



# Delinquency: The Untold Story of Student Loans

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PRESENTED BY  
Institute for Higher Education Policy

# ABOUT IHEP

- Independent, non-profit organization whose mission is to increase college access and success in postsecondary education around the world through unique research and innovative programs
- Committed to equal opportunity for ALL, with a special emphasis on historically underrepresented populations, such as low-income, minority, and first-generation college students
- Primary audiences for IHEP are those who make or inform decisions about higher education: policymakers, senior institutional leaders, researchers, funders, private sector leaders, and the media
- Key activities include policy research reports and studies, seminars and convenings, network- and capacity- building efforts, as an intermediary for various organizations

# Context

- Student loans are increasingly used to access college
  - 35% of UGs took out federal loan in 2009-10, an increase from 23% in 1999-2000
- As the price of college has increased, loan indebtedness has risen
  - Average total debt for BA recipients who borrowed was \$20,300 at public 4-years, \$25,900 at private non-profit 4-years
- So have delinquencies and defaults – 2-year cohort default rate was 7% in 2008, up from 4.5% in 2003
  - Differs by institution type, and 3-year rates are higher
- Delinquency and default on federal student loans will have negative impacts on students' credit ratings and ability to obtain future financing

# Purpose of Study

- Get beyond the dichotomy of *default vs. everyone else*
- Provide a snapshot of borrowers who
  - Repay their student loans on schedule
  - Use federal repayment options to postpone payments and avoid delinquency
  - Become delinquent but do not default
  - Default
- Explore differences in repayment status by graduation status, last institution type attended, and other factors

# Data and Characteristics

- Data from five national guaranty agencies
- Started repayment between October 1, 2004 and September 30, 2009 but analysis focused on borrowers who started repayment in 2005
- Overall, the data represent 8.7 million undergraduate and graduate borrowers, nearly 27.5 million loans, and \$148 billion in loan activity
- The 2005 cohort comprises 1.8 million borrowers, over 6 million loans, and \$38 billion in loan activity

# Borrower Repayment Status

Detailed loan status (2005 cohort)	Percentage distribution	Number of borrowers	Total loans (in billions)
Timely repayment	37%	667,000	\$13.4
Deferment , in-school enrollment *	7%		
Deferment , economic hardship *	4%	400,000	\$13.7
Forbearance only	6%		
Forbearance and deferment	6%		
Delinquency only	5%		
Delinquency and deferment	5%		
Delinquency and forbearance	8%	454,000	\$8.5
Delinquency/deferment/forbearance	8%		
Default	15%	258,000	\$3.2

\* An estimated two-thirds of borrowers deferred as in-school deferment, with the remaining due to economic hardship. Based on estimates from three out of the five guarantors.

# Loan Status by Institution Type

Percentage distribution of 2005 borrowers' loan status by last institution attended

Loan status (2005 cohort)	Public 4-year	Private np 4-year	Public 2-year	For-profit 4-year	For-profit 2-year
Timely repayment	45%	53%	24%	35%	32%
Deferment/Forbearance	21%	20%	16%	12%	5%
Delinquency, no default	24%	20%	36%	29%	27%
Default	10%	8%	24%	24%	36%
Total	315,300	278,400	172,300	171,500	143,800

Note: Does not include borrowers with consolidation loans.

# Loan Status by Highest Grade Level

Percentage distribution of 2005 borrowers' loan status by highest grade level attained

	First year	Second year	Third year	Fourth year	Fifth year	Graduate student
Timely repayment	26%	34%	43%	52%	50%	58%
Deferment/forbearance but not delinquent	10%	16%	20%	21%	21%	22%
Delinquent but not defaulted	30%	39%	27%	21%	22%	16%
Default	34%	18%	11%	6%	6%	3%
Total	100%	100%	100%	100%	100%	100%

Note: Does not include borrowers with consolidation loans.



# Loan Status by Selected Characteristics

- Age is related to the likelihood of becoming delinquent
  - Almost 60% of borrowers under 21 were delinquent at some point.
  - Older borrowers were less likely to become delinquent; 33% for those 45 and older.
- Borrowers who were delinquent had fewer loans and lower loan amounts
  - Undergraduates averaged about 3 loans; graduate students averaged 5 loans
  - Borrowers who defaulted tended to have the fewest loans; borrowers who did not default and were not delinquent but used forbearance tended to have more loans

Note: Does not include borrowers with consolidation loans.

