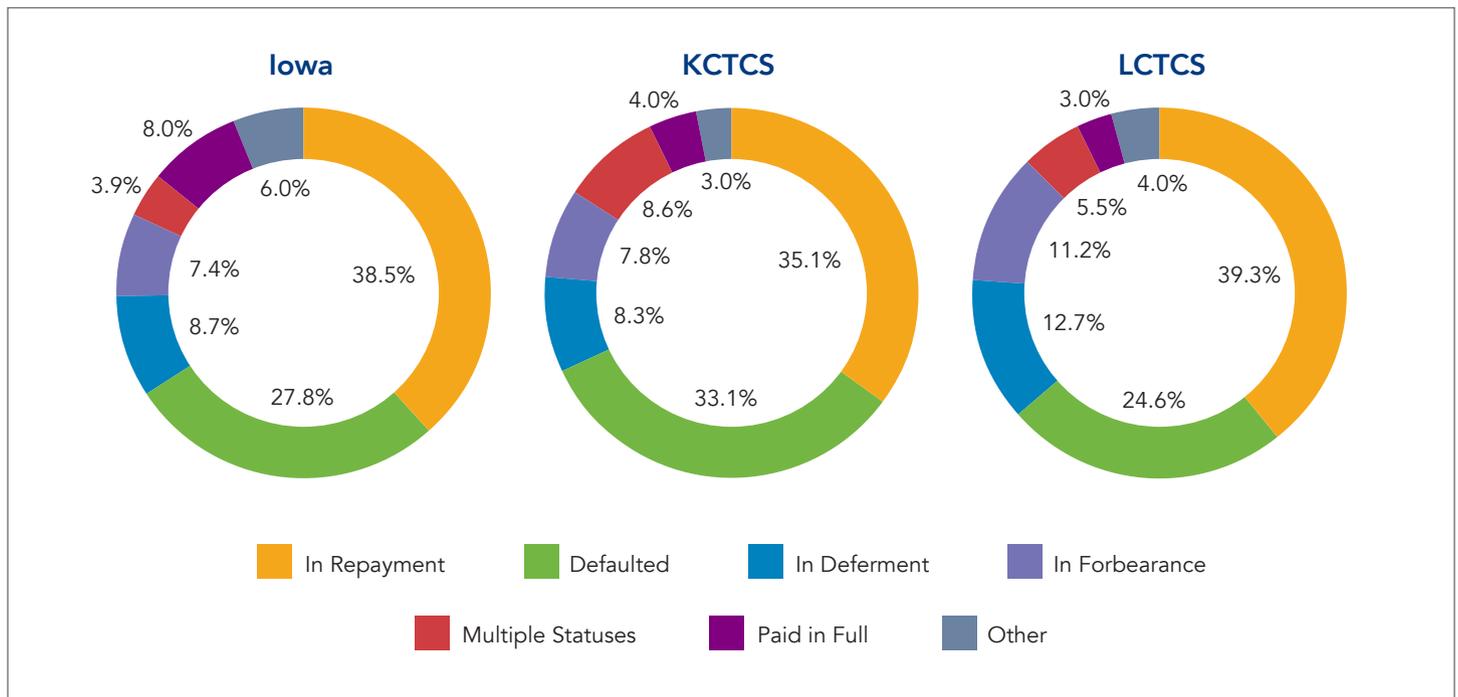
Source: National Student Loan Data System.

The smaller debt loads of students in Louisiana could be due to the relatively low tuition and fees paid by those borrowers. Most loans (43.2 percent) in Louisiana were borrowed during the 2011-12 academic year, when the median tuition and fees at LCTCS were just \$2,602. Since that time, the median tuition and fees at LCTCS have increased more than 50 percent, whereas at KCTCS, tuition and fees have increased about 15 percent. Although living expenses make up the bulk of community college students' budgets, such an increase in tuition and fees limits the purchasing power of financial aid. As time goes on and if the state of Louisiana continues to disinvest from its community colleges, it is likely students who enroll in colleges that participate in the loan program will borrow more in order to make ends meet.

Loan Status

The similarities between states continue as we examine borrowers' loan statuses. In Iowa, we observed that most students were either in active repayment or in default; the same is true in Kentucky and Louisiana. In all three states, between 35 and 40 percent of students are in active repayment and more than 60 percent are either in active repayment or default. KCTCS and LCTCS both have a much smaller proportion of borrowers who have paid their debt in full than we observed in Iowa.

Figure 6: Loan Status of Community College Borrowers, by State



Source: National Student Loan Data System.

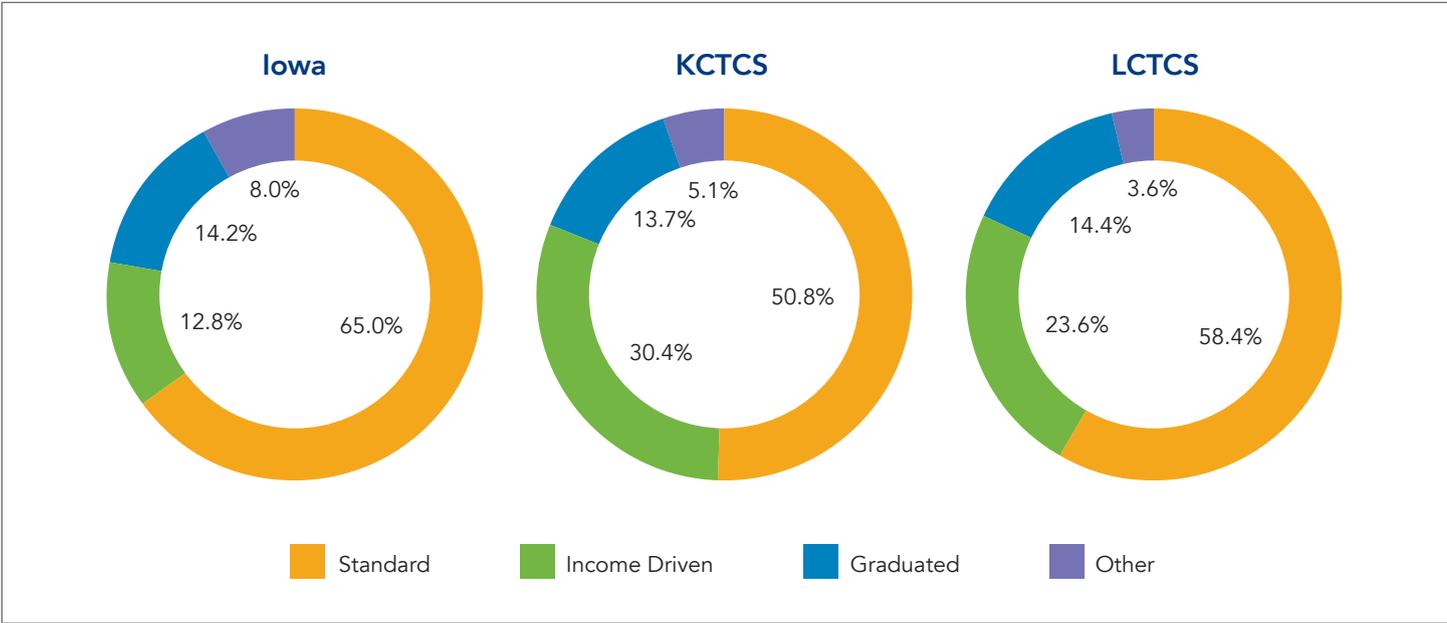
The high rates of default in Kentucky and Louisiana are disappointing. Borrowers are defaulting at high rates in spite of the increased number of IDR plans that could offer relief from unaffordable monthly payments. In the next section, we examine the repayment plans used by borrowers actively repaying their loans, to gain insight into how newer borrowers may be taking advantage of IDR options.

Repayment Plan

The first stark contrast in this report appears when we examine the repayment plans used by borrowers in active repayment on their loans. In Iowa, nearly two-thirds of borrowers were using a standard plan and only 12.8 percent used an IDR plan. In Kentucky and Louisiana, the situation is much different: IDR usage rates are nearly twice as high in Louisiana and 2.4 times as high in Kentucky. Enrollment in the graduated repayment plan is similar across all three states.

Greater participation in IDR plans in Kentucky and Louisiana could be due to a variety of factors. Borrowers may have an increased awareness of these plans, either due to outreach from loan servicers, the U.S. Department of Education, or institutions, or through exposure given to these plans via mainstream media. More students may also be eligible for these plans given the higher proportion of borrowers with Direct Loans and the newer plans (PAYE and REPAYE). We could also be observing greater uptake of IDR among high-balance borrowers, who may have more difficulty affording their monthly payments. After all, KCTCS and LCTCS had a higher proportion of students borrowing more than \$20,000 than did Iowa, which could have spurred them to take advantage of an IDR plan to reduce their monthly payments.

Figure 7: Repayment Plan Type Used by Community College Students in Active Repayment, by State

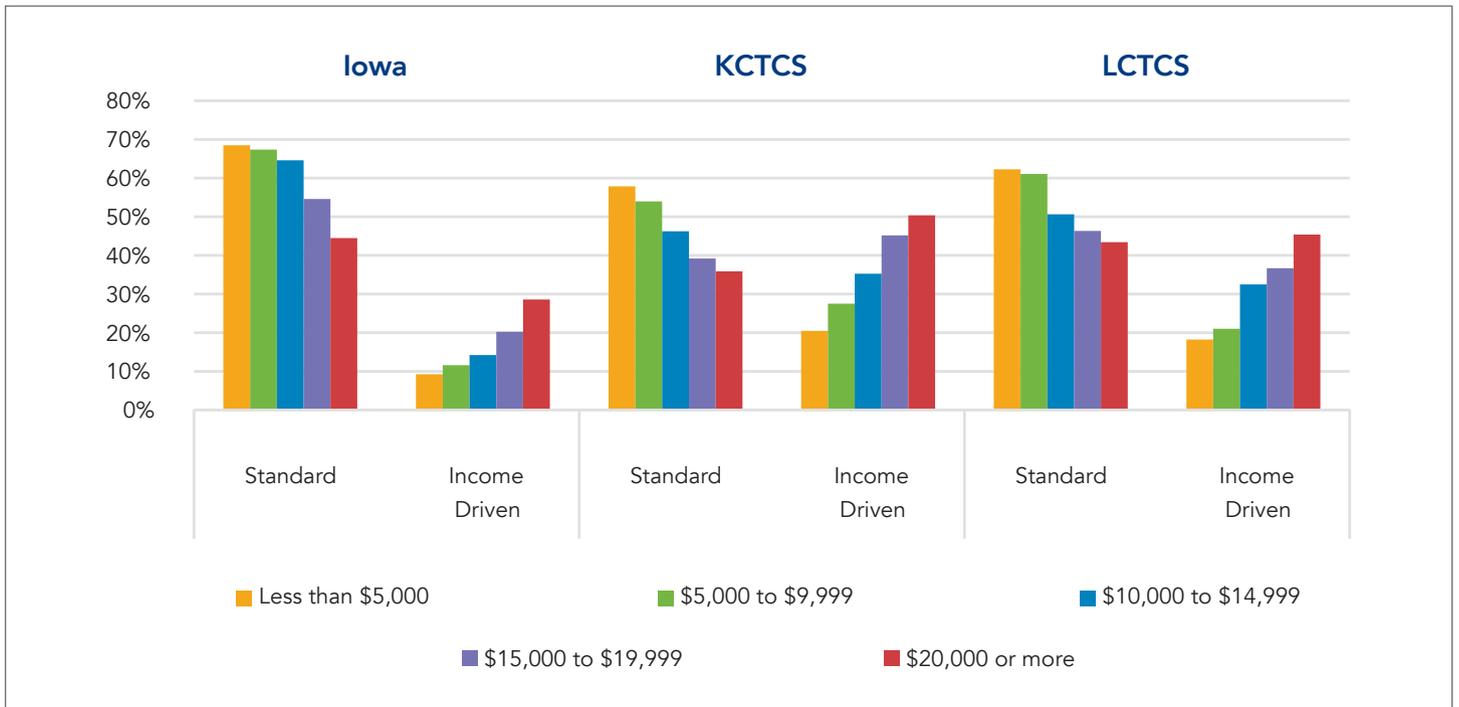


Source: National Student Loan Data System

Indeed, when we examine the distribution of students in each repayment plan by the amount they borrowed, we see that IDR participation increases as debt increases in all three states. In both Kentucky and Louisiana, more borrowers with \$20,000 or more in debt participated in an IDR plan than in a Standard plan – a significant departure from Iowa, where the Standard plan was the most popular option for even the highest-debt group.

