

Loan burdens and defaults: Failure of the repayment system or failures in accountability?

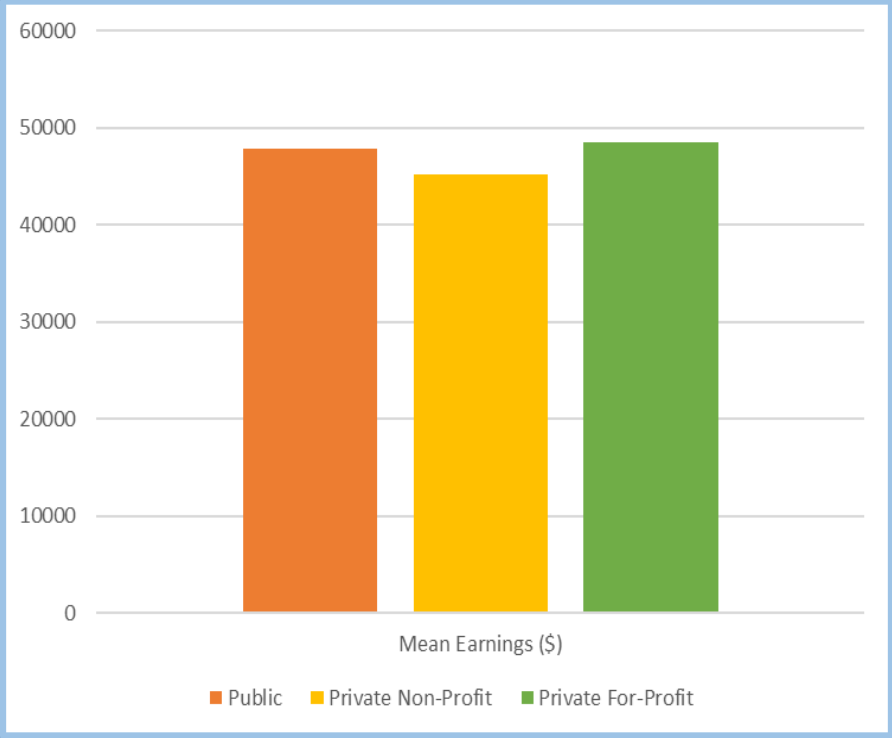
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This presentation and my remarks are my views only, not necessarily those of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Post-enrollment outcomes vary by type of institution

Mean Earnings 10 Years After Enrollment
(2014-2015)