# Loan Status by Graduation

Percentage distribution of 2005 borrowers' loan status by highest grade level attained

Loan status (2005 cohort, undergraduates)	Left without credential	Graduated	All undergraduate borrowers
Timely repayment	26%	48%	35%
Deferment/Forbearance	15%	14%	15%
Delinquency, no default	33%	22%	28%
Default	26%	16%	21%

Note: Does not include borrowers with consolidation loans.

# What Can We Learn?

- More than a third were repaying on time, while almost a quarter used repayment options to avoid delinquency
- More than a quarter were delinquent but did not default
  - For every default, there are at least two borrowers who are delinquent but do not default
- When taking defaulters into account, two in five were delinquent at some point
- Borrowers who attended 4-year institutions and those who graduated with a credential were less likely to be delinquent

# Reframing the Debate

- Current focus on default rates does not fully capture the extent of borrowers' difficulties in repaying student loans
- Questions to guide policymakers
  - With short-term solutions such as deferment and forbearance available, why do borrowers become delinquent?
  - Can we provide information about repayment options in a more targeted and timely way?
  - Is there a better way to track students who are experiencing difficulties with loan repayment?
  - Whose responsibility is it to provide information and assistance?



# Contacts

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# *Delinquency: The Untold Story of Student Loans*

Debra J. Chromy, Ed.D.  
Vice President Strategic Partnerships

Presentation at the College Board 2012 New England Regional Forum

January 31, 2012

# American Student Assistance

- FFELP Guarantor
  - Created in 1956
  - Boston-based; national guarantor
  - Lender-held Loan Portfolio
    - 1.4 million borrowers
    - \$38 billion in guaranteed loans
- Original VFA guarantor
  - Focus on proactive Education Debt Management
  - Averted \$122M in defaults

# American Student Assistance

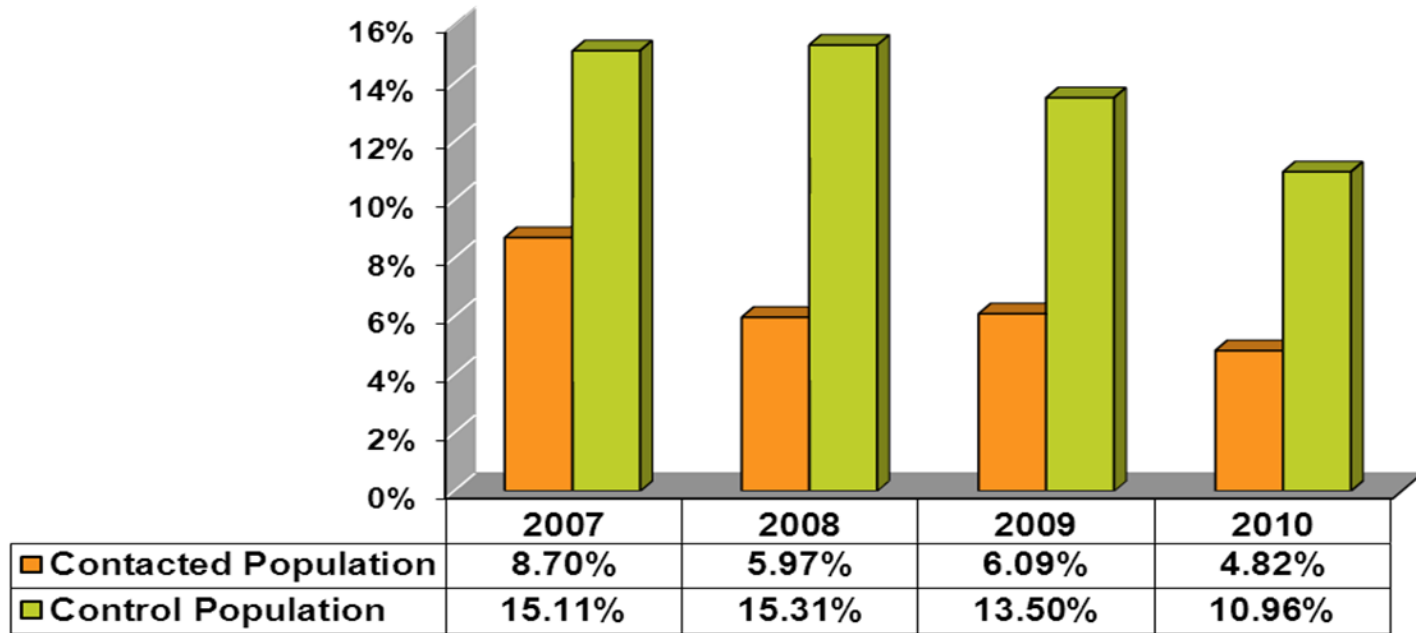
- Lender-held Loan Portfolio (September 2011)