However, it is notable that while IDR enrollment is greater in the highest-balance group, IDR usage is also greater across all debt groups in Louisiana and Kentucky. About one-fifth of borrowers in the low-balance group in both Louisiana (18.2 percent) and Kentucky (20.5 percent) used IDR. This is a signal that low-balance borrowers, who typically have the highest risk of default, can potentially benefit from IDR plans and avoid default. However, does increased IDR enrollment mean a lower default rate for these borrowers? We address this question in the next section.

Figure 8: Share of Borrowers in Active Repayment Enrolled in Select Repayment Plans, by State and Amount Borrowed



Source: National Student Loan Data System.

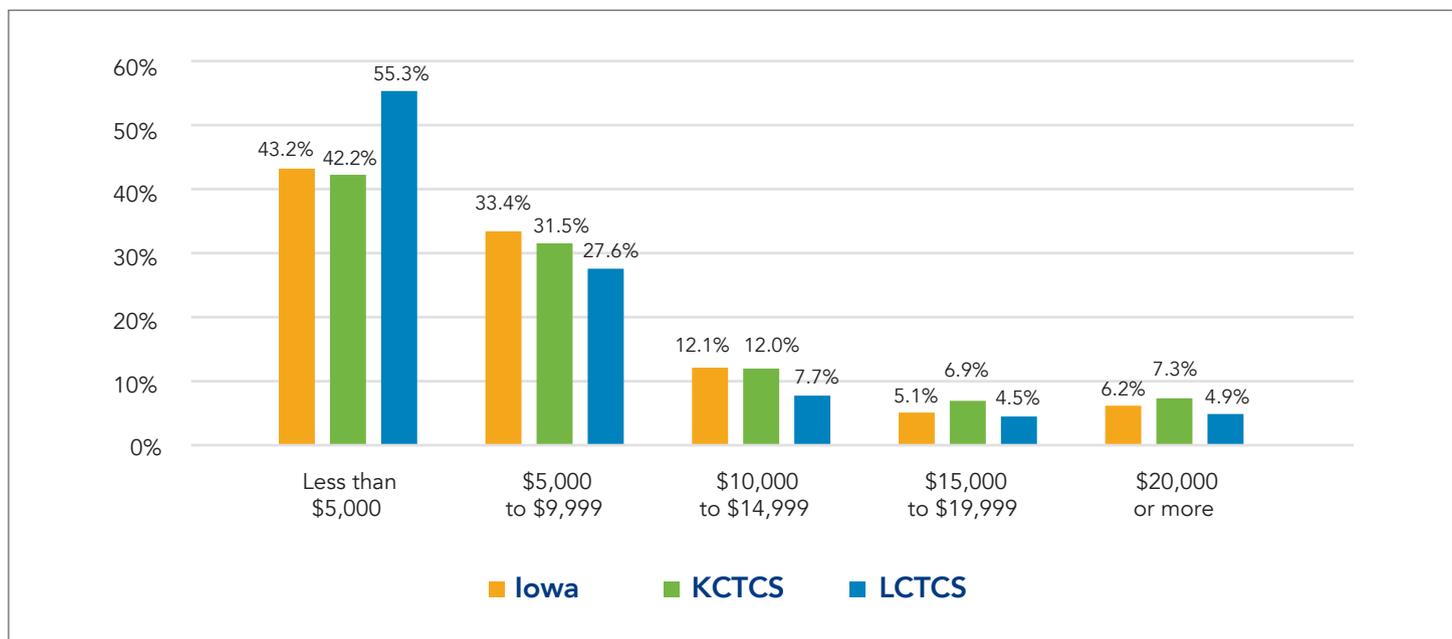
Losing Borrowers to Default

The default of low-balance borrowers was a primary finding of *A Closer Look at the Trillion*. We unpacked default by multiple student characteristics, including completion, dependency status, and Pell Grant receipt. In this report, we focus instead on the borrowing and repayment characteristics of defaulters: how much they borrowed, what repayment plans they used, and if they took action on their debt before defaulting. These analyses allow us to better compare the data from Kentucky and Louisiana to Iowa and to paint a more vivid image of what happens on a community college borrower's path to default. With a better understanding of students' repayment behavior, we can begin to explore what reforms may be necessary at the federal level.

Amount Borrowed

Like Iowa, Kentucky and Louisiana show the highest concentrations of defaulters among low-balance borrowers. Kentucky mirrors Iowa, with slightly more than 40 percent of defaulters borrowing less than \$5,000, while in Louisiana, 55 percent of defaulters fell into the lowest debt group. For each state, the number of defaulters decreases as their debt increases, with a slight exception for those in the highest-debt group. However, there were more borrowers in this group in Louisiana and Kentucky, which resulted in the lowest default rate for all groups.

Figure 9: Percent of Defaulters, by Amount Borrowed and State

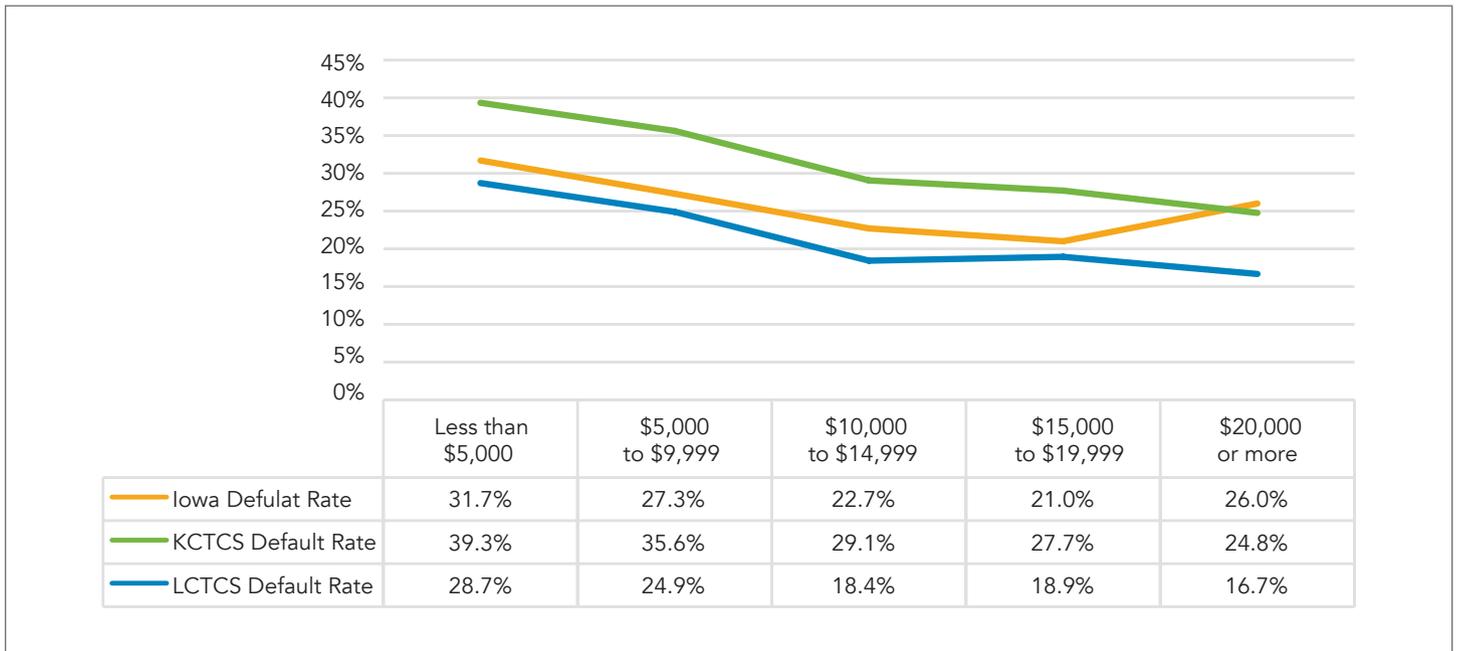


Source: National Student Loan Data System.

Default rates in Louisiana and Kentucky fall as debt increases, a trend we also observed in Iowa. Kentucky's low-balance borrowers are the most at-risk, with a default rate of nearly 40 percent. This unfortunate result reflects the findings of several studies that find that low-balance borrowers are most likely to default. The reasons for this trend are still unclear, and many factors could be at play: students may not be able to

afford monthly payments, may not know they have debt, or may have willingly defaulted on their loans. Unfortunately, our data only allow us to examine borrowers' actions, such as their use of various repayment plans, deferments, and forbearances, and the payments they made on their loans prior to defaulting, so we cannot tease out the primary reasons low-balance borrowers are at such a high risk for default.

Figure 10: Default Rate, by Amount Borrowed and State



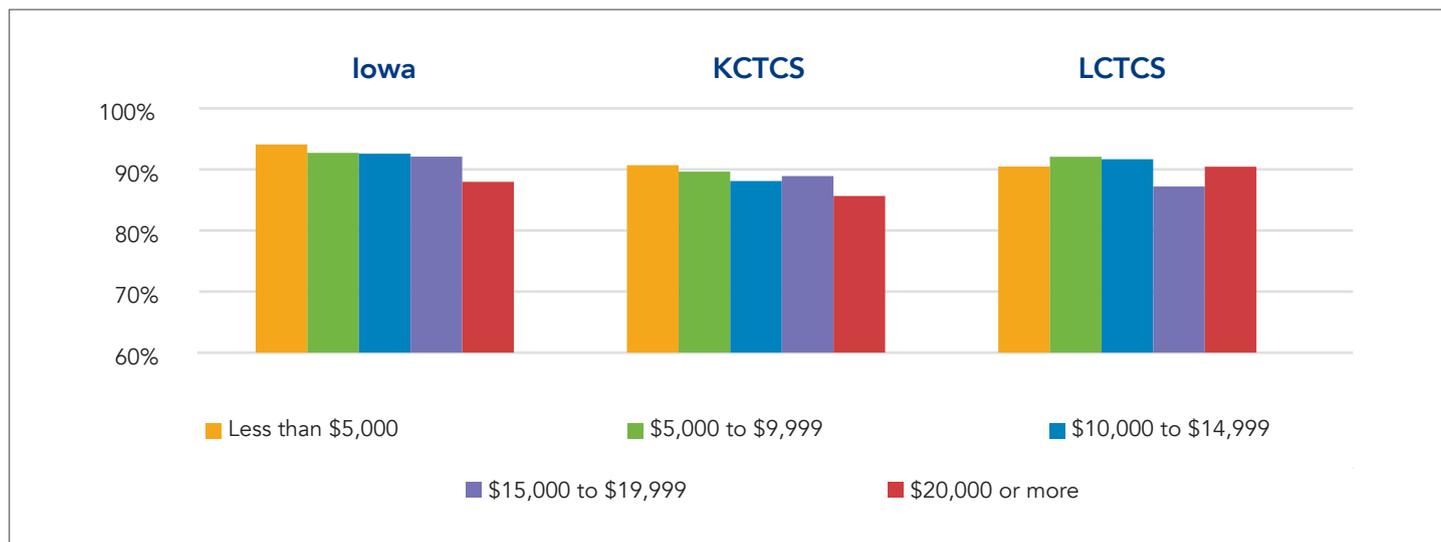
Source: National Student Loan Data System.

Repayment Plan

In Iowa, we found that more than 90 percent of defaulters were last enrolled in a Standard plan. Although in some debt groups the rate was slightly less in Louisiana and Kentucky, we still observe that at least 85 percent of defaulters were enrolled in a Standard plan across all levels of debt. Unfortunately, we can't be sure why defaulters did not opt for another plan

that could reduce their monthly payments. They may have not been aware of their options or their debt, or they may not have been in touch with their servicer prior to defaulting. Although we do not have records of borrowers' contact with servicers, we can estimate students' interaction with their debt by studying the payments and postponements they initiated while in repayment.