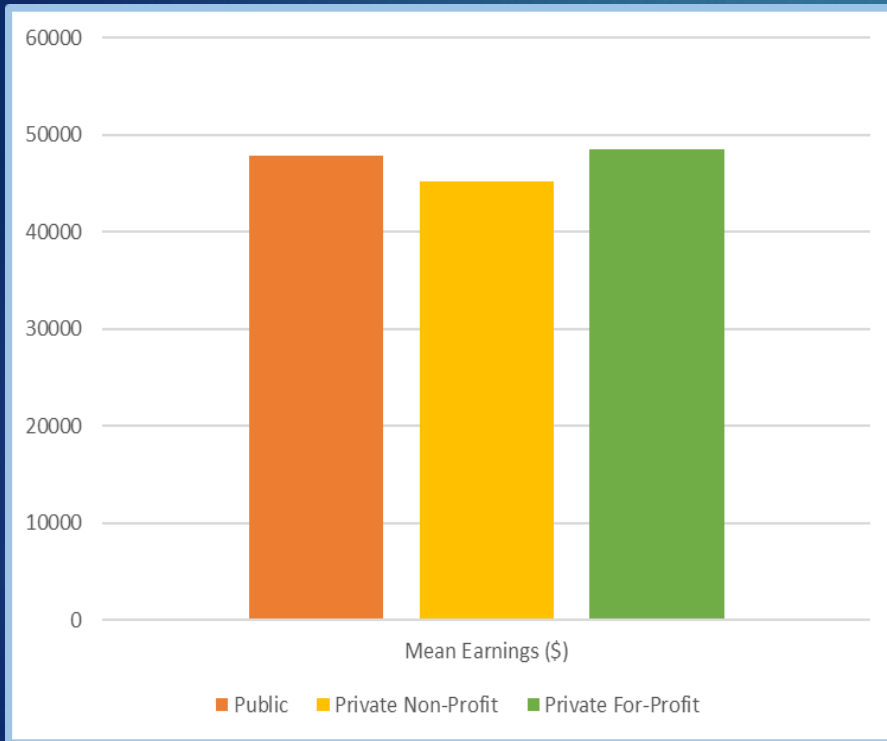


Source: College Scorecard Data, 2014-2015

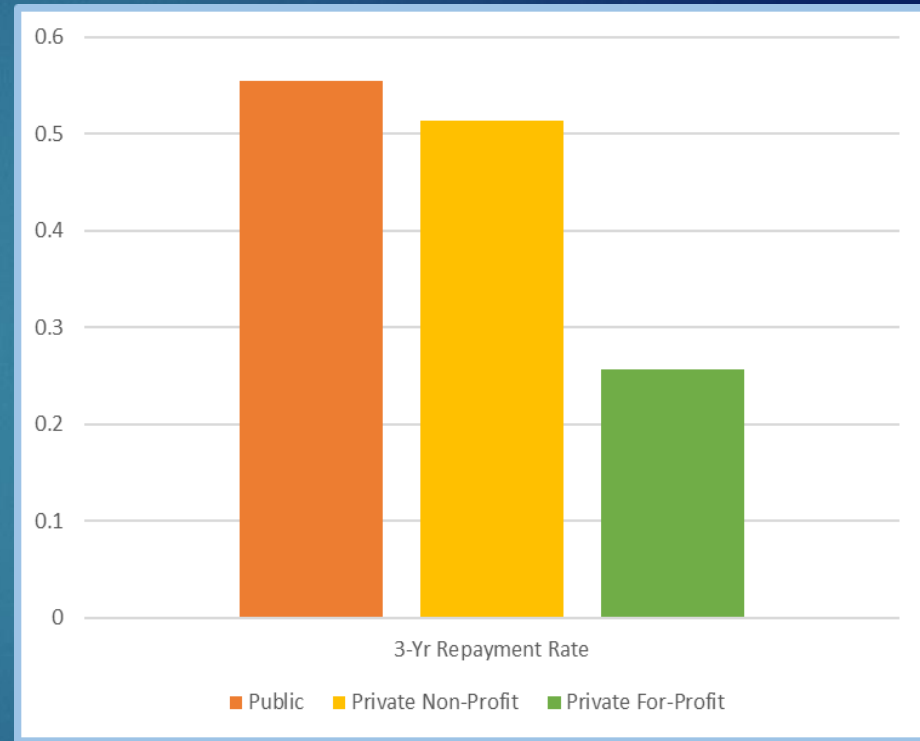
Note: Sample includes schools granting predominantly associate and bachelor degrees. Earnings measured 10 years after enrollment, for borrowers only.

Post-enrollment outcomes vary by type of institution

Mean Earnings 10 Years After Enrollment
(2014-2015)



3-Year Loan Repayment Rate
(2014-2015)