Status	%
In-School	1%
Grace Period	1%
Repayment (current)	80%
Deferment	9%
Forbearance	3%
Delinquent	6%



# ASA Wellness Activities: Measuring Success

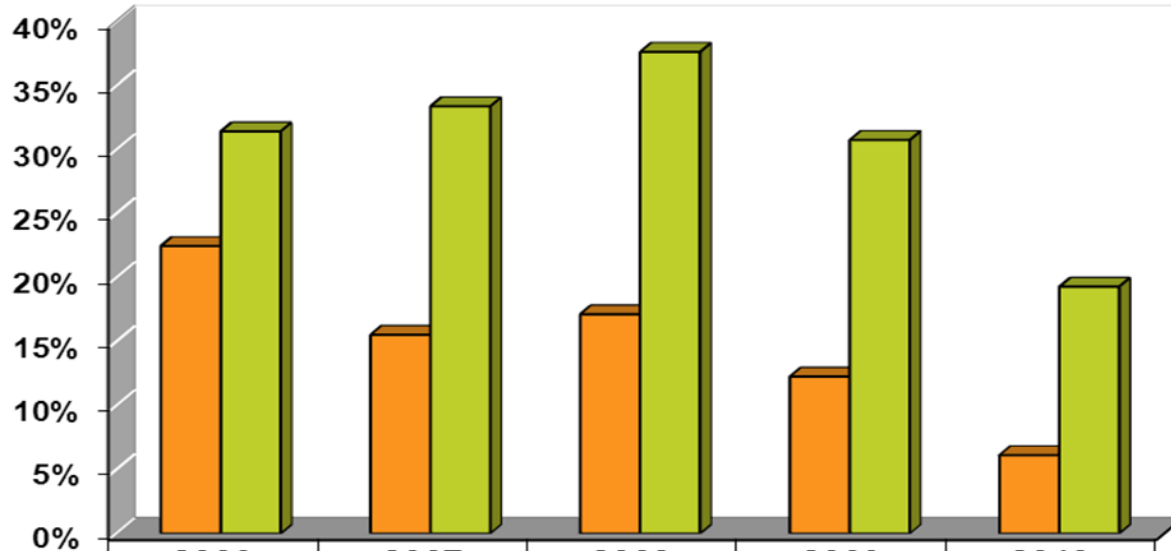
*Journeys Delinquency Rates\**



\**Journeys* targets new graduates entering repayment. This data highlights the impact early outreach (contacting borrowers during their grace period, prior to the start of repayment) has on the rate of delinquency. Delinquency rates are 50% lower for those borrowers we are able to make contact with (engage in communication). Delinquency Rate refers to borrowers having at least one delinquency filing within 1 year of the communication launch. Control population refers to borrowers that weren't sent any communication material and no attempt to contact.