Figure 11: Share of Defaulters Enrolled in the Standard Repayment Plan, by State and Amount Borrowed



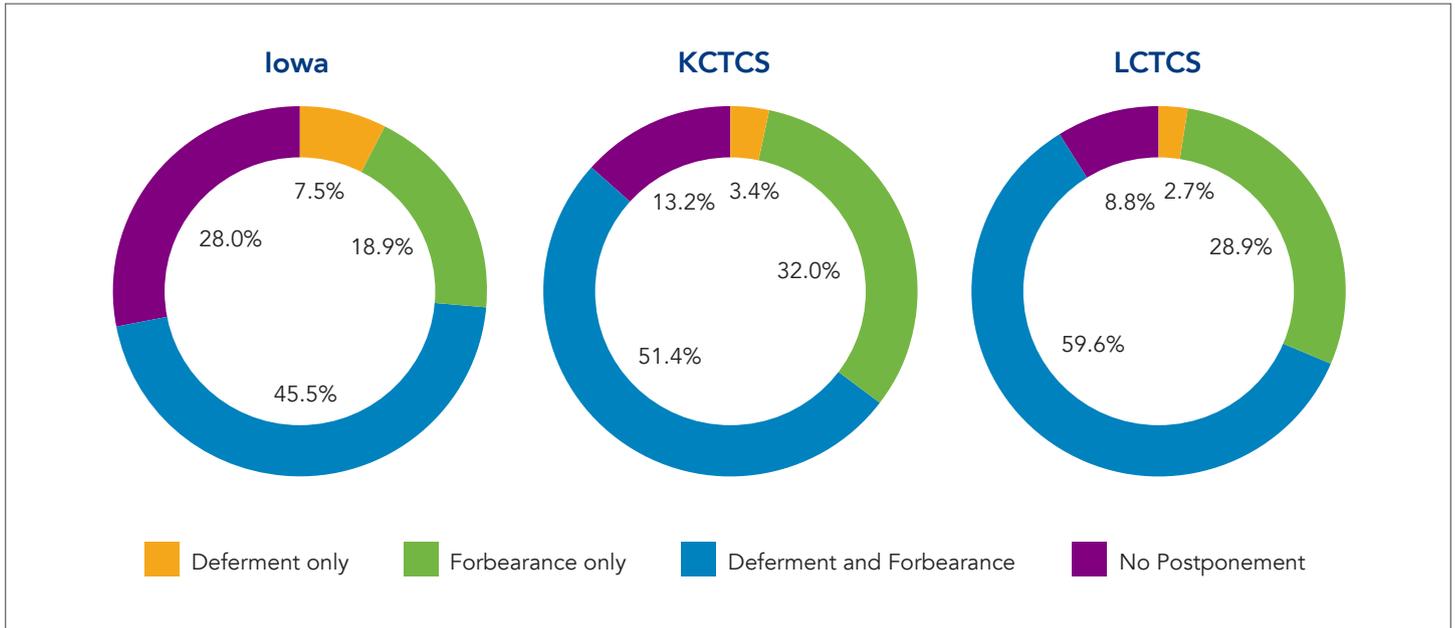
Source: National Student Loan Data System.

Postponements and Payments

Borrowers can temporarily suspend monthly payments on their loans during periods of economic hardship, subsequent enrollment, and military service. Deferments allow students with subsidized loans to avoid paying accrued interest, whereas students are responsible for accrued interest during forbearances. It is also easier for students to enter a forbearance than a deferment, and servicers often place students into a temporary "administrative" forbearance if they state they are having trouble paying their loans or if they apply for an income-driven repayment (IDR) plan.

In *A Closer Look at the Trillion*, we highlighted low rates of deferment and forbearance among borrowers who defaulted. Nearly three-quarters (72 percent) of the non-defaulted cohort used a deferment or forbearance, while almost 60 percent (58.5 percent) of defaulters did not. In Kentucky and Louisiana, we observe even higher usage rates of postponements, with 86.8 percent of non-defaulters in Kentucky and 91.2 percent of non-defaulters in Louisiana using some combination of deferment and forbearance. Postponement rates for defaulters were also greater in Kentucky and Louisiana than they were in Iowa, with more than half of defaulters in each state using a deferment or forbearance.

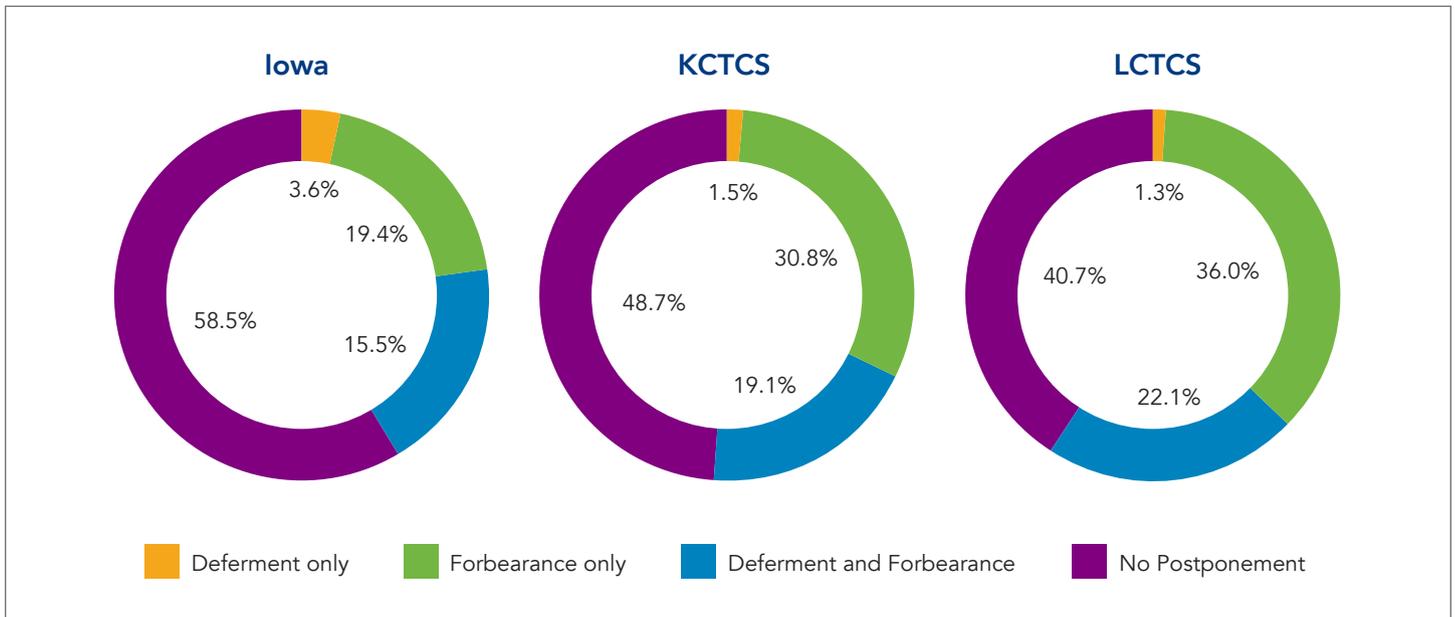
Figure 12: Postponement Usage for Non-Defaulters, by State



Source: National Student Loan Data System

For both defaulters and non-defaulters, the higher postponement rates in Louisiana and Kentucky are due to higher forbearance rates. Deferment rates are comparable for defaulters across all three states (just over 20 percent). For non-defaulters, Kentucky and Iowa have similar deferment rates (53.0 versus 54.8 percent), with Louisiana's rate being higher (62.4 percent).¹¹ Forbearance rates are much higher in Louisiana and Kentucky for defaulters and non-defaulters.

Figure 13: Postponement Usage for Defaulters, by State



Source: National Student Loan Data System

There are three types of forbearance: mandatory, discretionary, and administrative. Mandatory forbearances rarely appear in our data and are typically granted for those serving in special service programs, such as Americorps. Discretionary forbearances are requested by the borrower and granted at the servicer’s discretion. Administrative forbearances take effect for a variety of reasons, but are generally applied when a loan is in transition, such as when it is transferred to another servicer or when a borrower is being considered for an income-driven repayment plan. We observe some interesting changes in administrative and discretionary

forbearance rates across the states we studied. We see that Iowa’s defaulters and non-defaulters had roughly the same proportion of administrative and discretionary forbearance rates. The rates are also relatively similar in Kentucky and Louisiana – but only for defaulters. When we examine non-defaulters, we see administrative forbearances make up a much more significant proportion of those granted. This signals that those borrowers are taking action on their loans – either by applying for IDR plans, longer-term deferments or forbearances, or just communicating with their servicers – which can help keep them out of default.

Figure 14: Postponement Rates, by Type, State, and Default Status

		Iowa	KCTCS	LCTCS
Non-Defaulters	Deferment Rate	53.0%	54.8%	62.4%
	Forbearance Rate	64.4%	83.4%	88.5%
	<i>Administrative</i>	31.9%	43.6%	53.6%
	<i>Discretionary</i>	32.2%	37.2%	33.0%
Defaulters	Deferment Rate	22.1%	20.6%	23.3%
	Forbearance Rate	37.9%	49.8%	58.0%
	<i>Administrative</i>	19.2%	27.2%	29.3%
	<i>Discretionary</i>	18.6%	22.1%	28.4%

Note: Administrative and Discretionary forbearance rates may not add to the overall forbearance rate due to students using both.
 Source: National Student Loan Data System.

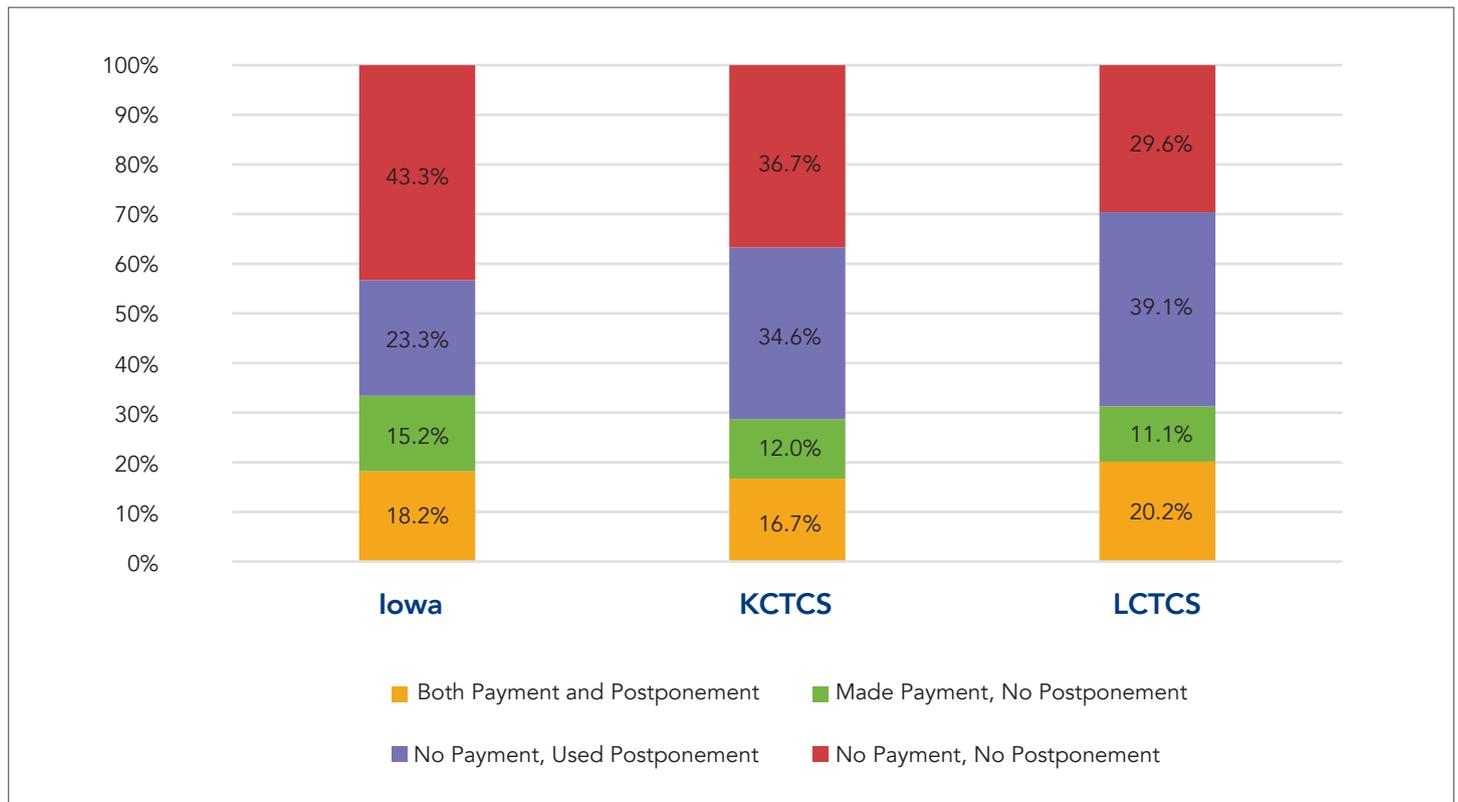
However, is this increase in forbearance rates an encouraging trend? It is difficult to say. Forbearances provide servicers with flexibility and can help delay default, provided borrowers communicate with their servicers. However, forbearance also causes interest to accrue and capitalize on students' loans, increasing a borrower's principal balance. With at least 40 percent of defaulters not using a postponement, though, it is clear that more borrowers must connect with their servicers in order to prevent default.