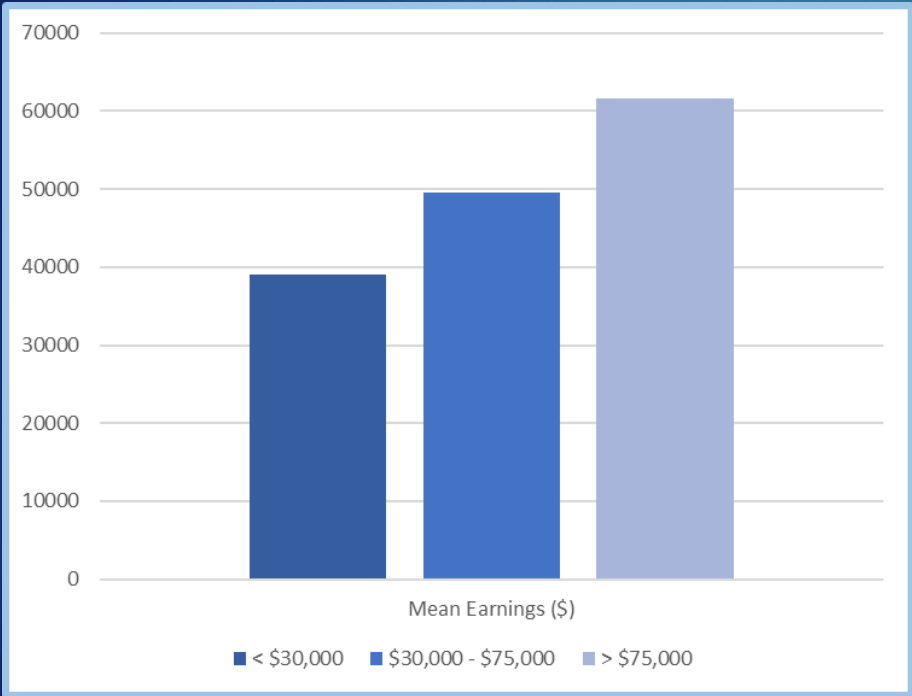


Source: College Scorecard Data, 2014-2015

Note: Sample includes schools granting predominantly associate and bachelor degrees. Earnings measured 10 years after enrollment, for borrowers only.

Outcomes are worse for borrowers from lower income families

Mean Earnings 10 Years After Enrollment
(2014-2015)