# ASA Wellness Activities: Measuring Success

*Transitions* Delinquency Rates

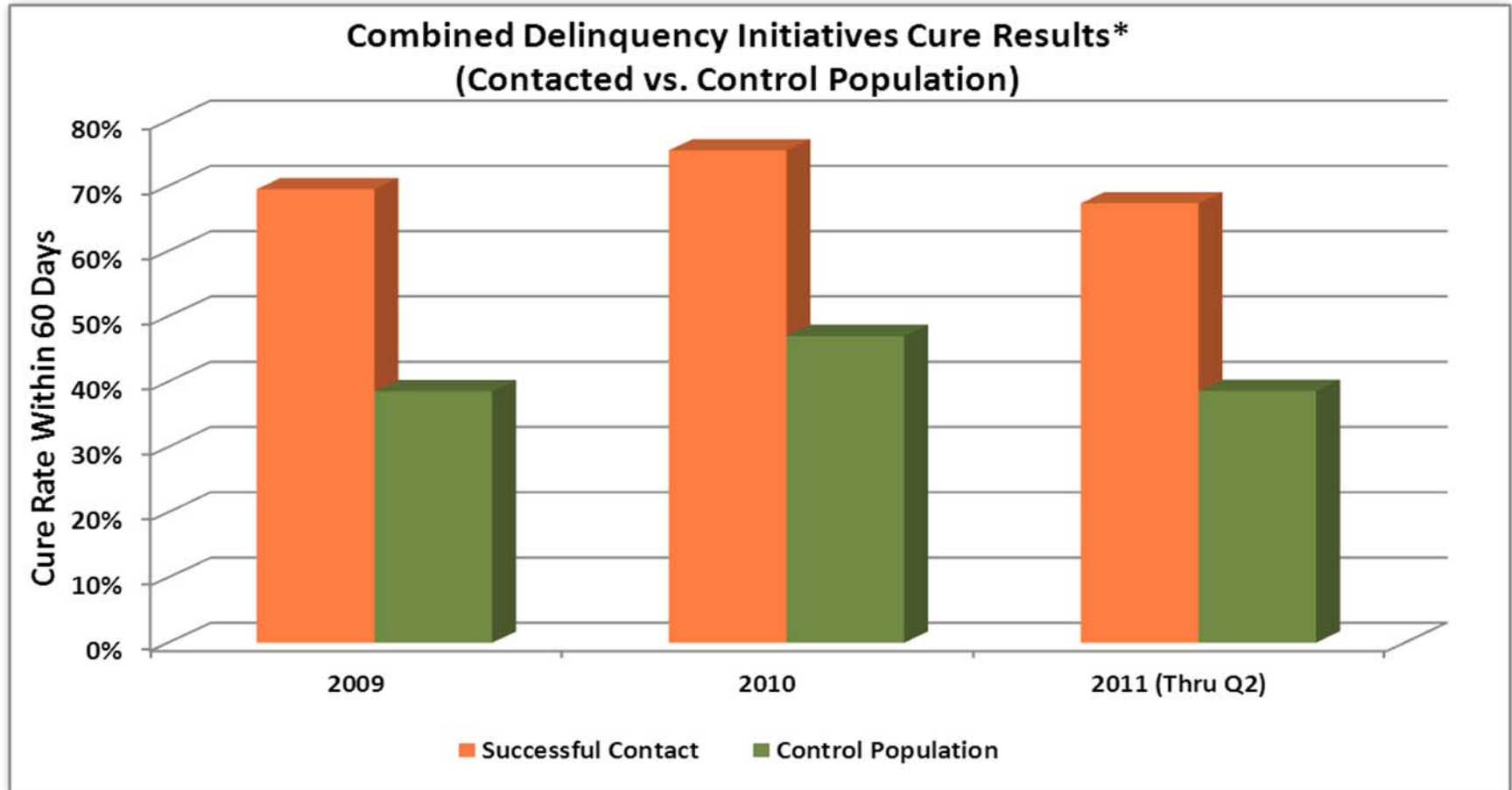


	2006	2007	2008	2009	2010
Contacted Population	22.46%	15.53%	17.13%	12.25%	6.12%
Control Population	31.42%	33.38%	37.64%	30.75%	19.28%

FFY of Communication Instance Launch

*Transitions* program targets withdrawn borrowers entering repayment. This data highlights the impact of outreach to borrowers who have withdrawn (did not complete their program/graduate) from school on the rate of delinquency. Delinquency rates are more than 50% lower for those borrowers we are able to make contact with (engage in communication). Delinquency Rate refers to borrowers having at least one delinquency filing within 1 year of the communication launch. Control population refers to borrowers that weren't sent any communication material and no attempt to contact.