Of course, the most productive manner for borrowers to avoid default is through making payments. In Iowa, we observed that nearly 43.3 percent of defaulters neither used a postponement nor made a payment on their loans before defaulting. As a result, almost 60 percent (57.5 percent) of the FY2011 cohort defaulted before October 1, 2012, one year into the CDR tracking period. Due in part the increased use of postponements, we see that the rates of students

using neither a postponement nor a payment are lower in Kentucky and Louisiana. This corresponds to a smaller proportion of borrowers defaulting within a short timeframe: In Louisiana, less than half (41.9 percent) of defaulters entered that status prior to October 1, 2014, and that rate was even lower (34.3 percent) in Kentucky.

Although the rates of non-action are lower and the time to default is longer in Kentucky and Louisiana, these findings are not heartening. If the goal of federal student loan policy interventions is to prevent default, we would hope to see much lower default rates than we observe in the FY2013 data. These results call into question if default is caused by an inability to afford monthly payments or because of inaction, whether that is due to confusion, neglect, or apathy. In the next section, we present some information on the earnings of the Louisiana cohort to get a better sense of the economic situations of FY2013 borrowers, in order to address the question of the affordability of monthly payments.

Figure 15: Action Taken on Federal Loan Debt by Defaulters, by Action Type and State



Source: National Student Loan Data System (NSLDS).

Earnings and Repayment

Income is often a missing link in discussions on student loan borrowing and default. If available at all, earnings data are typically only published in aggregate and rarely relate to borrowing cohorts. However, some systems of higher education, including LCTCS and KCTCS, have been able to access earnings information through state agencies. They have obtained these data due, in part, to federal Gainful Employment regulations that require colleges to report earnings data by program. Many systems find these data valuable in making strategic decisions about program offerings and financial aid awarding policies. Louisiana was able to provide ACCT with individual-level earnings data linked to debt information in order to assess how income is related to borrowers' outcomes.

Income data from Louisiana were retrieved from the State Department of Labor. There are significant, notable limitations to using state earnings data. Those who work out-of-state, in federal government or military positions, or who are self-employed are not captured, so the incomes presented are understated.¹² In addition, it is important to note that we present income information for student loan borrowers, who are typically among the lowest-income (and lowest-resourced) students enrolled. Furthermore, we could only collect information through 2015, a few short years after borrowers were enrolled. As post-enrollment earnings increase over time, the income data presented here is likely much lower than if we presented them ten years after FY2013 borrowers

left college. Readers should note these caveats, understanding that the results presented here are not representative of all community college students or of the long-term income potential of students who enroll in community colleges.

Louisiana Income Data

The Louisiana data include income information for 10,962 borrowers, 98.7 percent of the FY2013 cohort. These data include individual yearly earnings from 2012 through 2015, as well as the number of quarters per year each borrower had \$0 income. Unfortunately, data limitations do not allow us to contextualize borrowers' earnings by demographic characteristics, such as race, gender, dependency status, family size, and marital status, which could help characterize the results we observe. Likewise, we were unable to tie income to borrowers' field of study or work, which has been shown by researchers to have a substantial impact on an individual's income and earning potential.¹³

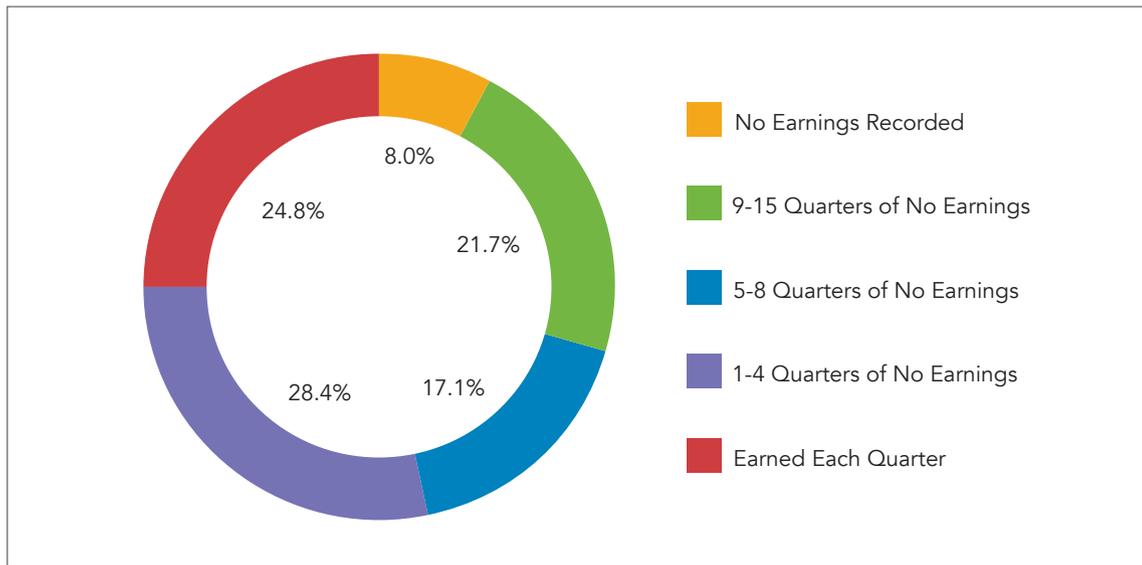
Rather, we use borrowers' annual income to identify patterns in default rates and use of repayment plans and postponements. To provide context, we begin with an analysis of borrowers' income independent of their loans, aiming to determine how borrowers' income changed from 2012 through 2015 and how this subset of Louisiana student borrowers compares to national and state poverty and median income levels.

Income Consistency

Figure 15 illustrates the number of quarters borrowers had recorded incomes. Nearly 25 percent (24.8 percent) recorded income for each quarter from 2012 through 2015, while 8 percent did not have income reported for any quarters. Nearly 30 percent of borrowers lacked earnings for one to four quarters. As we dug deeper into the data, we discovered that each year,

more borrowers had earnings for all four quarters of the year, which may indicate increasing income stability for borrowers over time. If this is the case, borrowers may benefit most from making very low monthly payments at the beginning of their repayment term, which can be achieved by enrolling in a Graduated or IDR plan immediately after leaving college.

Figure 15: Louisiana Borrower Income Consistency, 2012-2015



Source: Louisiana State Department of Labor.

Annual Income

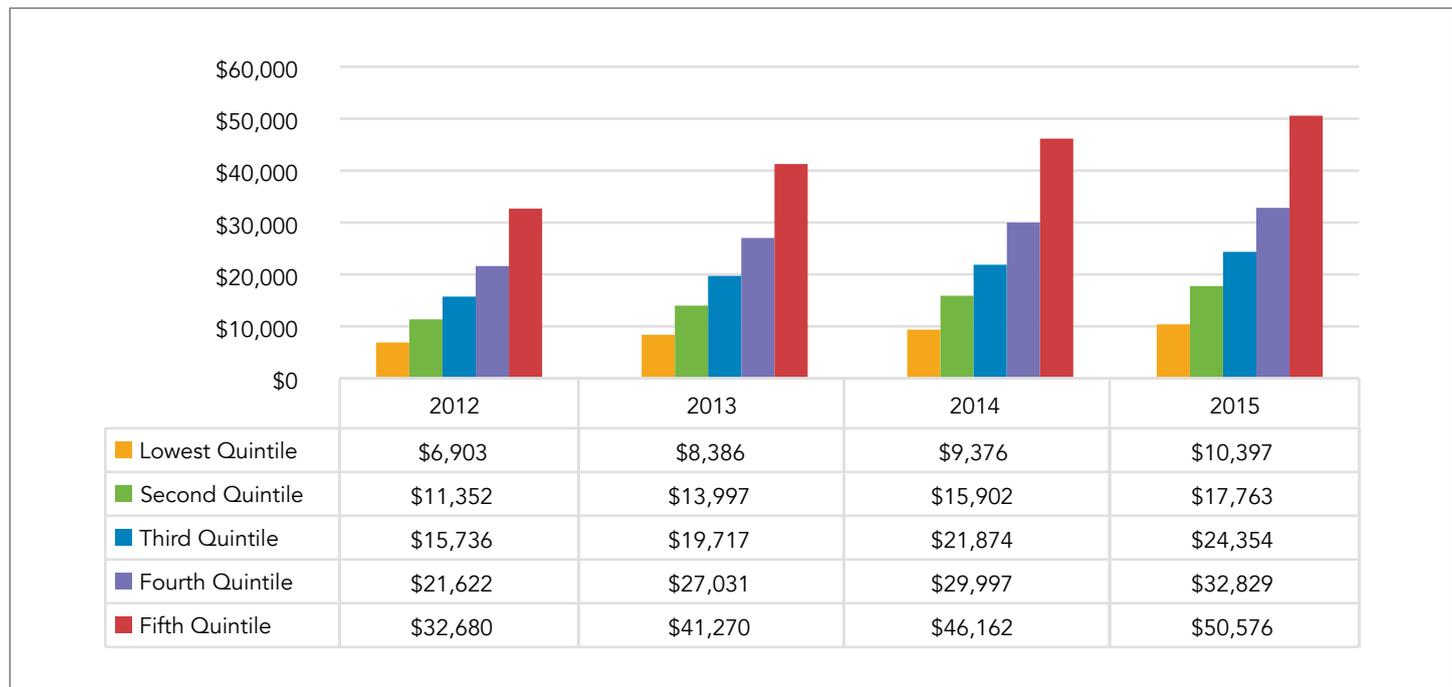
In 2015, the national median income for working individuals 25 and over with some college education or an associate degree was \$33,820, while the median for Louisianans at this education level was \$31,897.¹⁴

In that year, the poverty rate for Louisianans over 25 with some college education or an associate degree was 12.9 percent, versus 15.4 percent for all residents.¹⁵ Note that these earnings data reflect individuals who have been working for various terms in disparate fields, and therefore reflect higher earnings what we would expect to see for those who recently left college.

To ensure we did not drastically underestimate borrowers' income potential, we analyzed the median income for full-year workers, defined as those who

recorded an income for all four quarters of a given year. Workers in the lowest income quintile earned a median of \$10,397 in 2015, which corresponds to approximately 28 hours of federal minimum wage work per week and falls nearly \$2,000 short of the US Department of Health and Human Services (HHS) federal poverty guideline for that year. On the other side of the spectrum, borrowers in the highest 2015 income quintile earned a median of \$50,576, over one and a half times the state median for Louisianans with some college or an associate degree, and \$3,461 more than of those with a Bachelor's degree.¹⁶ In recent years, LCTCS has worked to increase its offerings and enrollments in fields of study with higher earnings potential. These data illustrate that these efforts may be proving successful in providing LCTCS students with opportunities to earn middle class wages.

Figure 16: Median Income of Louisiana Full-Year Workers, by Quintile by Year



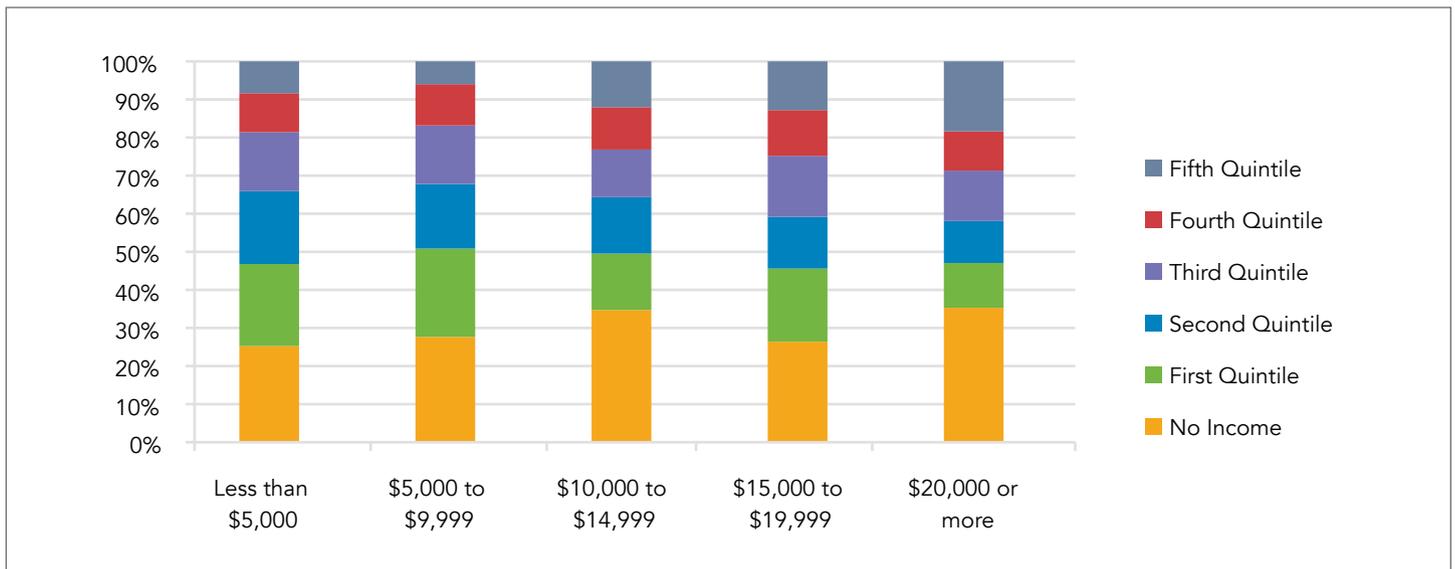
Source: Louisiana State Department of Labor.