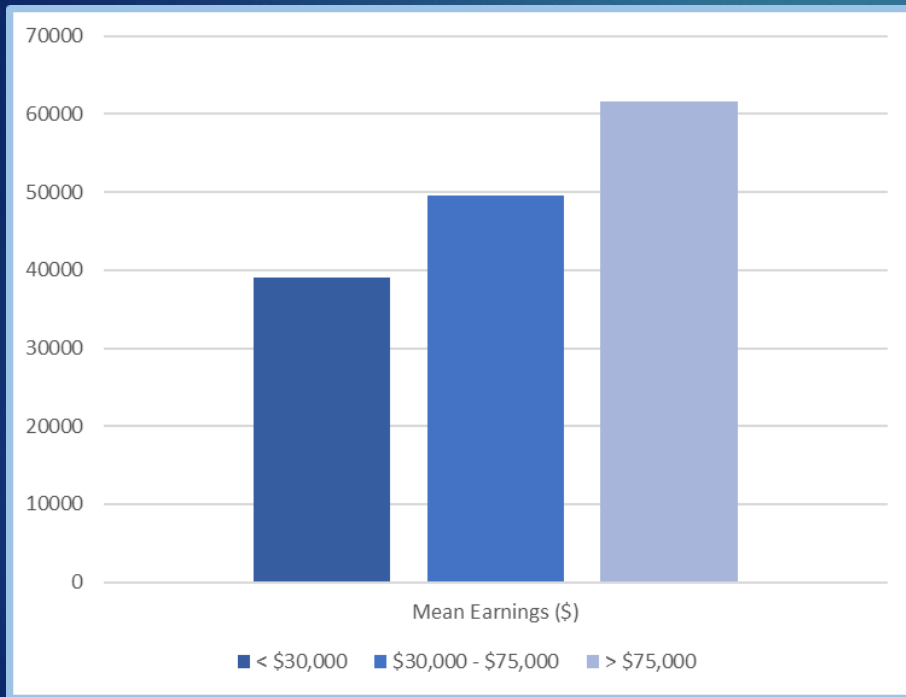


Source: College Scorecard Data, 2014-2015

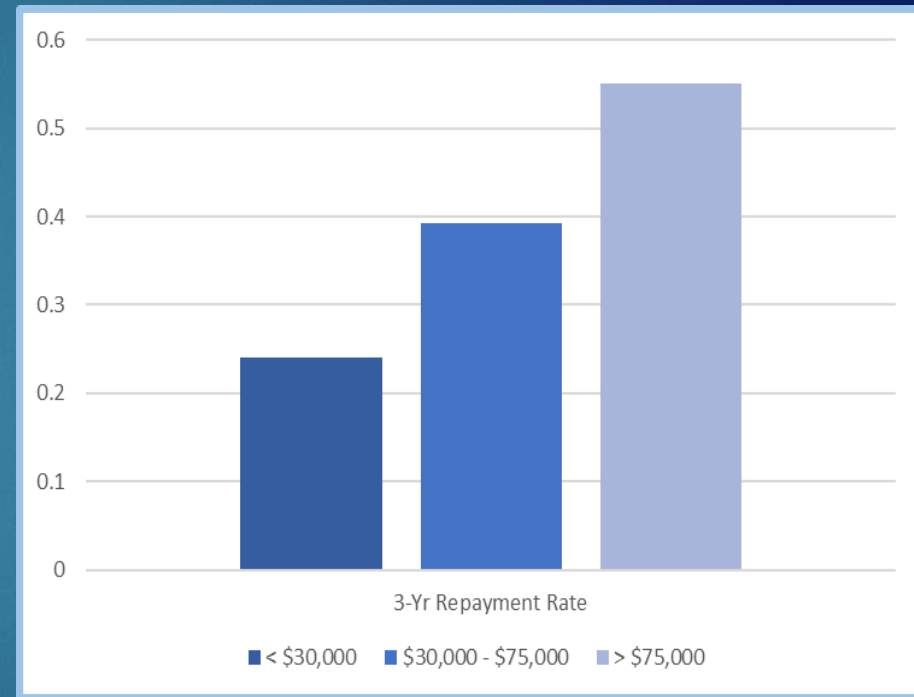
Note: Sample includes schools granting predominantly associate and bachelor degrees. Earnings measured 10 years after enrollment, for borrowers only. Categories represent family income at time of enrollment.

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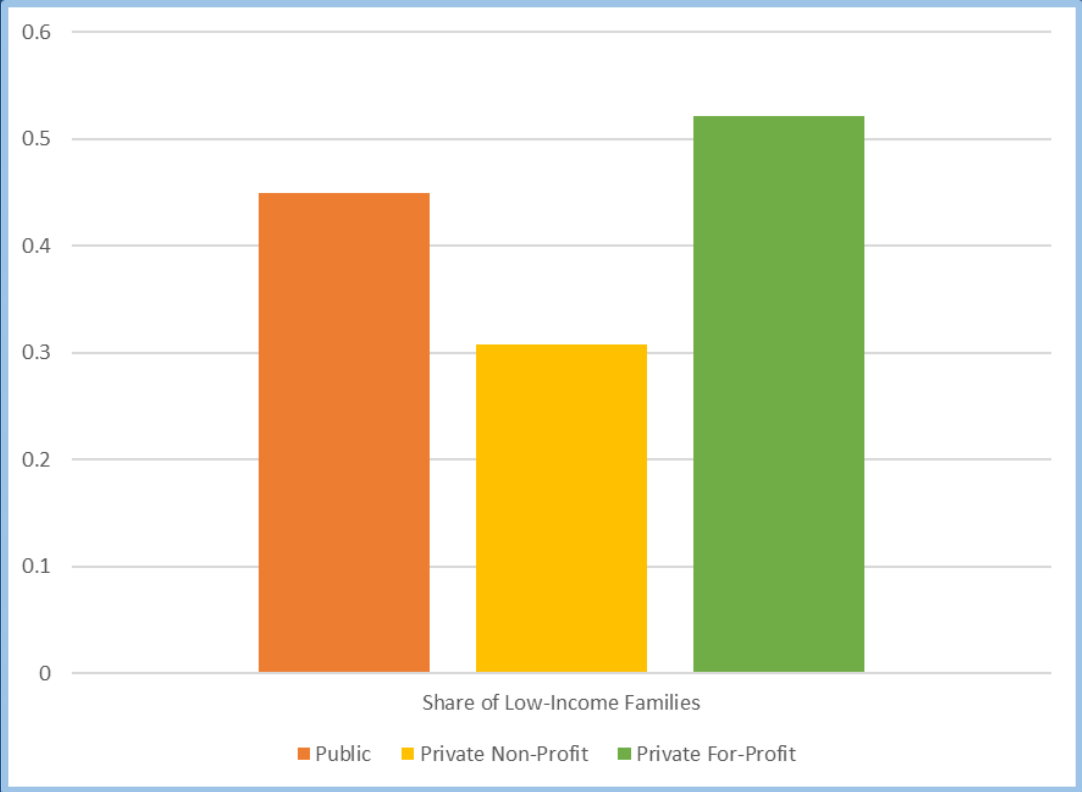


Source: College Scorecard Data, 2014-2015

Note: Sample includes schools granting predominantly associate and bachelor degrees. Earnings measured 10 years after enrollment, for borrowers only. Categories represent family income at time of enrollment.