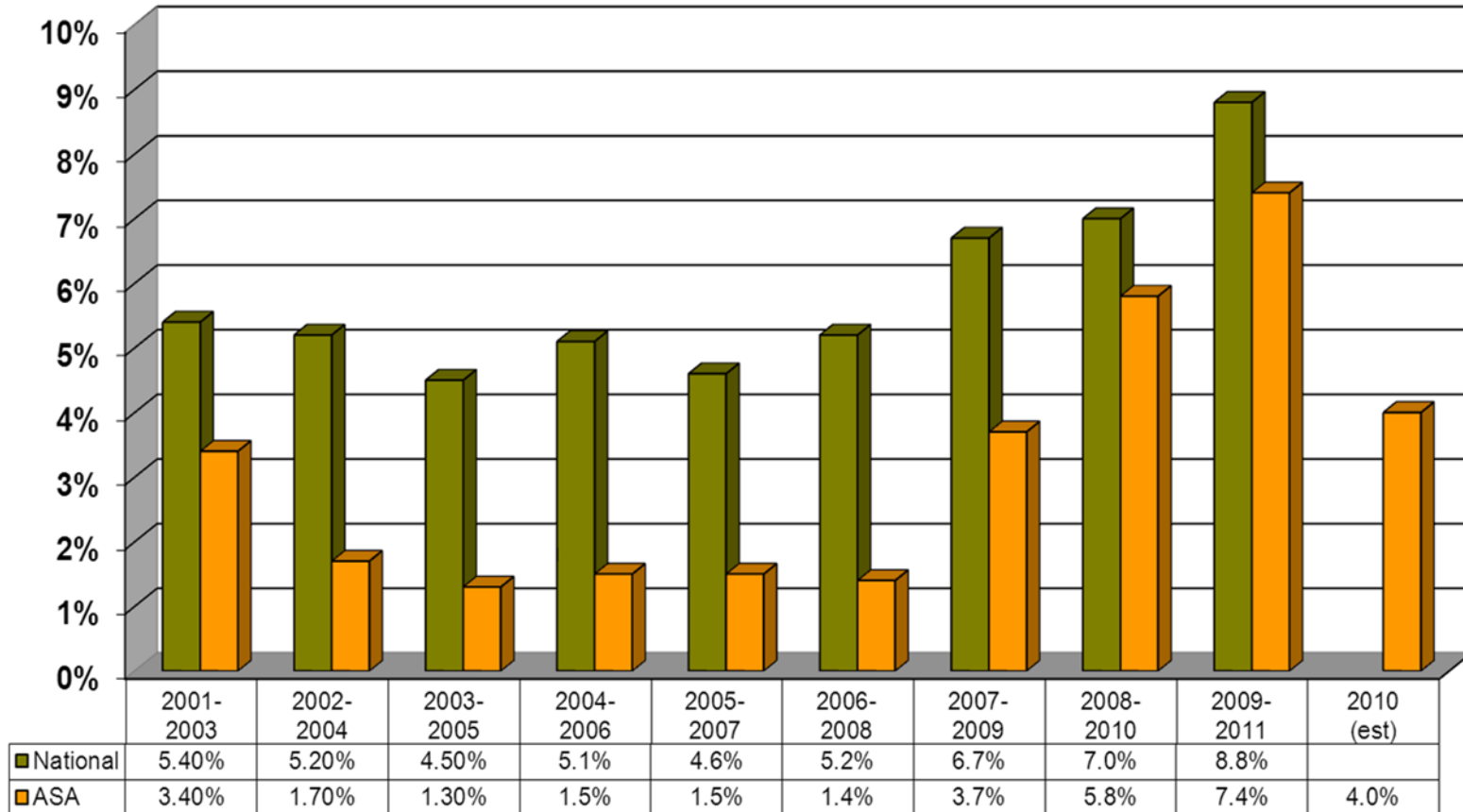
# ASA Wellness Activities: Measuring Success



Our efforts to engage borrowers with repayment problems helps reduce delinquency and contain defaults. Contacted borrowers show higher and faster rates of cure.

# Measuring Success – Key Portfolio Indicators

## ASA vs. National Cohort Default Rate



ASA's Cohort Default Rate has often been among the lowest in the nation, and during the term of our prior Voluntary Flexible Agreement (VFA) beat the national rate by an average of more than 50%. We believe our focus on getting borrowers off to a good start, with targeted, proactive communication and contact in the early stages of repayment, helps drive this success.

# Summary

What ASA has learned:

- Debt Management is a “contact sport”
- Communications must be customized
- The “right message at the right time”
- Effective outreach and communication can lower delinquency and default rates

Why this is important:

- Outstanding Education Debt is approaching \$1 Trillion
- \$9.2 Billion in student loans defaulted in FY09

# Contacts

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Web link to the report:

[www.asa.org/pdfs/corporate/delinquency\\_the\\_untold\\_story.pdf](http://www.asa.org/pdfs/corporate/delinquency_the_untold_story.pdf)

# Struggling Student Loan Borrowers

## The Institutional Perspective

Scott R. James, Ed.D.

Associate Vice President for Enrollment Management

# Institutional Profile

- Located in Salem, MA
  - 15 miles north of Boston
- Comprehensive regional teaching university
  - Biggest programs are Nursing, Education, Social Work, Biology, Criminal Justice and Business
- Total Enrollment of 10,000
  - 6,000 FT undergraduates
  - 1,500 continuing education undergraduates
  - 2,500 graduate students



# Full-time Undergraduates

- 33% live on campus
  - 70% of first-time freshmen
- 85% receive financial assistance
- 68% receive loans
- 50% of population are transfer students
- 22% students of color

# Academic Profile

- First-time freshmen
  - 3.1 high school GPA
  - 1000 combined Math and Critical Reading
- Transfers
  - 3.0 transfer GPA
  - 60% come from community colleges

# Default Rates

Year	Default Rate
2006	4%
2007	6.6%
2008	6.4%
2009	6.9%

# Response to Delinquency

- Limited resources
  - Focus is on currently enrolled students
- Partnerships are critical
  - American Student Assistance
    - Formerly as a guarantor
    - SALT