Income, Borrowing, and Default

We observe that low-balance borrowers default at the highest rates, but are their repayment issues tied to low incomes? In this section, we examine how much borrowers earned in 2014, the year in which most Louisiana defaults (35.9 percent) were concentrated. Figure 17 presents how defaulters, by income quintile, are distributed within each debt bin. Borrowers with no quarters of earnings make up

between twenty-five and thirty-five percent of each group, and except for low-balance borrowers, earners in the top quintile make up a larger proportion of each group as borrowing increases. Other than the highest quintile, the income distribution does not vary within any discernible pattern for defaulters, and it is difficult to parse the financial situations of borrowers who default.

Figure 17: 2014 Income Distribution for Louisiana Defaulters, by Amount Borrowed



Note: This chart contains only borrowers who recorded an income in all quarters of 2014.

Source: Louisiana State Department of Labor and the National Student Loan Data System (NSLDS).



A clearer pattern emerges when we examine the median incomes of borrowers. Figure 18 presents data for those who had earnings in 2014, disaggregated by amount borrowed and default status. Here, we see that defaulters across all groups earn significantly less than non-defaulters. Furthermore, for those who do have earnings in 2014, the median incomes of defaulters are lower than the median incomes of non-defaulters, with the exception of those who borrowed more than \$20,000, whose median income is about \$1,100 more than the group who borrowed less than \$5,000. Defaulters who borrowed less than \$10,000 had a median income that was less than the 2014 federal poverty guidelines for a family of one (\$11,670) as defined by the U.S. Department of Health and Human Services (HHS). This income level would qualify those borrowers for \$0 monthly payments under any of the IDR plans.

Figure 18: Median 2014 Incomes of Louisiana Borrowers, by Amount Borrowed and Default Status



Note: This chart contains only borrowers who recorded an income in all quarters of 2014.
 Source: Louisiana State Department of Labor and the National Student Loan Data System (NSLDS).

Income and Repayment Plan

We know that approximately 90 percent of defaulters in Louisiana were enrolled in a Standard plan, but what was their median income, and how does it compare to borrowers who used other plans? Figure 19 shows that defaulters enrolled in the three most popular repayment plan types had lower median incomes than their non-defaulted peers, a difference of about \$5,000 to \$7,000. The group of borrowers who were enrolled in an IDR plan and defaulted was small, and this group's median income indicates they would be eligible for \$0 monthly payments as it is

only slightly above the HHS federal poverty guideline for a family of one (\$11,670). These borrowers likely did not recertify their plan and defaulted after failing to recertify. Most notably, borrowers in the Standard plan had the lowest incomes of both groups, even lower than borrowers who were enrolled in an IDR plan. Although IDR plans are intended to help lower-income borrowers to afford their monthly payments, these data indicate that some borrowers remain in a Standard plan even though other options may present more affordable monthly payments.

Figure 19: Median 2014 Incomes of Louisiana Borrowers, by Repayment Plan Type and Default Status



Note: This chart contains only borrowers who recorded an income in all quarters of 2014.

Source: Louisiana State Department of Labor and the National Student Loan Data System (NSLDS).

When we examine the repayment plans used by low-balance borrowers, we see that income does not reliably dictate the plan in which borrowers in Louisiana enrolled (Figure 20). Borrowers in the lowest income quintile were the most likely to use a Standard plan, whereas borrowers in the highest quintile were most likely to use an IDR plan. When we exclude the group without a recorded income from the chart (knowing that some of these individuals may have indeed earned but their income was not captured by the state unemployment insurance system), we see a clear trend: As income increases, Standard plan use decreases and IDR use increases. While we cannot discern if low-balance borrowers needed an IDR plan in order to afford their monthly payments, we can state with some certainty that many would be eligible for an IDR plan if they applied, and if they had, they could have at least staved off default.

Income, Payments, and Postponements

On page 18, we note that Louisiana’s borrowers used deferments and forbearances at a greater rate than those in Kentucky and Iowa. In Figures 21 and 22, we see that across all income groups, non-defaulters used postponements at a significantly higher rate than did defaulters. At least 30 percent of defaulters across all 2014 income groups used a postponement, whereas more than 80 percent of non-defaulters used a postponement. Non-defaulters in the highest income quintile were the least likely to use a postponement, perhaps because they did not require one in order to make on-time monthly payments. While the use of postponements can help stave off default, they are also an indication that borrowers are in touch with their federal student loan servicers. This contact indicates that borrowers are taking action to prevent negative repayment outcomes, regardless of their incomes.

Figure 20: Repayment Plans for Louisiana Borrowers with Less than \$5,000 in Debt, by 2014 Income Quintile

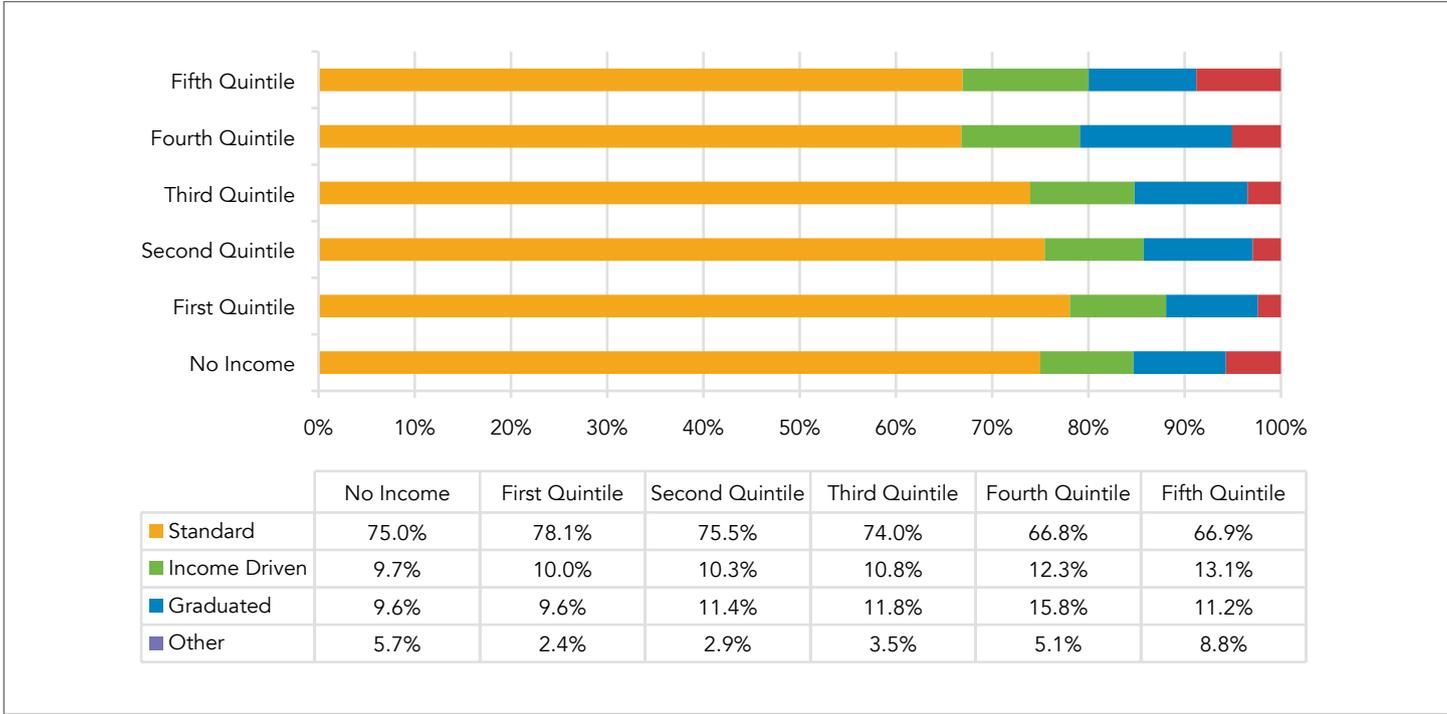


Figure 21: Postponement Usage for Louisiana Non-Defaulters, by 2014 Income Quintile

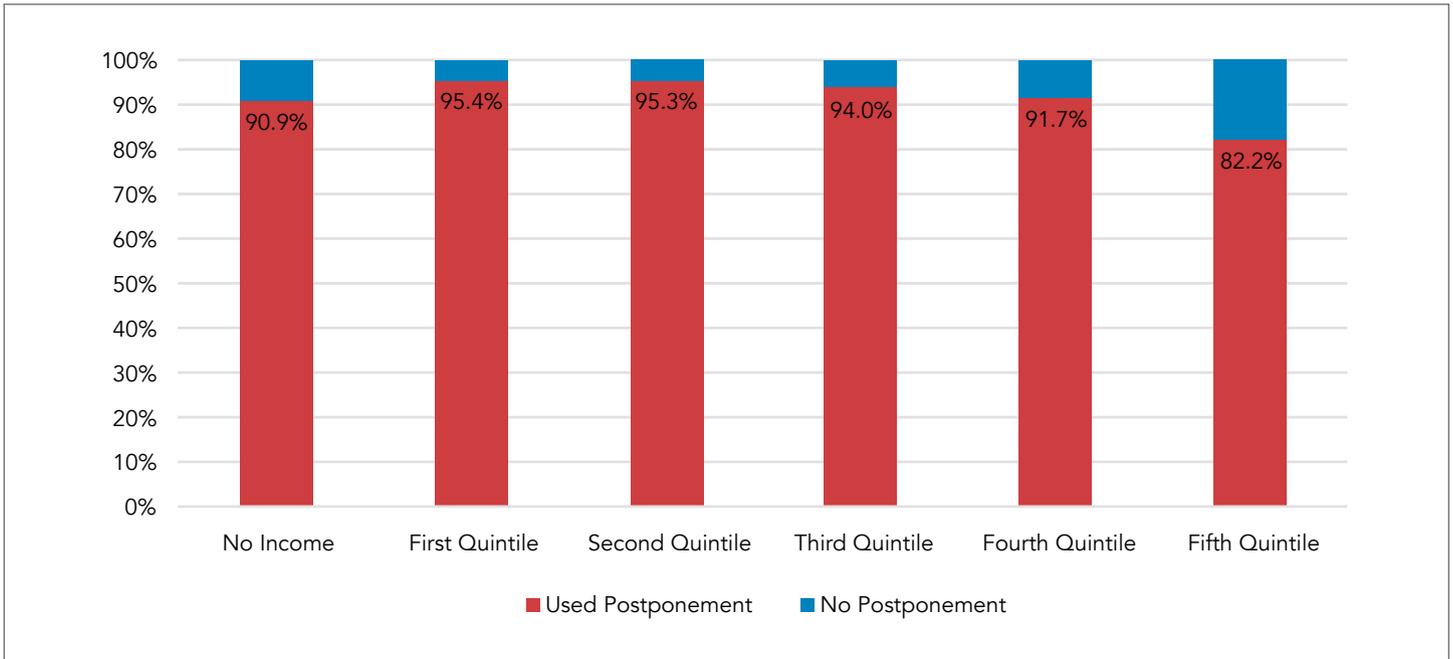
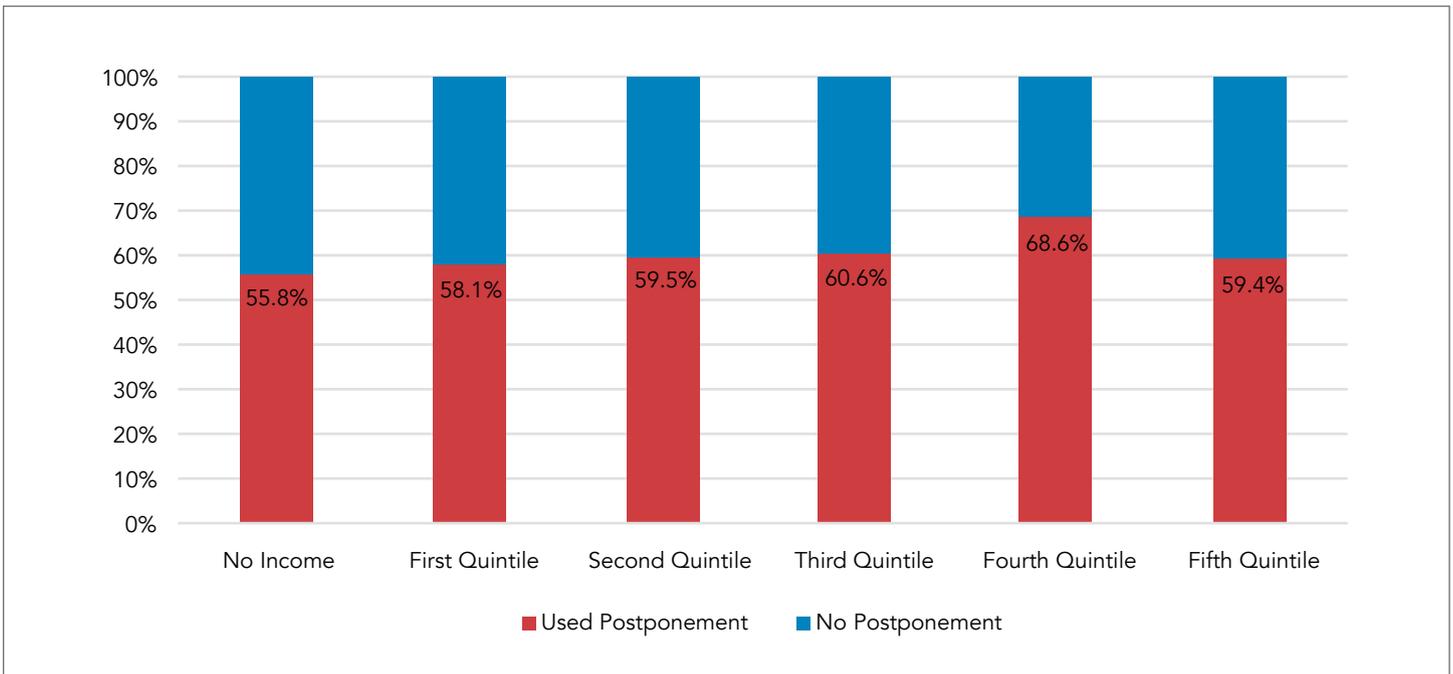