Borrowers from lower-income families are concentrated in 2-yr public and for-profit schools

Share of Borrowers from Families with Incomes < \$30,000 (2014-2015)

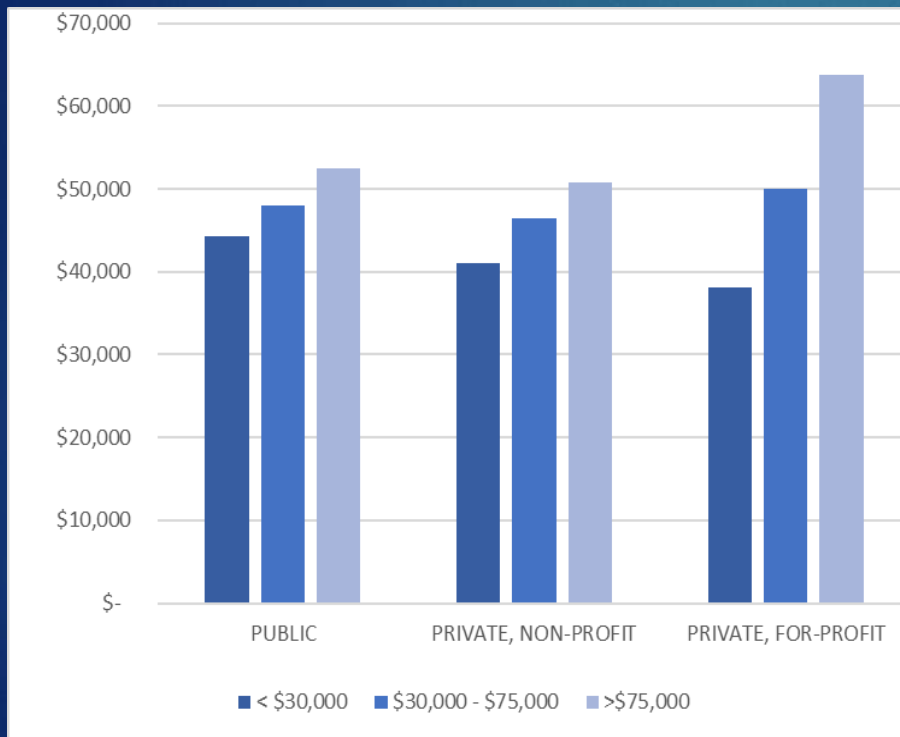


Source: College Scorecard Data, 2014-2015

Note: Sample includes schools granting predominantly associate and bachelor degrees. Calculated from data for borrowers working and not enrolled in a program of study 10 years after enrollment. Family income categorized at time of enrollment.

Borrowers from lower income families do worse at all types of institutions...

Mean Earnings 10 Years After Enrollment
(2014-2015)

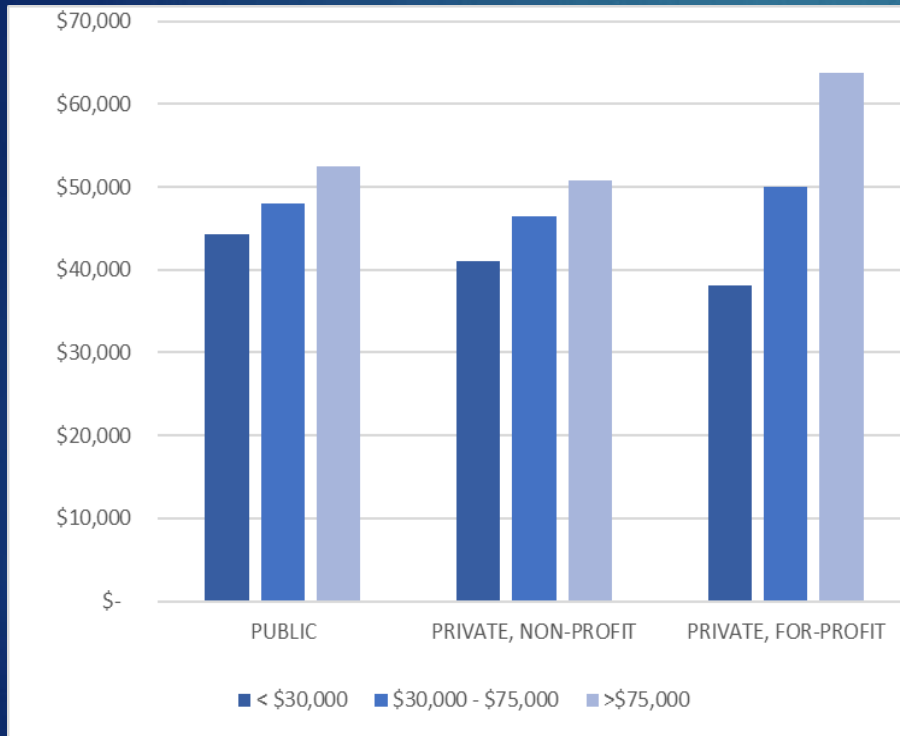


Source: College Scorecard Data, 2014-2015

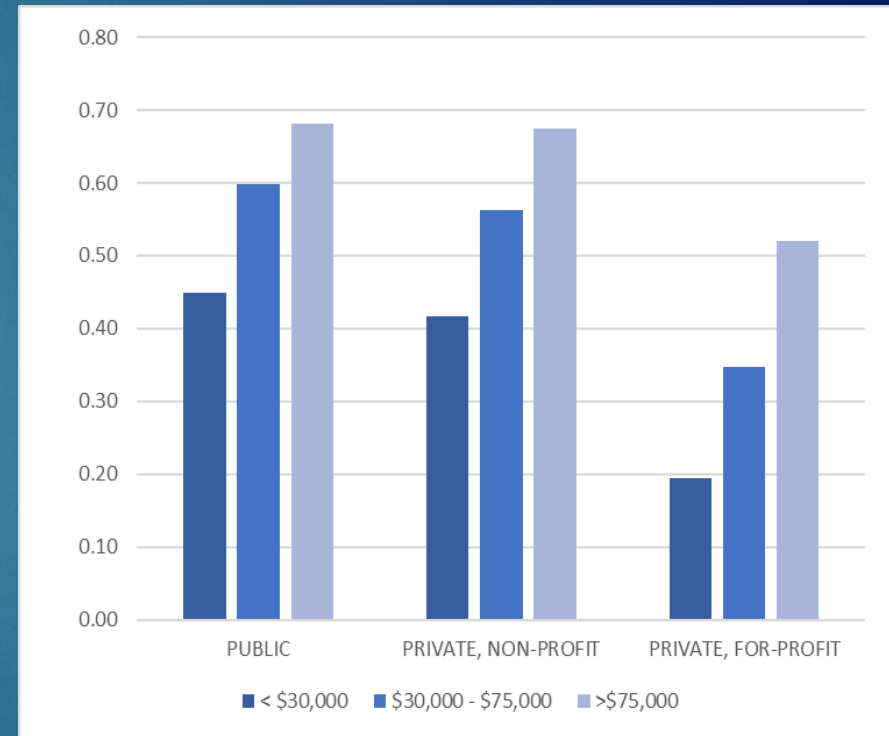
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Mean Earnings 10 Years After Enrollment
(2014-2015)



3-Year Loan Repayment Rate
(2014-2015)