Figure 22: Postponement Usage for Louisiana Defaulters, by 2014 Income Quintile



Source: Louisiana State Department of Labor and the National Student Loan Data System (NSLDS).

Although postponements are the most popular intervention used by borrowers, we can also examine how borrowers across income quintiles made payments on their debt. Overall, the median 2014 income of those who did not make a payment (\$10,796) was less than the median income of those who did (\$14,295). When we analyze payments made by income quintile, we see that as income levels rise, so does the prevalence of making payments,

even among defaulters (Figures 23 and 24). While slightly less than half (46.9 percent) of defaulters in the highest quintile made a payment, less than one-third (27.0 percent) of those without earnings made a payment. For those in the highest 2014 income quintile who did not default, more than 70 percent (71.6 percent) made a payment, and just under 50 percent (48.7 percent) of those who had no earnings captured also had a payment on record.

Figure 23: Payments Made by Louisiana Defaulters, by 2014 Income Quintile

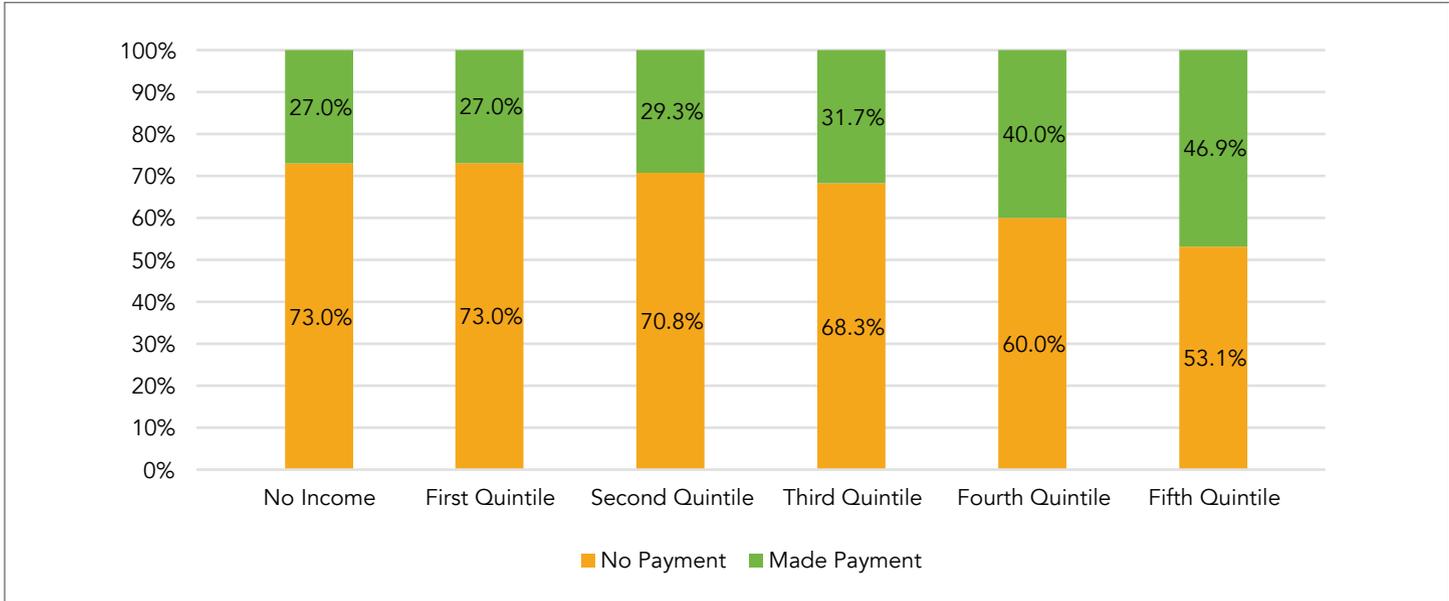
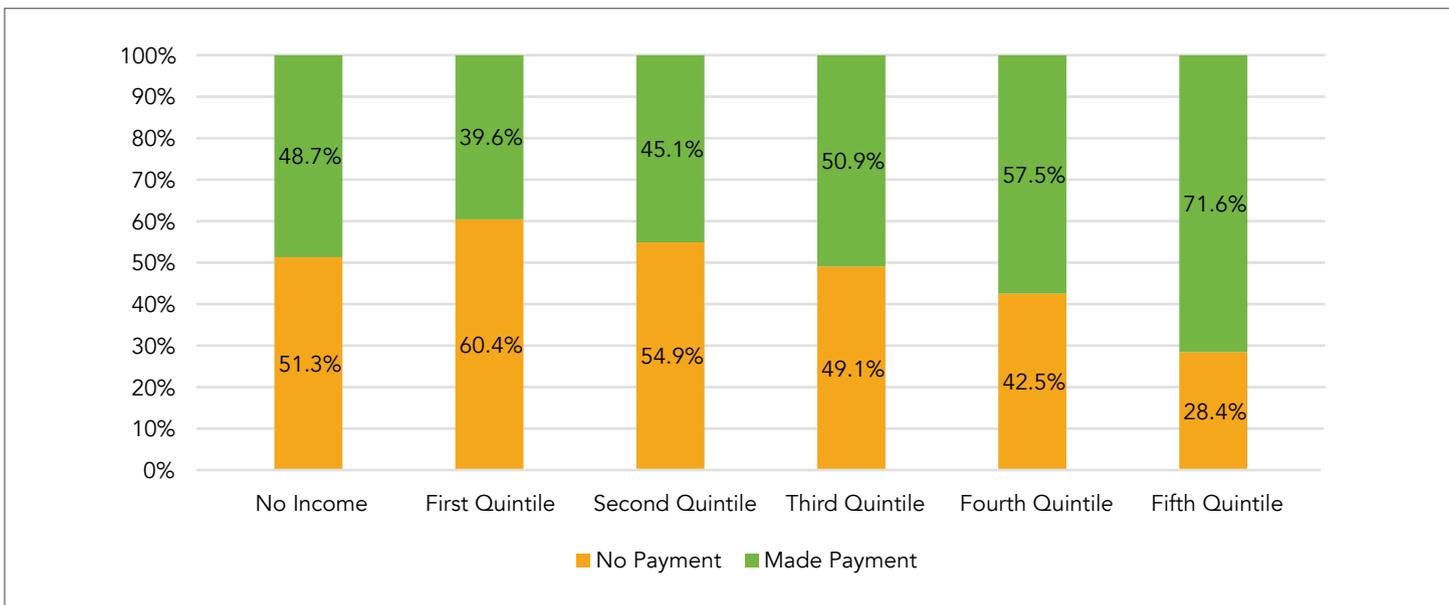


Figure 24: Payments Made by Louisiana Non-Defaulters, by 2014 Income Quintile



Source: Louisiana State Department of Labor and the National Student Loan Data System (NSLDS).



Implications

Federal student loan default has significant consequences for borrowers, colleges, communities, and the federal government. Conventional wisdom dictates that the more a person borrows, the more likely they would be to default, but that simply is not the case. Since we published *A Closer Look at the Trillion*, several reports have been published that confirm that low-balance borrowers are the ones who are at the highest risk for default. This report adds evidence to that body of research, using data from 21 community colleges in two states to illustrate the repayment trends of student loan borrowers.

Borrowers have a variety of repayment options available to them, and the data presented in this report illustrate that these options, as well as borrowers' incomes, are all pieces of the repayment puzzle. We observe that low-balance borrowers have the highest default rates, and that they also have the lowest median earnings across all borrowing groups. This factor, combined with their high usage rate of the Standard repayment plan, could contribute to their poor repayment outcomes. We also find correlations

between default and low earnings regardless of the amount borrowed. Borrowers with the lowest incomes used income-driven repayment plans at the lowest rates, even though they would qualify for these plans. Defaulters were also least likely to use postponements and to make payments, and those who fail to use interventions such as payments, postponements, and IDR plans had lower median earnings than those who did.

We must note that research conducted with institutional and state data can only go so far. In this paper, we present cross-tabulations and summary statistics only, so we can only guess as to the causes of delinquency and default. We could only access the federal data in this report through institutions, and it is difficult to match these data with student characteristics and earnings. Until the federal government conducts further research or makes NSLDS data available to the public, we will remain in the dark about why students – and low-balance borrowers in particular – default.

Recommendations for Federal Policy

While we cannot state with certainty why students are defaulting, we believe that there are common-sense policy reforms that can make federal education debt simpler to repay. In the following section, we present recommendations for federal policymakers interested in saving taxpayer dollars and improving the system for students. Institutions interested in improving their default rates can reference the recommendations shared in *A Closer Look at the Trillion* or ACCT's 2014 report, *Protecting Colleges and Students: Community College Strategies to Prevent Default*.

Simplify the repayment process.

Imagine you are a student who knows she borrowed a loan and is ready to begin repaying it. Hopefully, you have completed exit counseling, chosen a repayment plan, and received correspondence from your loan servicer about when your first payment is due. But imagine you did not complete all of those steps. First, you must figure out who your servicer is (using a Department of Education website for which you need a username and password). Then, you visit your servicer's website, for which you use a different username and password. You see that you have a bill due, but that your monthly payment is unaffordable. You can either visit the Office of Federal Student Aid's online Repayment Estimator or call your servicer, both of which will present you with a number of options, all with different monthly payment amounts, periods of time in repayment, and interest paid over the life of the loan. After discerning the "best" choice for your budget, which happens to be an income-driven plan, you must now submit a form that contains your income information. Hopefully you complete the form correctly and provide appropriate documentation, because otherwise the form will be

rejected (sometimes for unclear reasons), and you'll have to submit the application again. In the meantime, you're also developing an understanding of all the jargon related to borrowing, to which you've never been exposed before. Are you overwhelmed, yet?

Borrowing federal student loans means that borrowers take on the responsibility of repaying that debt. However, as long as federal student loans remain an entitlement, we must understand that borrowers are coming to the federal loan program with minimal experience with credit or borrowing, and that the process can be overwhelming even when it is straightforward. The process of paying student loans should be as borrower-friendly as possible, and the current system is too complex. We recommend that the Department of Education invest in a single payment portal for all student loan servicers, integrated within FSA's website, so a student can find out how much they borrowed, make payments, and apply for payment plans and postponements all in one place. When students do opt for an IDR plan, their income should be confirmed directly with the IRS and they should be automatically reconsidered each year. Policymakers could implement a policy in which borrowers are automatically enrolled in an IDR plan either upon entering repayment or when they pass a certain point of delinquency. These are common sense reforms that are, in part, possible through the procurement process laid out in 2016 by the Office of Federal Student Aid and the Obama Administration's Student Aid Bill of Rights. These reforms are vital to creating a borrower-centered repayment process that promotes efficiency and simplicity and as a result, will reduce defaults.

Improve borrowers' repayment plan options.

Repayment can also be made simpler by consolidating and simplifying the IDR plans. The choices currently provided are a result of additive policymaking and in this case, more is not better. When provided with nine different repayment plan options by FSA's Repayment Estimator (two of which are the same!), no good choice stands out amongst the noise.

Federal policymakers should also consider changing the terms of the Standard repayment plan, which currently requires borrowers to make a minimum monthly payment of \$50 regardless of how much they borrowed. For low-income individuals, this is simply unaffordable, and the complexity of applying for an IDR plan may discourage those who are unable to remain on a Standard plan. Instead of forcing low-balance borrowers to opt for the Graduated payment plan (which does not require an application, but may also become unaffordable as payments increase), ED must offer borrowers an option that better fits the budgets of low-income individuals and also mitigates the accrual of interest.

For each of these recommendations to work, FSA must conduct analyses, in cooperation with the Consumer Financial Protection Bureau, to provide students with options that are affordable and that allow borrowers to repay their debt in an appropriate timeframe.

Consider new policies for borrowers with low balances.

The high rate of default for low-balance borrowers is a policy problem that requires creative solutions. Interventions can be designed on the front end, to limit borrowing, or on the back end, to promote repayment. If policymakers want to limit lending to at-risk students, they could allow students access to a full year (or multiple years) of Pell Grant funds when they first enroll, precluding students from borrowing in the early stages of enrollment. If FSA is concerned about abuse of this system by colleges, they could hold colleges accountable that charge students high fees and have high first-term attrition rates. They could also implement a more gradual disbursement plan of student aid funds (typically referred to as "Aid Like a Paycheck"¹⁸) to reduce the likelihood of students enrolling only to receive federal aid dollars. These options can be explored via experimental sites, which have proven popular among many institutions, including community colleges.

If this policy is too drastic a departure from current practice, federal policymakers can also consider providing loan forgiveness based on a borrower's aggregate debt and the time spent in repayment. Instead of a blanket 20 or 25 years, borrowers with low-balances can be offered forgiveness after three or five years of active payments. With a closer finish line (and a simpler repayment system proposed in our first recommendation), low-balance borrowers may be encouraged to repay their loans on time.



Finally, FSA could remove default as a consequence altogether, or extend the time of nonpayment in order for borrowers to be classified as in default. This recommendation can be limited to low-balance borrowers (as their debt is a small proportion of the portfolio as a whole) or applied to the entire portfolio. The current 270-day default timeframe is arbitrary, and Congress could set out alternative specifications in legislation, including points in time when borrowers' earnings or tax refunds can be garnished to repay outstanding debt. This option would provide servicers with more time to work accounts, remove the need to hire and pay collection agencies, and would help reduce long-term negative consequences for borrowers.

Improve the servicing environment with a focus on borrowers.

While this paper does not focus on servicing, we believe that servicers are a key actor in preventing default. Currently, servicers are awarded accounts based on risk-adjusted performance metrics, which take into account when a borrower took out their loans and if they graduated. These metrics can be further adjusted to account for factors associated with default, such as the type of institution the borrower attended or the amount they borrowed. Servicers' performance can also be made more transparent. The Department of Education has started to publish more information disaggregated by servicer on the Federal Student Aid Data Center and should continue to add reports, including servicer-level default rates

for a given cohort year. This information will help to encourage a competitive servicing environment, which encourages servicers to invest resources in all borrowers to ensure they stay out of default. This competitive atmosphere can also be improved by removing servicer specialization, especially in regards to accounts for borrowers interested in Public Service Loan Forgiveness.

Revise accountability metrics to include contextual factors.

Many community colleges and other open access institutions are currently beholden to their default rate. With additional metrics being proposed and an increased interest in holding institutions accountable for unpaid loan balances, we must ensure that any metrics created take into account the student body at the institution. Cohort default rates should be indexed to the institution's borrowing rate (as proposed by The Institute for College Access and Success and supported by numerous membership organizations, think tanks, and researchers).¹⁷ Students who defaulted, but subsequently paid their debt in full, and those who rehabilitated defaulted loans, should not be counted as negative outcomes in metrics. Furthermore, policymakers should carefully consider how accountability metrics could affect different types of institutions, particularly public open access colleges, which provide access to postsecondary education to a high proportion of underrepresented and low-income students.



Improve transparency in the loan program.

There is too much that we do not know about federal student loan borrowing and repayment. While the FSA Data Center has grown in recent years, the information provided is difficult to disaggregate and compare, particularly by sector and type of borrower. A tool such as PowerStats, which was created by the National Center for Education Statistics (NCES) and allows users to run basic analyses of sample survey data, would be an ideal addition to the FSA Data Center. Not only would this tool improve transparency, it would stimulate research in the area of student loan borrowing and repayment, helping policymakers and the public better understand the system and what reforms are required for improvements to be made.

FSA could also make available a statistical abstract of the National Student Loan Data System, which is used to derive budget estimates and has been the foundation of at least two reports on student loans.¹⁹ NCES has provided restricted-use data to researchers for decades without a security breach, and could be a valuable partner in offering FSA guidance on this matter. Only with better information can our policies – and students’ outcomes – improve.

Appendix A: Summary Statistics

Data Category	Iowa				
	All Borrowers		Defaulters		Default Rate
	Number	Percent	Number	Percent	
All Borrowers	27,675	100.0%	7,680	100.0%	27.8%
Gross Debt					
Less than \$5,000	10,475	37.9%	3,318	43.2%	31.7%
\$5,000 - \$9,999	9,412	34.0%	2,566	33.4%	27.3%
\$10,000 - \$14,999	4,095	14.8%	930	12.1%	22.7%
\$15,000 - \$19,999	1,869	6.8%	392	5.1%	21.0%
\$20,000 +	1,824	6.6%	474	6.2%	26.0%
Loan Type					
DL Only	20,186	72.9%	5,892	76.7%	29.2%
FFEL Only	5,187	18.7%	1,281	16.7%	24.7%
DL and FFEL	2,302	8.3%	507	6.6%	22.0%
Repayment Plan					
Standard	20,684	74.7%	7,134	92.9%	34.5%
Income Driven	1,984	7.2%	63	0.8%	3.2%
Graduated	2,639	9.5%	342	4.5%	13.0%
Other	2,368	8.6%	141	1.8%	6.0%
Payments					
No Payment	11,179	40.4%	5,115	66.6%	45.8%
Payment Made	16,496	59.6%	2,565	33.4%	15.5%
Postponements					
Deferment and Forbearance	10,511	38.0%	1,418	18.5%	13.5%
Deferment Only	1,785	6.4%	277	3.6%	15.5%
Forbearance Only	5,280	19.1%	1,493	19.4%	28.3%
No Postponement	10,099	36.5%	4,492	58.5%	44.5%
Source: National Student Loan Data System.					

Kentucky					Louisiana				
All Borrowers		Defaulters		Default Rate	All Borrowers		Defaulters		Default Rate
Number	Percent	Number	Percent		Number	Percent	Number	Percent	
25,799	100.0%	8,845	100.0%	34.3%	11,111	100.0%	2,789	100.0%	25.1%
9,496	36.8%	3,736	42.2%	39.3%	5,375	48.4%	1,543	55.3%	28.7%
7,830	30.4%	2,789	31.5%	35.6%	3,088	27.8%	769	27.6%	24.9%
3,644	14.1%	1,059	12.0%	29.1%	1,172	10.5%	216	7.7%	18.4%
2,212	8.6%	613	6.9%	27.7%	660	5.9%	125	4.5%	18.9%
2,617	10.1%	648	7.3%	24.8%	816	7.3%	136	4.9%	16.7%
19,915	77.2%	7,675	86.8%	38.5%	9,682	87.1%	2,578	92.4%	26.6%
1,465	5.7%	233	2.6%	15.9%	464	4.2%	72	2.6%	15.5%
4,419	17.1%	937	10.6%	21.2%	965	8.7%	139	5.0%	14.4%
17,045	66.1%	7,921	89.6%	46.5%	7,657	68.9%	2,534	90.9%	33.1%
4,366	16.9%	247	2.8%	5.7%	1,630	14.7%	44	1.6%	2.7%
2,348	9.1%	488	5.5%	20.8%	1,161	10.4%	166	6.0%	14.3%
2,040	7.9%	189	2.1%	9.3%	663	6.0%	45	1.6%	6.8%
12,976	50.3%	6,307	71.3%	48.6%	5,843	52.6%	1,917	68.7%	32.8%
12,823	49.7%	2,538	28.7%	19.8%	5,268	47.4%	872	31.3%	16.6%
10,392	40.3%	1,685	19.1%	16.2%	5,578	50.2%	615	22.1%	11.0%
711	2.8%	134	1.5%	18.8%	261	2.3%	35	1.3%	13.4%
8,151	31.6%	2,723	30.8%	33.4%	3,404	30.6%	1,003	36.0%	29.5%
6,545	25.4%	4,303	48.6%	65.7%	1,868	16.8%	1,136	40.7%	60.8%



Appendix B: Data and Methodology

These analyses were initiated by the leadership of the Louisiana Community and Technical College System and the Kentucky Community and Technical College System, who were interested in answering specific questions about loan repayment and default in the context of their states and systems. Although we find similar trends across these systems and with the community colleges in Iowa, neither this analysis nor our cohorts are intended to represent all community colleges or their borrowers.

Most data in this report are from the National Student Loan Data System (NSLDS), the central database for administering federal loans and most federal grants. We used one type of institutionally-generated NSLDS report, the School Portfolio Report (SPR), to conduct analyses. The SPR gives a current view of the repayment status of loans associated with the school. The institution may choose a date range for the SPR that maps to the time period in the denominator of the cohort default rate, allowing it to gauge its performance on this measure and to help students who may be struggling to repay. The SPR reflects the current status of borrowers, so the data in our report differs from the results of published FY2013 cohort default rates.

The SPR does not capture all debt for a borrower. It does not include Perkins Loans or debt originated at institutions other than the institution requesting the report, except in the case of consolidation loans that pay off debt from multiple institutions. For those borrowers, the debt borrowed from the institution and the consolidation loan will be displayed, but not the loan information from other institutions.

In Louisiana, financial aid offices at the five colleges with data (Baton Rouge Community College, Bossier Parish Community College, Delgado Community College, Nunez Community College, and River Parishes Community College) sent the SPR via secure File Transfer Protocol (sFTP) to the LCTCS system office, which submitted borrowers' information to the state's Department of Labor in order to match income records. Data were deidentified and sent to ACCT via sFTP. In Kentucky, the system collected aggregate information from its colleges and transferred the information to ACCT via sFTP. ACCT then downloaded, merged, and cleaned the files in order to perform the analyses in this report.

Analysis and Assumptions

To appropriately synthesize complex federal loan data and compare our analyses to those we performed in Iowa, we aggregated several data elements and performed calculations based on information provided by NSLDS guides and advice from financial aid experts. While we attempted to use as few assumptions as possible, those we did make are outlined in this section.

- **Amount Borrowed:** This field was derived by summing all loan amounts associated with a student, excluding consolidation loans, cancelled loans, and Parent PLUS loans. Debt underlying consolidation loans is captured. If a student enrolled at more than one community college, his or her debt is the sum of loans from all community colleges attended. If borrowers have debt that went into repayment in a different fiscal year or that was borrowed at another institution, it would not be counted in our analyses because it is not included on the SPR.
- **Loan Type.** Loans are classified as Direct Loans or FFELP Loans based on their loan type. It is not appropriate to classify loans as DL or FFELP based on their servicer, as some FFELP loans were repurchased by the Department of Education and are serviced by federal contractors but are still governed by FFELP terms and conditions.
- **Loan Status.** Loan statuses in this report are grouped into categories for ease of interpretation. The grouped categories were defined as follows:
 - *Default.* Students were counted as defaulters if their current loan status was one of the following: Defaulted, Unresolved (DU or DF); Defaulted, Six Consecutive Payments (DX); Defaulted, Six Consecutive Payments, Then Missed Payments (DZ); Defaulted, Then Bankrupt, Active, Other (DO); Defaulted, Then Bankrupt, Active, Chapter 13 (DB); Defaulted, Compromise (DC); Defaulted, then Died (DD); Defaulted, Then Paid in Full by Consolidation (DN); Defaulted, Paid in Full (DP); Defaulted, Then Disabled (DS), Defaulted, Write-Off (DW), and Defaulted, Then Bankrupt, Discharged; Chapter 13 (DK). If the student had multiple loan statuses but one of the statuses qualified as a default, the student was considered a defaulter. Although not all these statuses are included in the CDR numerator, we wanted to quantify the number of borrowers who experience default, even if the debt is discharged at a later date.
 - *Discharged.* Students whose debt has been discharged or is pending discharge due to an extenuating circumstance were grouped into this category. Statuses included were Death (DE), Disability (DI), Bankruptcy, Active (BK), Disabled Veteran Discharge (VA), and Permanent Disability (PD).
 - *Other.* Other encompasses a broad range of grouped statuses with a small number of borrowers.