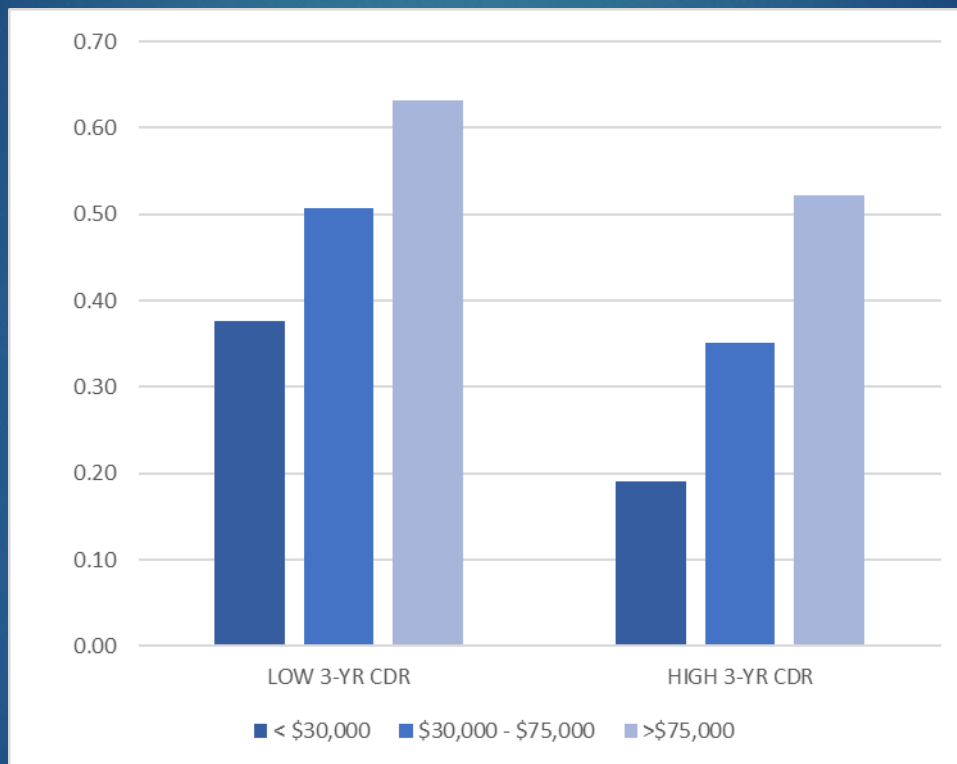


Source: College Scorecard Data, 2014-2015

Note: Sample includes schools granting predominantly associate and bachelor degrees. Earnings measured 10 years after enrollment, for borrowers only. Categories represent family income at time of enrollment.

... even at institutions with good average outcomes (3-year cohort default rate below median)...

3-Year Loan Repayment Rate
(2014-2015)



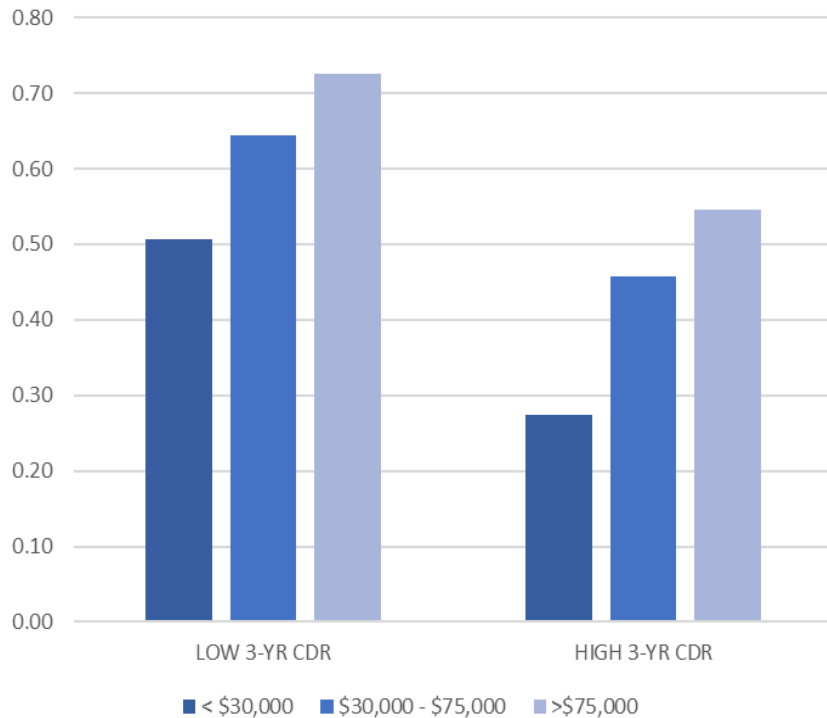
Source: College Scorecard Data, 2014-2015

Note: Sample includes schools granting predominantly associate and bachelor degrees. "Low" 3-year CDR is below (weighted) median 3-year CDR, "high" 3-year CDR is above (weighted) median 3-year CDR.