- **Repayment Plans.** The monthly payment plan borrowers used was also grouped for ease of interpretation. They are defined as follows:
 - *Standard.* These repayment plans include the Consolidation Standard (CS); Fixed, Fixed (FF); and Standard (SF) repayment plans, which all encompass a ten year, fixed payment timeframe.
 - *Income-Driven.* Borrowers with a repayment plan of Income Contingent (C3); Income-Based, Hardship (IB); Income Contingent (IC); Income-Based, No Hardship (IL); Income Sensitive (IS); Pay As You Earn – No Hardship (P1); Pay As You Earn – Hardship (PA); and Revised Pay As You Earn (I5), were included in this group.
 - *Graduated.* The Consolidation Graduated (CG); Graduated (GR); and Graduated 10-year (SG) plans are included in this group, represents fixed-term graduated repayment plans.
 - *Other.* This group encompasses all Alternative and Extended repayment plans. The Extended Graduated plan is included because extended repayment prolongs the repayment term of the loan and therefore the potential for accrued interest, which is a key feature of extended repayment plans.
- **Postponements.** We define a postponement as a deferment or forbearance of any type. The SPR only captures the most recent deferment or forbearance type, so borrowers categorized as using a discretionary forbearance may have used a mandatory forbearance at an earlier date, but it is not captured in our data. While most servicers report deferment information to NSLDS, it is not a required field and therefore may be underestimated.

- **Payments.** We counted borrowers as having made a payment if they had any date recorded in the “last payment date” field of the SPR. FFELP servicers are not required to report this field (though some do in our data), so payment rates may be underestimated. However, more than 95 percent of loans in all three states were serviced by federal entities, which gives us increased confidence in our analyses.
- **Income.** Earnings data from Louisiana were missing for 149 students, who were excluded from the analyses in that section.
 - *Income Consistency.* This was derived from the number of quarters per year that a borrower had \$0 income. Borrowers with zero quarters with \$0 income are coded as full-year earners for each year 2012-15.
 - *Income Quintiles:* These were calculated for each year of data based on original wage data. Borrowers with \$0 for the year were excluded from quintiles and are considered separately in analyses.

Limitations

While we were careful in our interpretation of the data, it is worth noting that we cannot make causal claims based on our analysis, nor can our analysis be generalized to all community college students. While this report discusses the “what,” it is difficult to arrive at the “why.” Some trends seem prevalent across the sector, and it is the responsibility of institutions to examine their own data to determine if our conclusions are relevant their student bodies. While NSLDS data are used to administer the student loan program, reporting errors and inconsistencies are bound to occur, and we did our best to mitigate conflicting information. Additionally, state-level income information is incomplete, and may underestimate wages, particularly in certain fields. We attempted to use the best data possible, to limit our assumptions and imputations, and consulted with the body of research to ensure we provided sound analyses.

Appendix C: Glossary

1. **Cohort Default Rate (CDR)** – The percentage of an institution’s borrowers who enter repayment on one or more federal student loans in a given federal fiscal year (October 1 to September 30) and default on one or more of those loans within three years. The U.S. Department of Education releases official cohort default rates once per year. If an institution’s CDR is above 30% for three years or above 40% for one year, the institution loses its Title IV aid eligibility.
2. **Default** – A federal student loan that has not been paid in 270 or more days is considered “in default.” These loans are typically transferred to Debt Management and Collection Services (DMCS) by the time they are 360 days overdue.
3. **Defaulter** – A student with one or more Title IV loans in default. Defaulters are counted in the numerator and denominator of an institution’s CDR.
4. **Deferment** – A temporary postponement of payments where interest does not accrue on subsidized loans. Deferments may be granted when a student re-enrolls in school, when they enter the military, or when the student experiences short-term unemployment.
5. **Direct Loan (DL) Program** – The William D. Ford Federal Direct Loan Program allows students and parents to borrow directly from the U.S. Department of Education. Direct Loans include Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans; Federal Perkins Loans are not part of the Direct Loan Program.
6. **Federal Family Education Loan Program (FFELP)** – This program allowed private lenders to provide loans to students that were guaranteed by the federal government. This program stopped making new loans in 2010. While some FFELP loans were purchased by the U.S. Department of Education, many students still have FFELP loans that they repay to private lenders. Although many of the terms and conditions of FFELP loans and Direct Loans are the same, borrowers with FFELP loans are not able to take advantage of certain new loan programs, such as Income-Based Repayment (IBR). FFELP borrowers may consolidate their loans under the Direct Loan program at any time.
7. **Forbearance** – A temporary postponement or reduction of payments typically granted in the case of financial hardship. During forbearance, interest continues to accrue on all loans and the interest that accrues is added to the principal of the loan when the forbearance ends.
8. **Free Application for Federal Student Aid (FAFSA)** – A form students complete annually to determine their eligibility for Title IV aid. The FAFSA generates an expected family contribution (EFC), which may also be used by state aid programs and institutions in determining eligibility for other types of aid (such as state or institutional grants).
9. **Guaranty Agency** – A state or private nonprofit organization that administers a loan on behalf of the Department of Education.

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10. **Income-Driven Repayment (IDR)** - Any federal repayment plan in which borrowers' monthly payments are capped at a specified percentage of discretionary income. These plans require an application and approved borrowers must recertify their incomes each year.
 11. **Lender** – An organization that makes an education loan.
 12. **Low-balance borrower** – A student loan borrower with less than \$5,000 in federal education debt.
 13. **National Student Loan Data System (NSLDS)**
– The U.S. Department of Education's central database for student aid recipients. NSLDS contains award-level data on students who receive most Title IV loans and grants. Institutions, guaranty agencies, lenders, servicers, and students provide the data in NSLDS. Institutions use the system as a centralized source of data on federal aid receipt, which allows them to determine aid eligibility, assess portfolio performance, and conduct default management. Borrowers may use the NSLDS Student Access portal to obtain more information about the federal loans and Pell Grants they received while enrolled.
 14. **Pell Grant** – A federal program that provides need-based grants to low-income undergraduates and certain post-baccalaureate students. Grant amounts depend on the student's expected family contribution (EFC) and whether the student attends for a full academic year or only part of the year.
 15. **Postponement** - A deferment or forbearance used to delay payments on student loans.
 16. **Repayment plan** – An arrangement made between a borrower and servicer to pay off the balance of a loan. While there are several pre-defined repayment plans available to federal loan borrowers, they may also negotiate an alternative repayment plan with their servicer.
 17. **Servicer** – An entity that administers the billing and other services related to borrower accounts of federal student loans. Servicers also report the bulk of borrower repayment information to NSLDS.
 18. **Title IV** – A section of the Higher Education Act that defines student financial aid programs and eligibility. A student who receives federal student aid may be described as a "Title IV recipient" and an institution that has been approved to disburse federal financial aid is termed "Title IV eligible."

Endnotes

- 1 Estimates range from 17 percent (IPEDS, 2014-15) to 22 percent (Digest of Education Statistics, 2011-12). See https://nces.ed.gov/programs/digest/d15/tables/dt15_331.90.asp?current=yes.
- 2 In addition to the plans described in the text, borrowers may also elect a Fixed or Graduated Extended Plan, or an Alternative plan where payments are mutually agreed upon by the borrower and their servicer.
- 3 Although PAYE has the same specifications as IBR for New Borrowers, is presented as a separate option on FSA's Repayment Estimator Tool and is therefore counted as a separate option in this paper.
- 4 As only Direct Loans are made to new borrowers, Income-Sensitive Repayment is not an option for new borrowers (as it is only for FFEL Loans) and Alternative is not listed as an option for any borrowers.
- 5 Hoblitzell, B., Foss, I., & Weigle, D. (December 2015). Public Service Loan Forgiveness. Presentation delivered at the 2015 Federal Student Aid Training Conference, Las Vegas, NV. Presentation slides available at: <http://fsaconferences.ed.gov/2015sessions.html>.
- 6 Authors' calculations using U.S. Department of Education, Office of Federal Student Aid (December 31, 2016). Servicer Portfolio by Repayment Plan. Retrieved from <https://studentaid.ed.gov/sa/about/data-center/student/portfolio>.
- 7 C Looney, A. & Yannellis, C. (Fall 2015). How changes in the characteristics of borrowers and in the institutions they attended contributed to rising loan defaults. Brookings Papers on Economic Activity. Retrieved from: <https://www.brookings.edu/wp-content/uploads/2015/09/LooneyTextFall15BPEA.pdf>. and Executive Office of The President of the United States: Council of Economic Advisers (2016). Investing in Higher Education: Benefits, Challenges, and the State of Student Debt. Retrieved from: https://www.whitehouse.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf
- 8 Executive Office of The President of the United States: Council of Economic Advisers (2016). Investing in Higher Education: Benefits, Challenges, and the State of Student Debt. Retrieved from: https://www.whitehouse.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf
- 9 These rates capture individuals who make less than the federal poverty line (\$24,440) for a family of four in 2015. All data from TalkPoverty.org, published by the Center for American Progress.
- 10 The Institute for College Access and Success (June 2016). States of Denial: Where Community College Students Lack Access to Federal Student Loans. Retrieved from: http://ticas.org/sites/default/files/pub_files/states_of_denial.pdf.
- 11 Across all states and default statuses, in-school deferments accounted for 70 to 80 percent of deferments used.
- 12 Zinn, R. (May 2016). Classroom to Career: Leveraging Employment Data to Measure Labor Market Outcomes. Envisioning the National Postsecondary Data Infrastructure in the 21st Century. Retrieved from: http://www.ihep.org/sites/default/files/uploads/postsecdata/docs/resources/leveraging_employment_data_0.pdf

- 13 This effect is well-documented for Bachelor's degree recipients but is also present for those with associate's and certificates. See: Carnevale, A.P., Cheah, B., & Hanson, A.R. (2015). *The Economic Value of College Majors*. Georgetown Center on Education and the Workforce. Retrieved from: <https://cew.georgetown.edu/wp-content/uploads/The-Economic-Value-of-College-Majors-Full-Report-web-FINAL.pdf> and Hershbein, B. & Kearney, M. (2015). *Major Decisions: What Graduates Earn Over their Lifetimes*. The Hamilton Project, Brookings Institution. Retrieved from: http://www.hamiltonproject.org/assets/legacy/files/downloads_and_links/Major_Decisions_Lifetime__Earnings_by_Major.pdf and the accompanying tool, *Career Earnings by College Major*: http://www.hamiltonproject.org/charts/career_earnings_by_college_major/.
- 14 U.S. Census Bureau. 2011-2015 American Community Survey 5-Year Estimates Table B20004: Median earnings in the past 12 months (in 2015 inflation-adjusted dollars) by sex by educational attainment for the population 25 years and over. Retrieved from: https://factfinder.census.gov/bkmk/table/1.0/en/ACS/15_5YR/B20004/0400000US22.
- 15 U.S. Census Bureau. 2011-2015 American Community Survey 5-Year Estimates Table S1701: Selected characteristics of people at specified levels of poverty in the past 12 months. Retrieved from: https://factfinder.census.gov/bkmk/table/1.0/en/ACS/15_5YR/S1701/0400000US22.
- 16 U.S. Census Bureau. 2011-2015 American Community Survey 5-Year Estimates Table B20004: Median earnings in the past 12 months (in 2015 inflation-adjusted dollars) by sex by educational attainment for the population 25 years and over. Retrieved from: https://factfinder.census.gov/bkmk/table/1.0/en/ACS/15_5YR/B20004/0400000US22.
- 17 The Institute for College Access and Success (April 26, 2013). *Using a Student Default Risk Index (SDRI) to Improve Institutional Accountability and Reward Colleges*. Retrieved from: http://www.ticas.org/sites/default/files/pub_files/Student_Default_Risk_Index.pdf.
- 18 For more information, see MDRC: <http://www.mdrc.org/project/aid-paycheck#overview>.
- 19 Looney, A. & Yannellis, C. (Fall 2015). *How changes in the characteristics of borrowers and in the institutions they attended contributed to rising loan defaults*. Brookings Papers on Economic Activity. Retrieved from: <https://www.brookings.edu/wp-content/uploads/2015/09/LooneyTextFall15BPEA.pdf>, and Executive Office of The President of the United States: Council of Economic Advisers. (2016). *Investing in Higher Education: Benefits, Challenges, and the State of Student Debt*. Retrieved from: https://www.whitehouse.gov/sites/default/files/page/files/20160718_cea_student_debt.pdf