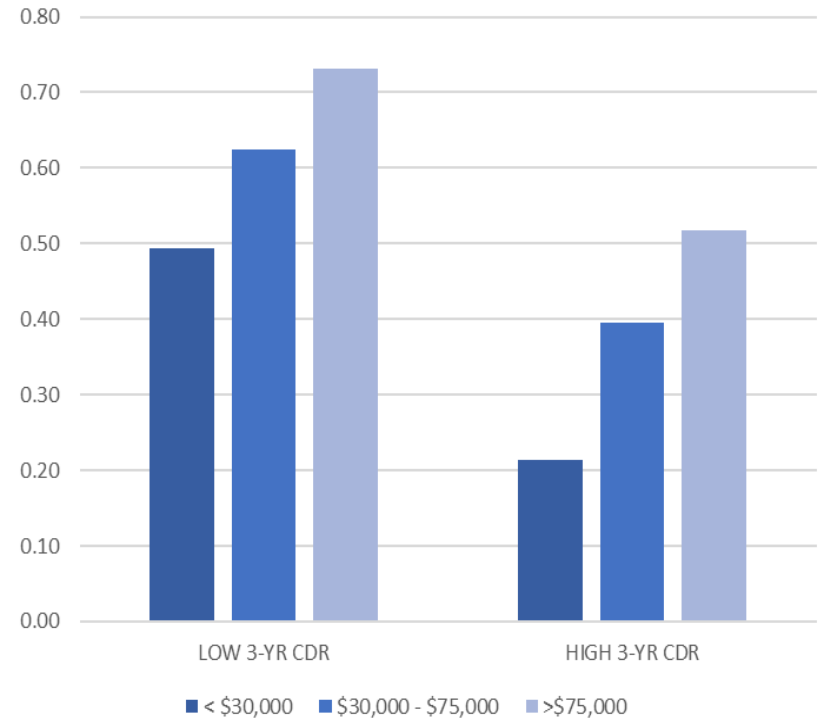
... even at public and private non-profit institutions

3-Year Loan Repayment Rate (2014-2015)

Public



Private Non-Profit



Source: College Scorecard Data, 2014-2015

Note: Sample includes schools granting predominantly associate and bachelor degrees. "Low" 3-year CDR is below (weighted) median 3-year CDR, "high" 3-year CDR is above (weighted) median 3-year CDR.

Borrowers from disadvantaged backgrounds face challenges in loan repayment across the board

- Repayment challenges particularly prevalent at:
 - For-profit institutions
 - 2-year (public and for-profit) and certificate programs
- But *borrowers from disadvantaged backgrounds struggle in all sectors, even at “good” schools*
- Low-income, minority, adult learner, and other non-traditional borrowers have particularly troubling outcomes at many institutions.

Complex repayment systems compound problems for borrowers

- Far too many repayment plans and options
 - Standard, graduated, extended, multiple versions of income-driven repayment plans
 - Many types of payment postponement and balance forgiveness
 - Different criteria by type of loan
- Underfunded, complex servicing system with often weak accountability
 - Borrower outcomes differ by servicer and agent within servicer
 - Administrative inefficiencies in plan enrollment, income verification, and payment collection

Borrowing for postsecondary education carries risk of repayment problems for borrowers

- Due to unemployment or low/variable earnings:
 - Disadvantage + low preparation coming into college
 - Enrolled in low-quality institutions
 - “Bad match” with institution or major
 - Unexpected roadblocks, “bad shocks”
- Due to repayment system:
 - Borrowers sometimes not matched to appropriate plan
 - Administrative inefficiencies
- Students from particularly disadvantaged backgrounds bear the brunt of the risk.